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For Immediate Release

1 March 2010

COMBINATION OF PRUDENTIAL PLC AND AIA GROUP LIMITED TO CREATE A LEADING GLOBAL INSURER

SUMMARY

- Prudential plc ("Prudential") has reached agreement with American International Group Inc. ("AIG"), on terms for the combination of Prudential and AIA Group Limited ("AIA"), a wholly-owned subsidiary of AIG (the "Transaction")
- This Transaction offers the opportunity to bring together two leading companies, positioning the Combined Group to capture the future growth opportunity in Asia. We believe the Transaction will both amplify and accelerate our stated strategy to deliver value to our shareholders
- AIG has agreed to the terms of the Transaction and has decided not to pursue the initial public offering of AIA on the Hong Kong Stock Exchange
- The Transaction will be effected through the acquisition of both Prudential (by way of a scheme of arrangement, the "Scheme") and AIA by a new company ("New Prudential"). The new company will assume the name Prudential plc, be headquartered and incorporated in the UK, and traded on the main market of the London Stock Exchange with ADRs traded on the New York Stock Exchange
 - In recognition of the importance of Asia to the Combined Group, Prudential intends, in due course after completion of the Transaction, to seek a dual primary-listing on the Hong Kong Stock Exchange
 - The existing Board of Prudential will become the Board of New Prudential
- AIG will receive total consideration of USD 35.5 billion, comprising USD 25.0 billion in cash and USD 10.5 billion in New Prudential Shares and other securities
 - The cash component of the consideration will be financed through an underwritten rights issue (the "Rights Issue"), raising USD 20.0 billion¹ (net of fees and expenses) and through issuance of USD 5.0 billion senior debt (net of fees and expenses)
 - Credit Suisse, HSBC and J.P. Morgan Cazenove as Global Co-ordinators and Joint Bookrunners have undertaken to Prudential to underwrite the Rights Issue in full and Credit Suisse, HSBC and J.P. Morgan Cazenove have committed to provide the senior debt underwriting
 - The terms of the Rights Issue will be set at the time of publication of Prudential and New Prudential prospectuses (the "Prospectuses")
- The Rights Issue and the Scheme will be subject to shareholder approval at a General Meeting. The Transaction is also subject to certain regulatory and anti-trust approvals including various regulatory approvals required on a change of control of Prudential as a result of the Scheme
- Prudential also today announces its unaudited 2009 preliminary results, which demonstrate the continued strength of its businesses in delivering very strong financial results across its key performance indicators. A separate announcement for unaudited 2009 preliminary results has been released today

¹ USD amounts shown at current FX rates

OVERVIEW OF AIA

- AIA is a leading life insurance organisation in Asia Pacific operating in 15 geographical markets. First established in 1919, AIA has been building a tied agency force that spans the Asia Pacific region from developed urban centres to rural areas
- It provides individuals and businesses with products and services for their evolving insurance, protection, savings, investments and retirement needs in 15 geographical markets in the region: Hong Kong, Korea, Thailand, Singapore, China, Malaysia, the Philippines, Australia, Indonesia, Vietnam, Taiwan, New Zealand, India, Macau and Brunei. As of 30 November 2009, AIA had more than 320,000 agents and approximately 23,500 employees serving the holders of its more than 23 million in-force policies and its more than 10 million participating members of its clients for group life, medical, credit life coverage and pension products. In the financial year ending 30 November 2009, the AIA Group generated USD 1,438 million of operating profit after tax (unaudited).

COMBINATION CREATES A LEADING ASIAN INSURER

- Prudential believes that the combination of its Asian operations with AIA will create a unique business with a significant focus on the Asian markets and leading positions in 7 countries² with highly complementary products and distribution channels across the region
- The Combined Group will be the leading life insurer in Hong Kong, Singapore, Malaysia, Indonesia, Vietnam, Thailand and the Philippines,³ with the leading foreign life insurance business in China and India, a significantly enhanced presence in the high growth South East Asian life markets and strong operations in the US and the UK
- In recognition of the importance of Asia to the Combined Group, Prudential intends to in due course, after completion of the Transaction, seek a dual primary-listing on the Hong Kong Stock Exchange

ATTRACTIVE VALUATION AND SUBSTANTIAL LONG-TERM VALUE CREATING POTENTIAL

- The price payable to AIG for the Transaction represents a multiple of 1.69x AIA's Embedded Value as at 30 November 2009 and 25.4x AIA's 30 November 2009 New Business Profit
- The Transaction is anticipated to generate fully phased annual cost savings of approximately USD 340 million before tax within three years post closing of the transaction. In addition, the combination provides an opportunity to achieve revenue synergies through enhanced agency productivity, leveraging off bancassurance relationships, enhancing customer cross-selling and synergies across asset management activities

EXPECTED TIMETABLE TO COMPLETION

Event	Timing
Publication of the Prospectuses and Circular	April / May
Prudential Shareholder meetings to approve Rights Issue and the Transaction	May
Rights Issue trading period commences	May
Rights Issue trading period ends	Early June
Regulatory approval and acquisition closes, with proceeds and vendor consideration released to AIG. Prudential delisted and New Prudential listed and admitted to trading on the London Stock Exchange	Third Quarter 2010 (estimated)

² Based on industry data available for latest reported period for each market on the basis of total weighted new business

³ See note above

Commenting on the Transaction, Tidjane Thiam, Chief Executive Officer of Prudential, said:

“This transaction is hugely exciting and a one-off opportunity to transform the Group. We believe that the combination of Prudential and AIA will create a unique life insurance business with a common set of customer-focused values and heritage. Asia has been very clearly a major driver of value for Prudential for several years and in 2009 it accounted for 44 per cent of new business profit (post-tax). The Combined Group would have 60 per cent. of 2009 new business profit coming from Asia and puts us in a strong leadership position in all the critical growth markets in the region. Aside from this Transaction, it is our intent in due course to seek a dual primary-listing on the Hong Kong Stock Exchange to enable our customers and investor base to share in this value creating opportunity. The headquarters of the Combined Group will remain in London.”

This summary should be read in conjunction with the full text of the announcement that follows in parts. Appendix I of the following announcement contains definitions of certain terms used in this summary.

A meeting for analysts and investors will be held today at 12:00 noon at Laurence Pountney Hill, London, EC4R 0HH.

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The defined terms set out in Appendix I of the following announcement apply in this announcement.

This announcement has been issued by and is the sole responsibility of Prudential.

This announcement is for information purposes only and is not intended to and does not constitute or form any part of any offer or invitation to subscribe for or purchase any securities or the solicitation of any offer to subscribe for, purchase, or otherwise acquire any securities.

A copy of the Prospectus for the Rights Issue and a Prospectus in relation to New Prudential when published will be made available from the registered office of the Company and on the Company's website. The Prospectus for the Rights Issue will give further details of the New Ordinary Shares being offered pursuant to the Rights Issue. The Prospectus for New Prudential will give further details of New Prudential's introduction to the UKLA Official List and admission to the main market of the London Stock Exchange.

This announcement is not a prospectus but an advertisement and investors should not acquire New Ordinary Shares referred to in this announcement except on the basis of the information contained in the Prospectuses.

Credit Suisse, HSBC and J.P. Morgan Cazenove, each of which is authorised and regulated in the United Kingdom by the FSA, are acting solely for Prudential and no one else in connection with the Transaction and the Rights Issue and will not regard as a client anyone (whether or not a recipient of this announcement) other than Prudential in connection with the Transaction or the Rights Issue and will not be responsible to anyone (whether or not a recipient of this announcement) other than Prudential for providing the protections afforded to their clients or for providing advice to anyone other than Prudential in connection with the Transaction or the Rights Issue or any other matter referred to herein.

This announcement has been issued by and is the sole responsibility of Prudential. Apart from the responsibilities and liabilities, if any, which may be imposed on Credit Suisse, HSBC and J.P. Morgan Cazenove by the FSMA, none of Credit Suisse, HSBC and J.P. Morgan Cazenove (or any of their affiliates or agents) accepts any responsibility whatsoever for, and makes no representation or warranty, express or implied, in relation to, the contents of this announcement (including its accuracy, completeness or verification) or any other statement made or purported to be made by it, or on its behalf, in connection with Prudential, the Transaction, the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares or the Rights Issue. Each of Credit Suisse, HSBC and J.P. Morgan Cazenove accordingly disclaims to the fullest extent permitted by law all and any responsibility and liability, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this announcement or any such statement.

Credit Suisse, HSBC and J.P. Morgan Cazenove as underwriters of the Rights Issue may, in accordance with applicable legal and regulatory provisions and subject to the Underwriting Agreement, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares, and/or related instruments for their own account. Except as required by applicable law or regulation, Credit Suisse, HSBC and J.P. Morgan Cazenove do not propose to make any public disclosure in relation to such transactions.

No person has been authorised to give any information or to make any representations other than those contained in this announcement and, if given or made, such information or representations must not be relied on as having been authorised by Prudential, Credit Suisse, HSBC or J.P. Morgan Cazenove.

The information contained in this announcement is not for release, publication or distribution, directly or indirectly, to persons in the United States, Canada, Australia, New Zealand, Japan, India or South Africa and should not be distributed, forwarded to or transmitted in or into any jurisdiction where to do so might constitute a violation of local securities laws or regulations.

The announcement is not an offer for sale of or a solicitation of any offer to buy securities in the United States, Canada, Australia, New Zealand, Japan, India or South Africa or any other jurisdiction. Securities may not be offered or sold in the United States absent registration with the United States Securities and Exchange Commission or an exemption from registration under the Securities Act. The Ordinary Shares and other securities mentioned in this announcement have not been and, if and when issued in connection with the Transaction, have not been and will not be registered under the Securities Act or under the securities laws of any state or territory of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, in or into the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with state securities laws. Prudential does not intend to register any part of the offering of any of the securities referred to herein in the United States or to conduct a public offering of such securities in the United States.

This announcement does not constitute an offering circular or prospectus in connection with an offering of securities of the Company. Investors must neither accept any offer for, nor acquire, any securities to which this document refers, unless they do so on the basis of the information contained in the Prospectus to be published or Circular to be distributed by the Company. This document does not constitute an offer to sell or the solicitation of an offer to buy or subscribe for, any securities and cannot be relied upon for any investment contract or decision.

The distribution of this announcement into jurisdictions other than the United Kingdom may be restricted by law. No action has been taken by Prudential or any of Credit Suisse, HSBC or J.P. Morgan Cazenove that would permit an offering of such rights or shares or possession or distribution of this announcement in any jurisdiction where action for that purpose is required. Persons into whose possession this announcement comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Neither the content of Prudential's website nor any website accessible by hyperlinks on Prudential's website is incorporated in, or forms part of, this announcement.

This announcement contains or incorporates by reference 'forward-looking statements' regarding the belief or current expectations of Prudential, the Directors and other members of its senior management about the Company's business and the transactions described in this announcement. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of the Company and are difficult to predict, that may cause actual results to differ materially from any future results or developments expressed or implied from the forward-looking statements. Such risks and uncertainties include the possibility that the Transaction may not be consummated, the ability to achieve synergies, improved productivity and opportunities for growth from the Transaction, effects of continued or increasing volatility in international financial markets, economic conditions both internationally and in individual markets in which Prudential operates, and other factors affecting the level of Prudential's business activities and the costs and availability of financing for Prudential's activities. Any forward-looking statement contained in this announcement based on past or current trends and/or activities of Prudential should not be taken as a representation that such trends or activities will continue in the future. No statement in this announcement is intended to be a profit forecast or to imply that the earnings of the Company for the current year or future years will necessarily match or exceed the historical or published earnings of the Company. Each forward-looking statement speaks only as of the date of the particular statement. Prudential expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in Prudential's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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1 March 2010

COMBINATION OF PRUDENTIAL PLC AND AIA GROUP LIMITED, TO CREATE A LEADING ASIAN LIFE INSURER

Introduction

Prudential plc ("Prudential") has reached agreement with American International Group Inc. ("AIG"), on terms for the combination of Prudential and AIA Group Limited ("AIA"), a wholly-owned subsidiary of AIG (the "Transaction").

AIA is a leading life insurance organisation in Asia Pacific which provides individuals and businesses with products and services for their insurance, protection, savings, investments and retirement needs in 15 geographical markets in the region. The Board of Prudential believes that the Transaction will offer significant benefits to Prudential stakeholders. Prudential believes that the combination of its Asian operations with AIA will create a unique business with a significant focus on the Asian markets and leading positions in 7 countries¹ and highly complementary products and distribution channels across the region. The Combined Group will be the leading life insurer in Hong Kong, Singapore, Malaysia, Indonesia, Vietnam, Thailand and the Philippines, with the leading foreign life insurance business in China and India, supported by a strong presence in the US and the UK. The significantly increased scale of operations is expected to enhance customer choice and service.

During 2008, AIG suffered from significant financial distress, as a result of the global credit crisis (the "AIG Events"). In September 2008, to stabilise the economy and help prevent the collapse of AIG, Federal Reserve Bank of New York ("FRBNY") extended to AIG a two-year emergency secured loan of up to USD85 billion. The AIG management team subsequently announced a strategy to dispose of certain subsidiaries (including AIA) in order to repay the FRBNY loan, together with interest. In February 2009, AIG announced that it would pursue the partial or full initial public offering of AIA on the Hong Kong Stock Exchange as part of its strategy to repay the FRBNY loan. As a result of the agreement reached with Prudential to implement the Transaction, AIG is not proceeding with the initial public offering of AIA.

Prudential, New Prudential and AIG have entered into an agreement (the "Share Purchase Agreement") under which New Prudential will acquire the entire issued share capital of AIA. Pursuant to the Share Purchase Agreement, AIG will receive consideration of USD 35.5 billion, comprising USD 25.0 billion in cash, USD 5.5 billion in New Prudential Shares, USD 3.0 billion in Mandatory Convertible Securities ("MCS") and USD 2.0 billion in preferred securities ("Preferred Securities"). The cash component of the consideration will be financed through a combination of an underwritten Rights Issue raising USD 20.0² billion (net of fees and expenses) and USD 5.0 billion senior debt (net of fees and expenses). Credit Suisse, HSBC and J.P. Morgan Cazenove as Global Co-ordinators and Joint Bookrunners have undertaken to Prudential to underwrite the Rights Issue in full and Credit Suisse, HSBC and J.P. Morgan Cazenove have committed to providing senior debt underwriting.

Completion of the Share Purchase Agreement is subject to certain conditions being met, including: (i) Prudential shareholders approving the Scheme and certain other resolutions relating to the Rights Issue and Transaction; (ii) obtaining the necessary regulatory and antitrust approvals for the Transaction including regulatory approvals required on a change of control of Prudential as a result of the Scheme; (iii) there having been no material adverse change in AIA in the period prior to commencement of the rights issue; (iv) there having been no breach of warranty

¹ Based on industry data available for latest reported period for each market on the basis of total weighted new business

² USD amounts shown at current FX rates

or covenant resulting in a material adverse change in AIA prior to completion; (v) there having been no material breach of the Prudential warranties having a material adverse effect on the ability of Prudential to complete the Transaction; (vi) the court sanctioning the scheme at a hearing expected to be held shortly before completion; and (vii) admission of the New Ordinary Shares to be issued pursuant to the Rights Issue, New Prudential Shares (to be issued pursuant to the scheme) and the MCS and Preferred Securities as consideration under the Share Purchase Agreement) to listing and trading. Further details of the Share Purchase Agreement can be found below and at Appendix III to this announcement.

Notices convening the Court Meeting and the General Meeting will be included in the Circular when it is posted.

Once the necessary resolutions have been passed and the Scheme has been sanctioned by the Court, the Ordinary Shares of Prudential will be cancelled, New Prudential will become the holding company of Prudential and Prudential Shareholders will be issued with New Prudential Shares.

Background and reasons for the Transaction

Prudential believes that the Transaction is a compelling and rare opportunity with strong strategic, operational and financial rationale that will contribute significantly to the achievement of Prudential's strategic objective to focus on its Asian growth strategy. The Transaction will create a leading global life insurer and is expected to yield significant value for Prudential Shareholders, its other stakeholders and AIG.

The Transaction will provide the Combined Group with a greater presence in Asia and in particular, high growth South East Asian economies. AIA holds the leading position in 6 out of 15 Asian geographical markets in which it operates, based on life insurance premiums in 2008. Life insurance premiums in the Asia Pacific region grew at a compound annual growth rate of 17 per cent. from 2003 to 2008, primarily driven by strong regional economic growth, favourable demographic changes, social welfare reforms, healthcare demand and insurance market reforms.

The Transaction provides the Combined Group with the opportunity to:

- create a leading global life insurer with Asia at its core and strong operations in the US and the UK;
- establish the leading position in the high growth South East Asian markets of Hong Kong, Singapore, Malaysia, Thailand, Indonesia, Philippines and Vietnam, and the leading foreign life insurance business in China and India;
- allow Prudential Shareholders to benefit from a compelling Transaction valuation to yield attractive returns for its shareholders;
- deliver sustainable revenue and earnings growth;
- achieve significant cost and revenue synergies;
- benefit from improved productivity across distribution channels, enhanced customer insights and broader product offering;
- create a platform for further opportunities for growth in Asia;
- consider seeking a dual primary-listing on the Hong Kong Stock Exchange, in recognition of the importance of Asia to the Combined Group, in due course after completion of the Transaction.

The key areas of growth opportunities include:

- Agency distribution: Drive improvements in AIA sales force productivity based upon Prudential's agency management capabilities.
- Bancassurance: Value enhancement from AIA's current relationships by leveraging Prudential's capabilities in Asia, with the likes of Standard Chartered, ICICI and UOB
- Products: Significant opportunities to improve cross-sales, e.g. health products with AIA unit-linked life sales
- Customers: Applying AIA's expansive database marketing capabilities to Prudential's customer base, accelerating Prudential's customer initiatives
- Asset Management: integration of the life businesses' asset management activities would be a source of additional synergies / improved performance. Given Prudential's insight into the Asian market through its Asian operations, Prudential Corporation Asia, the Transaction is expected to provide meaningful synergy benefits, through both cost savings and revenue benefits.

Financial impact of the Transaction

Prudential has reached an agreement with AIG on terms for the combination of Prudential with AIA, based on USD 35.5 billion consideration. The consideration represents:

P/EV: 1.69x

2009 P/E (excl. cost of synergies): 24.7x

2009 P/E (incl. fully phased cost synergies): 21.1x

2009 New Business profit: 25.4x

The combination has a cost advantage arising from significant synergy benefits, of which only management related expenses have been assessed at this stage. It is anticipated that the combination will generate annual fully phased cost synergies of approximately USD 340 million before tax by year three. These savings will arise from the rationalisation of regional offices (anticipated to generate annual fully phased cost synergies of approximately USD 200 million before tax) and significant reduction in management related expenses at the country level (anticipated to generate annual fully phased cost synergies of approximately USD 140 million before tax). Integration costs are expected to be approximately USD 340 million before tax. No revenue synergies have been taken into account at this stage. Key rating agencies leverage ratios will be expected to be maintained within "A" range or better, progressively moving towards a level in a higher band of the "A" rating. Following the Transaction, we expect the Insurance Groups Directive surplus of the Combined Group, taking into account expected profits from the business through July 2010, to be around £3 billion. It is intended that dividend policy should also remain unchanged and we expect the AIA earnings to support a consistent payout ratio across the enlarged group.

Information on Prudential

Prudential is a leading international financial services group, providing retail financial services in the UK, the US and Asia. The Group has been writing life insurance policies in the United Kingdom for over 160 years and has had one of the largest long-term funds in the UK for over a century. Prudential expanded its business into British Commonwealth countries, including Singapore and Malaysia, in the 1920s and 1930s. In 1986, Prudential acquired Jackson National Life Insurance Company, a US insurance company writing life and fixed annuity business. A strategy review in the early 1990s identified significant opportunities for the Group in the Asian life sector and Prudential Corporation Asia was established in 1994 to develop a material and profitable Asian business. In 1999, Prudential acquired M&G Investments, a leading UK fund manager. In June 2000, the Company completed its ADR listing on the New York Stock Exchange.

Prudential Corporation Asia is the leading foreign company or joint venture in seven of its thirteen Asian life markets. Prudential Corporation Asia offers a mix of life insurance with accident and health options, mutual funds and selected personal lines property and casualty insurance with the product range tailored to suit the individual country markets. Its insurance products are distributed mainly through an agency sales-force and complementary bancassurance agreements while the majority of mutual funds are sold through banks and brokers. Its life insurance operations in China and India are conducted through joint ventures in which it holds 50 per cent. and 26 per cent., respectively. In addition, in India, the Company holds 49 per cent. of a fund management joint venture with ICICI Bank, in China it has a 49 per cent. stake in a funds management joint venture with CITIC Group, which is called CITIC Prudential, and in Hong Kong, it holds a 36 per cent. stake in a joint venture with Bank of China International for Mandatory Provident Funds and mutual funds.

At 31 December 2009, Prudential Corporation Asia:

- had over ten million life customers in 13 markets;
- had distribution relationships with over 75 institutions across Asia including, Standard Chartered, E-Sun Bank and joint venture partners ICICI in India and CITIC in China;
- had one of the largest networks of agents in Asia with approximately 410,000 tied agents; and
- had consistently high brand recognition, outperforming other financial services companies and was voted the most trusted brand in Malaysia, Singapore and Hong Kong.

Summary of unaudited 2009 preliminary results for Prudential

New business

Group life retail new business sales up 11% to £2.9 billion APE

Group life total new business up 1% to £2.9 billion APE

Group new business profit up 34% to £1.6 billion; average IRR > 20%

Asset Management net inflows £15 billion (2008: £4.3 billion)

Operating profit and returns

EEV operating profit up 8% to £3.1 billion

IFRS operating profit up 10% to £1.4 billion

Balance sheet, capital and cash

Embedded value shareholders' funds £15.3 billion (2008: £15 billion)

IFRS shareholders' funds £6.3 billion (2008: £5.1 billion)

IGD surplus £3.4 billion (2008: £1.5 billion)

Life and asset management Free Surplus £2.5 billion (2008: £0.9 billion)

Net Holding Company operating cash flow £38 million (2008: £54 million)

Proposed full year dividend increased by 5% to 19.85 pence per share

Information on AIA

AIA is a leading life insurance organisation in Asia Pacific which provides individuals and businesses with products and services for their insurance, protection, savings, investments and retirement needs in 15 geographical markets in the region. AIA has approximately 23,500 employees serving the holders of more than 23 million in-force policies and more than 10 million participating members of AIA's clients for group life, medical, credit life coverage and pension products. AIA is a market leader in the Asia Pacific region based on life insurance premiums in 2008, and held number one position in 6 of the 15 geographical markets in which AIA operates. AIA believes its business has a leading agency presence in the Asia Pacific region based on total agents, consisting of more than 320,000 agents.

Refer to Appendix IV for detailed information on AIA.

Summary of unaudited 2009 results for AIA

US\$m	FY 2008 (Unaudited)	FY 2009 (Unaudited)
Total Weighted Premium Income ⁽¹⁾	12,203	11,632
Investment income ⁽²⁾	3,144	3,059
Operating expenses	1,089	981
Operating profit	1,943	1,835
Operating profit after tax ⁽³⁾	1,588	1,438
Net profit attributable to the shareholders of AIA Group Limited ⁽³⁾	408	1,754
Ratios: ⁽⁴⁾		
Expense ratio	8.9%	8.4%
Operating margin	15.9%	15.8%

Operating return on allocated equity	15.1%	12.0%
Net return on equity	3.7%	14.7%

- (1) Total Weighted Premium Income ('TWPI') provides an indicative volume measure of revenue in the year that has the potential to generate profits for shareholders. TWPI consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums ('weighted single premiums'), and includes deposits and contributions for contracts that do not contain significant insurance risk under IFRS, such as certain investment-linked contracts.
- (2) Excludes investment income related to investment-linked contracts.
- (3) Operating profit after tax and Net profit are the amounts attributable to shareholders of AIA Group Limited excluding non-controlling interests.
- (4) Ratios are calculated as follows:
 - (a) Expense ratio is operating expenses expressed as a percentage of TWPI.
 - (b) Operating margin is operating profit for the year expressed as a percentage of TWPI.
 - (c) Operating return on allocated equity is calculated as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a percentage of average allocated equity, which is a simple average of opening and closing total equity attributable to shareholders of AIA Group Limited (adjusted for subordinated inter-company debt where relevant) excluding amounts recognised in other comprehensive income (being the fair value and foreign currency translation reserves). Operating return on allocated equity is influenced by the level of surplus capital retained at each operating unit and on a group-wide basis as well as our results of operations.
 - (d) Net return on equity is calculated as profit for the year expressed as a percentage of a simple average of opening and closing total equity attributable to shareholders of the parent company.
- (5) FY 2009 denotes financial information for the Group's financial year ended 30 November 2009. FY 2008 denotes financial information for the Group's financial year ended 30 November 2008.

Please refer to Appendix V for three year results (FY2007 – FY2009) for AIA.

New Prudential Board, management, employees and locations

The Board of New Prudential will be comprised of the existing Board of Prudential. The Combined Group will augment the capabilities of both AIA's and Prudential's Asian operations and the best from both will be selected for the different roles in the Combined Group. Although the combination of similar functions will necessarily lead to some operational restructuring, the increased size and strength of the Combined Group will offer attractive career prospects for the employees of New Prudential.

Transaction Structure

Once the necessary approvals have been obtained the Scheme has been sanctioned by the Court and other conditions to completion have been satisfied or waived, New Prudential will acquire Prudential pursuant to the Scheme and acquire AIA pursuant to the Share Purchase Agreement. Under the Scheme, existing Prudential Shareholders will have their Prudential Shares cancelled in consideration for the issue to them of New Prudential Shares. As a result, New Prudential will become the listed holding company for the Combined Group and Prudential will become a wholly-owned subsidiary of New Prudential. It is anticipated that completion of the Transaction will occur during the third quarter of 2010. It is also intended that New Prudential ADRs will be listed on the New York Stock Exchange.

Transaction financing

The Transaction is to be financed through USD 25.0 billion in cash and through USD 10.5 billion in New Prudential Shares and other securities. The cash component of the consideration will include:

- Underwritten rights issue – Credit Suisse, HSBC and J.P. Morgan Cazenove as Joint Bookrunners and Global Coordinators have undertaken to Prudential to underwrite the Rights Issue to raise an amount in sterling which is equivalent to USD 20.0 billion (net of fees and expenses).

- Underwritten senior debt commitment – Credit Suisse, HSBC and J.P. Morgan Cazenove have committed to Prudential to underwrite the USD 5.0 billion senior debt commitment in the form of a bridge financing facility.

A further announcement with details of the Rights Issue, including the acquisition price for the New Ordinary Shares to be offered pursuant to the Rights Issue, is expected to be made late April / early May, when it is expected that documentation in relation to the Rights Issue and the Transaction (including the Prospectuses and the Circular) will be sent to Prudential Shareholders.

The USD 10.5 billion in New Prudential Shares and other securities will include:

- Equity consideration – AIG will receive an equity consideration of USD 5.5 billion. The equity consideration will be subject to a lock up, with 50 per cent. eligible for sale after 12 months and the other 50 per cent. sellable after 24 months.
- Mandatory convertible securities – AIG will receive mandatory convertible securities of USD 3.0 billion, priced by reference to the closing price of 602.5p on 26 February 2010 (the “reference price”). The mandatory convertible securities will pay a 3.75 per cent. coupon and a minimum conversion price of 100 per cent of reference price and a maximum conversion price of 125 per cent of reference price.
- Preferred securities – AIG will receive preferred securities of USD 2 billion. The preferred securities will pay a 6.25 per cent. coupon and will be perpetual, non-call 10 year, with a 1 per cent. coupon step up.

Process and timetable

The table below outlines the timetable to completion.

Event	Timing
Publication of the Prospectuses and Circular	April / May
Prudential Shareholder meetings to approve Rights Issue and the Transaction	May
Rights Issue trading period commences	May
Rights Issue trading period ends	Early June
Regulatory approval and acquisition closes, with proceeds and vendor consideration released to AIG. Prudential delisted and New Prudential listed and admitted to trading on the London Stock Exchange	Third Quarter 2010 (estimated)

Share Purchase Agreement

Prudential, New Prudential, AIG and AIA Aurora LLC have entered into a Share Purchase Agreement, which sets out the terms on which New Prudential will acquire AIA. The Share Purchase Agreement is summarised in Appendix III.

The key terms of the Share Purchase Agreement are:

- AIA Aurora LLC will sell, and New Prudential will purchase, AIA for total consideration of US\$35.5 billion, comprising USD 25.0 billion in cash, USD 5.5 billion in New Prudential Shares, USD 3.0 billion in MCS and USD 2.0 billion in Preferred Securities.
- Completion is subject, inter alia, to approval of the Scheme by Prudential shareholders, obtaining the requisite antitrust and regulatory consents, and there having been no material adverse change before admission of the New Ordinary Shares or breach of warranty or breach of gap covenant material in the context of the AIA Group, taken as a whole, giving rise to a material adverse change before completion.
- A termination fee of £153 million is payable by New Prudential to AIG in the event of termination in specified circumstances.
- Additional consideration of USD5/1200ths of cash consideration outstanding per month is payable by New Prudential to AIG from 1 September 2010 to the completion date in the event that completion has not yet occurred (and the Share Purchase Agreement has not been terminated) by 31 August 2010.

Overseas shareholders

None of the New Ordinary Shares or the nil or fully paid rights to acquire New Ordinary Shares have been or will be registered under the Securities Act or under the relevant securities laws of any state or other jurisdiction of the

United States, and accordingly Prudential Shareholders who are located or resident in, or who have a registered address in the United States, will not be able to participate in the Rights Issue except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with state securities law.

In addition to the United States, Prudential will not be extending the Rights Issue into the Excluded Territories. The Prospectus will contain further detail of how the nil paid rights to acquire New Ordinary Shares of Prudential Shareholders who are located or resident in, or who have a registered address in the United States or an Excluded Territory will be treated.

General

Notices convening the General Meeting of Prudential and the Court Meeting will be published in due course. The purpose of the Court Meeting is for Prudential Shareholders to consider and approve the Scheme. The purpose of the General Meeting will be to seek Prudential Shareholders' approval of the resolutions in connection with the Transaction, the Rights Issue and the listing of New Prudential. The full text of the resolutions will be set out in the notice convening the General Meeting. The Board of Prudential intends to make a unanimous recommendation to Prudential Shareholders to vote in favour of the resolutions to be proposed at the General Meeting and those directors who are also shareholders of Prudential intend to vote in favour of such resolutions.

Application will be made to the UK Listing Authority for the New Ordinary Shares to be admitted to the Official List and to the London Stock Exchange's main market for listed securities. Further details on settlement, listing and dealing will be included in the Circular and the Prospectus in relation to the Rights Issue.

Application will be made to the UK Listing Authority for the New Prudential Shares to be admitted to the Official List and to the London Stock Exchange for such shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that admission to the Official List will become effective and that dealings, for normal settlement, in the New Prudential Shares will commence on the day after the Scheme becomes effective. Further details on settlement, listing and dealing will be included in the Circular and Prospectus of New Prudential to be sent to Prudential Shareholders in due course. Admission of the New Prudential Shares to the Official List and trading on the London Stock Exchange is subject to confirmation from the UK Listing Authority of New Prudential's eligibility for listing under Listing Rule 2 and 6.

A meeting for analysts and investors will be held today at 12:00 noon at Laurence Pountney Hill, London, EC4R OHH.

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The defined terms set out in Appendix I of the following announcement apply in this announcement.

This announcement has been issued by and is the sole responsibility of Prudential.

This announcement is for information purposes only and is not intended to and does not constitute or form any part of any offer or invitation to subscribe for or purchase any securities or the solicitation of any offer to subscribe for, purchase, or otherwise acquire any securities.

A copy of the Prospectus for the Rights Issue and a Prospectus in relation to New Prudential when published will be made available from the registered office of the Company and on the Company's website. The Prospectus for the Rights Issue will give further details of the New Ordinary Shares being offered pursuant to the Rights Issue. The Prospectus for New Prudential will give further details of New Prudential's introduction to the UKLA Official List and admission to the main market of the London Stock Exchange.

This announcement is not a prospectus but an advertisement and investors should not acquire New Ordinary Shares referred to in this announcement except on the basis of the information contained in the Prospectuses.

Credit Suisse, HSBC and J.P. Morgan Cazenove, each of which is authorised and regulated in the United Kingdom by the FSA, are acting solely for Prudential and no one else in connection with the Transaction and the Rights Issue and will not regard as a client anyone (whether or not a recipient of this announcement) other than Prudential in connection with the Transaction or the Rights Issue and will not be responsible to anyone (whether or not a recipient of this announcement) other than Prudential for providing the protections afforded to their clients or for providing advice to anyone other than Prudential in connection with the Transaction or the Rights Issue or any other matter referred to herein.

This announcement has been issued by and is the sole responsibility of Prudential. Apart from the responsibilities and liabilities, if any, which may be imposed on Credit Suisse, HSBC and J.P. Morgan Cazenove by the FSMA, none of Credit Suisse, HSBC and J.P. Morgan Cazenove (or any of their affiliates or agents) accepts any responsibility whatsoever for, and makes no representation or warranty, express or implied, in relation to, the contents of this announcement (including its accuracy, completeness or verification) or any other statement made or purported to be made by it, or on its behalf, in connection with Prudential, the Transaction, the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares or the Rights Issue. Each of Credit Suisse, HSBC and J.P. Morgan Cazenove accordingly disclaims to the fullest extent permitted by law all and any responsibility and liability, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this announcement or any such statement.

Credit Suisse, HSBC and J.P. Morgan Cazenove as underwriters of the Rights Issue may, in accordance with applicable legal and regulatory provisions and subject to the Underwriting Agreement, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares, and/or related instruments for their own account. Except as required by applicable law or regulation, Credit Suisse, HSBC and J.P. Morgan Cazenove do not propose to make any public disclosure in relation to such transactions.

No person has been authorised to give any information or to make any representations other than those contained in this announcement and, if given or made, such information or representations must not be relied on as having been authorised by Prudential, Credit Suisse, HSBC or J.P. Morgan Cazenove.

The information contained in this announcement is not for release, publication or distribution, directly or indirectly, to persons in the United States, Canada, Australia, New Zealand, Japan, India or South Africa and should not be distributed, forwarded to or transmitted in or into any jurisdiction where to do so might constitute a violation of local securities laws or regulations.

This announcement is not an offer for sale of or a solicitation of any offer to buy securities in the United States, Canada, Australia, New Zealand, Japan, India or South Africa or any other jurisdiction. Securities may not be offered or sold in the United States absent registration with the United States Securities and Exchange Commission or an exemption from registration under the Securities Act. The Ordinary Shares and other securities mentioned in this announcement have not been and, if and when issued in connection with the Transaction, have not been and will not be registered under the Securities Act or under the securities laws of any state or territory of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, in or into the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with state securities laws. Prudential plc does not intend to register any part of the offering of any of the securities referred to herein in the United States or to conduct a public offering of such securities in the United States.

This announcement does not constitute an offering circular or prospectus in connection with an offering of securities of the Company. Investors must neither accept any offer for, nor acquire, any securities to which this document refers, unless they do so on the basis of the information contained in the Prospectus to be published or Circular to be distributed by the Company. This document does not constitute an offer to sell or the solicitation of an offer to buy or subscribe for, any securities and cannot be relied upon for any investment contract or decision.

The distribution of this announcement into jurisdictions other than the United Kingdom may be restricted by law. No action has been taken by Prudential or any of Credit Suisse, HSBC or J.P. Morgan Cazenove that would permit an offering of such rights or shares or possession or distribution of this announcement in any jurisdiction where action for that purpose is required. Persons into whose possession this announcement comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Neither the content of Prudential's website nor any website accessible by hyperlinks on Prudential's website is incorporated in, or forms part of, this announcement.

This announcement contains or incorporates by reference 'forward-looking statements' regarding the belief or current expectations of Prudential, the Directors and other members of its senior management about the Company's business and the transactions described in this announcement. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of the Company and are difficult to predict, that may cause actual results to differ materially from any future results or developments expressed or implied from the forward-looking statements. Such risks and uncertainties include the possibility that the Transaction may not be consummated, the ability to achieve synergies, improved productivity and opportunities for growth from the Transaction, effects of continued or increasing volatility in international financial markets, economic conditions both internationally and in individual markets in which Prudential operates, and other factors affecting the level of Prudential's business activities and the costs and availability of financing for Prudential's activities. Any forward-looking statement contained in this announcement based on past or current trends and/or activities of Prudential should not be taken as a representation that such trends or activities will continue in the future. No statement in this announcement is intended to be a profit forecast or to imply that the earnings of the Company for the current year or future years will necessarily match or exceed the historical or published earnings of the Company. Each forward-looking statement speaks only as of the date of the particular statement. Prudential expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in Prudential's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

APPENDIX I: DEFINITIONS

In this announcement, the following definitions apply, with the exception of Appendices III and V where a separate definitions table applies, unless the context requires otherwise:

Admission	admission of the New Ordinary Shares, nil paid, to the Official List and to trading on the main market for listed securities of the London Stock Exchange
ADRs	American Depository Receipts evidencing Ordinary Shares of Prudential
AIA	AIA Group Limited (Hong Kong)
AIG	American International Group Inc.
AIG Events	the events involving AIG described in the section "History - The Growth of the Global Group which Became AIG" in Appendix IV
Board of Prudential	the board of directors of Prudential
Board of New Prudential	the board of directors of New Prudential
Circular	the circular to be sent to shareholders of the Company in connection with the Scheme and the Rights Issue;
Combined Group	the Company together with its subsidiaries and subsidiary undertakings, as enlarged by the Transaction
Company or Prudential	Prudential plc
Completion	Completion of the Transaction
Court	The High Court of Justice in England and Wales
Court Meeting	the Court meeting of those Prudential Shareholders covered by the Scheme convened to approve the Scheme in accordance with section 896 of the Companies Act 2006, expected to be held immediately before the General Meeting;
Credit Suisse	Credit Suisse Securities (Europe) Limited
Excluded Territory	Canada, Australia, New Zealand, Japan, India or South Africa or any other jurisdiction where the extension or availability of the Rights Issue would breach any applicable law
General Meeting	the general meeting of the Company to be convened pursuant to the notice to be set out at the end of the Circular
FRBNY	The Federal Reserve Bank of New York
FSMA	Financial Services and Markets Act 2000 (as amended)
Fully Paid Rights	rights to acquire New Ordinary Shares, fully paid
Group	the Company together with its subsidiaries and subsidiary undertakings, from time to time
Hong Kong Stock Exchange	Hong Kong Stock Exchanges and Clearing Limited
HSBC	HSBC Bank plc
Joint Bookrunners	Credit Suisse, HSBC and J.P. Morgan Cazenove
J.P. Morgan Cazenove	J.P. Morgan Cazenove is a marketing name for the UK investment banking business of J.P. Morgan plc and its affiliates
Listing Rules	the listing rules of the Financial Services Authority
London Stock Exchange	London Stock Exchange plc
MCS	the mandatory convertible securities to be issued as part of the consideration of the transaction
New Ordinary Shares	the ordinary shares in the capital of Prudential to be issued pursuant to the Rights Issue
New York Stock Exchange	NYSE Euronext
New Prudential	means a company formed for the purpose of effecting the Transaction

New Prudential ADRs	American Depository Receipts evidencing Ordinary Shares of New Prudential
New Prudential Shares	means ordinary shares in the capital of New Prudential
Nil Paid Rights	rights to acquire New Ordinary Shares nil paid
Official List	the official list of the Financial Service Authority
Ordinary Shares	existing Ordinary Shares in the capital of Prudential and/or New Ordinary Shares, as the context requires
Preferred Securities	the preferred securities to be issued
Prudential Shareholders	holders of Ordinary Shares of Prudential plc
Prospectuses	the prospectuses to be sent to Prudential Shareholders in connection with the Rights Issue and Admission
Qualifying Shareholders	holders of Ordinary Shares on the register of members of the Company on the Record Date
Record Date	the record date for the Rights Issue, to be specified in the Prospectus
Rights Issue	the proposed offer by way of rights to Qualifying Shareholders to acquire New Ordinary Shares, on the terms and conditions to be set out in the Prospectus
Scheme	the scheme of arrangement between Prudential and its shareholders proposed under Part 26 of the Companies Act 2006, by means of which New Prudential is expected to become the new holding company of Prudential;
Securities Act	U.S. Securities Act of 1933, as amended
Share Purchase Agreement	the conditional share purchase agreement dated 1 March 2010 between the Company, New Prudential, AIG and AIA Aurora LLC
Transaction	the proposed acquisition of the entire issued share capital of AIA pursuant to the Share Purchase Agreement
UK Listing Authority	the Financial Services Authority of the UK in its capacity as the competent authority for the purposes of Part IV of FSMA and in the exercise of its functions in respect of admission to the Official List otherwise than in accordance with Part IV of FSMA
Underwriters	Credit Suisse, HSBC and J.P. Morgan Cazenove
United Kingdom or UK	means the United Kingdom of Great Britain and Northern Ireland
US	means the United States of America

All times referred to are London time unless otherwise stated.

All references to legislation in this announcement are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

APPENDIX II: RISK FACTORS

Risks relating to the Prudential Group and Combined Group

The Prudential Group's businesses are, and the Combined Group's businesses will be, inherently subject to market fluctuations and general economic conditions

The Prudential Group's businesses are, and the Combined Group's businesses will be, inherently subject to market fluctuations and general economic conditions. Uncertain or negative trends in international economic and investment climates which have adversely affected their business and profitability could be repeated, or prolonged, or could worsen.

The adverse effects of such trends, including the unprecedented market dislocation across asset classes and geographical markets witnessed in 2008 and in the first half of 2009, have been and would be felt principally through the following:

- investment impairments or reduced investment returns, as a result of market volatility, could impair the Prudential Group's and the Combined Group's ability to write significant volumes of new business which would have a negative impact on its assets under management and profit;
- higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses, as experienced during 2008 and 2009, when illiquidity and credit spreads reached all-time highs;
- the Prudential Group in the normal course of business enters (and the Combined Group will enter) into a variety of transactions with counterparties, including derivative transactions. Failure of any of these counterparties to discharge their obligations, or where adequate collateral is not in place, could have an adverse impact on the Prudential Group's and the Combined Group's results; and
- in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain value and estimates of value require substantial elements of judgement, assumptions and estimates (which may change over time). Increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Although global markets have begun to stabilise beginning in 2009, interest rates remain low, and many of the challenges of 2008 persist in the credit markets. New challenges may continue to emerge.

Estimates of financial instruments' value are difficult because a significant part of Prudential's shareholders' profit is related to bonuses for policyholders declared on its with-profits products, which are broadly based on historic and current rates of return on equity, real estate and fixed income securities, as well as the Prudential Group's expectations of future investment returns. During 2008 and for the first half of 2009, the Prudential Group has had to operate in the UK against a challenging background of unprecedented volatility in capital and equity markets, interest rates and widespread economic uncertainty. This has led, among other things, to reduced consumer spending, an increase in unemployment, and consequently reduced liquidity, requiring the intervention of the Bank of England via a quantitative easing programme to restore credit liquidity in the market.

For some non unit-linked investment products, in particular those written in some of the Combined Group's Asian operations, it may not be possible to hold assets which will provide cash flows to exactly match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated surrender values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. This residual asset/liability mismatch risk can be managed but not eliminated. Where interest rates in these markets remain lower than interest rates used to calculate surrender values over a sustained period, this could have an adverse impact on the Combined Group's reported profit.

In the US, fluctuations in prevailing interest rates can affect results from Jackson which has a significant spread-based business, with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose the Prudential Group to the risk that changes in interest rates,

which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. During 2008, the US financial services industry faced an unprecedented array of challenges: the S&P 500 index fell by 38.5%, government interest rates fell to historic lows, and global markets experienced a significant increase in volatility. In addition, credit markets seized up and global credit spreads widened to historic levels. These factors contributed to substantial increases in Jackson's unrealised losses. Declines in spread from these products or other spread businesses that Jackson conducts could have a material impact on its businesses or results of operations. Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. There could be unforeseen market circumstances where the derivatives that it enters into to hedge its market risks may not fully offset its losses, and any cost of the guarantees that remain unhedged will also affect the Prudential Group's and the Combined Group's results.

Interest rate fluctuations materially and adversely affect the Combined Group's profitability

A substantial portion of the Combined Group's investment assets will be in interest-bearing investments. For example, for the AIA Group alone, fixed income securities represented approximately 91% of the carrying value of total policyholder and shareholder investments as of 30 November 2009. During periods of declining interest rates the Combined Group's average investment yield will decline as maturing investments, as well as bonds and loans that are redeemed or repaid in order to take advantage of the lower interest rate environment, are replaced with new investments with lower yields and coupon payments. As a result, the decline in interest rates would reduce the Combined Group's return on investments, which could materially reduce its profitability, regardless of whether such investments are used to support particular insurance policy obligations.

Certain of the Combined Group's insurance obligations will have a longer duration than its investment assets. In addition, some of the Combined Group's premiums will be calculated based on an assumed investment yield. As such, lower interest rates may reduce the Combined Group's average investment yield, while premiums from certain outstanding products remain unchanged thereby reducing profitability. Falling interest rates or a prolonged period of low interest rates may make it difficult for the Combined Group to effectively match its assets to its liabilities. If the current low interest rate environment continues, these negative effects on profitability will persist or possibly increase as average investment yield decreases. In addition, if a decrease in the profitability of the Combined Group's products reduces the policyholder surplus relating to participating products, some payments to policyholders, such as non-guaranteed dividends, may decrease or not be paid. In such circumstances, the Combined Group may experience an increase in customer dissatisfaction, complaints, potential litigation or surrenders relating to these products.

The process of pricing the Combined Group's products often entails making assumptions about interest rates. If actual interest rates are lower than the interest rates assumed during the product pricing process, this could have an adverse effect on the profitability of the products. For products with guaranteed interest rate benefits, declines in interest rates reduce the interest rate spread, or the difference between the amounts that are required to be paid under these products and the rate of return the Combined Group is able to earn on its investments intended to support its obligations under these products. The AIA Group has previously offered guaranteed interest products where the guaranteed rate of interest is in excess of current market interest rates. These products were sold primarily in China, the Philippines, Taiwan and Thailand at the then prevailing high market interest rates. As of 30 November 2009, the AIA Group's aggregate policy reserves for such products, calculated in accordance with IFRS, amounted to US\$3,551 million, or approximately 6.4% of total net reserves for all of its insurance policies. The AIA Group have largely discontinued offering guaranteed interest products.

During periods of rising interest rates, although the increased investment yield increases the returns on the investment portfolio, surrenders and withdrawals of policies may increase as policyholders seek investments with higher perceived returns. This process could lead to a cash outflow from the Combined Group's business. Such outflows could require investment assets to be sold at a time when the prices of those assets are lower because of the increase in market interest rates, which could in turn result in realised investment losses. In addition, unanticipated surrenders and withdrawals could require the Combined Group to accelerate the amortisation of deferred policy acquisition costs, which would materially and adversely affect the results of operations. Moreover, a rise in interest rates would have a material adverse effect on shareholders' equity due to a decrease in the fair value of its fixed income investments.

The Combined Group will be subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

The Combined Group will be subject to the risk of potential sovereign debt credit deterioration and default. Following the Transaction, the Combined Group will hold significant amounts of local currency and foreign currency-denominated sovereign debt obligations in its investment portfolio. The AIA Group held government bonds, primarily issued by governments in Asia, with carrying value of US\$16,949 million as of 30 November 2009. In particular it held Thai government bonds issued in Thai Baht with a carrying value of US\$7,374 million. As of 30 November 2009, the AIA Group's aggregate investment in government bonds represented approximately 29% of the carrying value of the AIA Group's total policyholder and shareholder investments. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. Investing in such instruments creates exposure to the direct or indirect consequences of political, social or economic changes in the countries in which the issuers are located and the creditworthiness of the sovereign. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and the Combined Group may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issues. If a sovereign were to default on its obligations, this could have a material adverse effect on the Combined Group's financial condition and results of operations.

The Prudential Group is, and the Combined Group will be, subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to their geographical diversity, the Prudential Group's and the Combined Group's businesses are subject to the risk of exchange rate fluctuations (including the risk of the de-pegging of the HK dollar to the US dollar). The Prudential Group's and Combined Group's operations in the US and Asia, which represent a significant proportion of operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in the Prudential Group's and Combined Group's consolidated financial statements upon translation of results into Sterling. The currency exposure relating to the translation of reported earnings is not currently separately managed. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within the statement of changes in equity. Consequently, this could impact on the Combined Group's gearing ratios (defined as debt over debt plus shareholders' funds).

The Prudential Group conducts, and the Combined Group will conduct, its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy (including through changes in government), legislation (including tax) or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which the Prudential Group operates (or in which the Combined Group will operate), which in some circumstances maybe applied retrospectively, may adversely affect the Prudential Group's (and the Combined Group's) product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. For instance, regulators in jurisdictions in which the Prudential Group operates (or in which the Combined Group will operate) may change the level of capital required to be held by individual businesses. Also these changes could include possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. Furthermore, as a result of the recent interventions by governments in response to global economic conditions, it is widely expected that there will be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transaction structure, and enhanced supervisory powers.

Current EU directives, including the EU Insurance Groups Directive ("IGD") require European financial services groups to demonstrate net aggregate surplus capital in excess of solvency requirements at the group level in respect of shareholder-owned entities. The test is a continuous requirement, so that the Prudential Group needs (and the Combined Group will need) to maintain a somewhat higher amount of regulatory capital at the group level than otherwise necessary in respect of some of its individual businesses to accommodate, for example, short term movements in global foreign exchange rates, interest rates, deterioration in credit quality and equity markets. The EU is also developing a new solvency framework for insurance companies, referred to as "Solvency II". The new

approach will be based on the concept of three pillars - minimum capital requirements, supervisory review of firms' assessment of risk, and enhanced disclosure requirements - and will cover valuations, the treatment of insurance groups, the definition of capital and the overall level of capital requirements. A key aspect of Solvency II is that the assessment of risks and capital requirements will be aligned more closely with economic capital methodologies, and may allow the Prudential Group (and the Combined Group) to make use of its internal economic capital models, if approved by the FSA. The Solvency II Directive was formally approved by a meeting of the EU's Economic and Financial Affairs Council on 10 November 2009. The European Commission has already initiated the process of developing the detailed rules that will complement the high-level Principles of the Directive, referred to as "implementing measures", which are subject to a consultation process and are not expected to be finalised until late 2011. There is a significant uncertainty regarding the final outcome of this process. As a result there is a risk that the effect of the measures finally adopted could be adverse for the Combined Group, including potentially a significant increase in the capital required to support the UK annuity business.

Various jurisdictions in which the Prudential Group operates (and in which the Combined Group will operate) have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where the Prudential Group (and the Combined Group), along with other companies, may be required to make such contributions.

The Prudential Group's accounts are prepared (and the Combined Group's accounts will be prepared) in accordance with current International Financial Reporting Standards ("IFRS") applicable to the insurance industry. The International Accounting Standards Board ("IASB") introduced a framework that it described as Phase I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. The IASB has published proposals in its Phase II discussion paper, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS and has stated its intention to publish an Exposure Draft in 2010. It is uncertain whether and how the proposals in the discussion paper will become definitive IFRS and when such changes might take effect.

Any changes or modification of IFRS accounting policies may require a change in the future results or a restatement of reported results.

European Embedded Value ("EEV") basis results are published as supplementary information by Prudential using principles issued by the European CFO (Chief Financial Officers) Forum. The EEV basis is a value based reporting method for Prudential's long-term business which is used by market analysts and which underpins a significant part of the key performance indicators used by Prudential's management for both internal and external reporting purposes. In June 2008, in an effort to improve the consistency and transparency of embedded value reporting, the CFO Forum published the Market Consistent Embedded Value (MCEV) Principles. Following a review of the impact of turbulent market conditions on the MCEV Principles, the CFO Forum announced in May 2009 the postponement of the mandatory reporting on MCEV basis until 2011 and subsequently, in October 2009, changes in the principles to allow for the inclusion of a liquidity premium, which is the additional return investors require for investing in less liquid assets and is a key component in the calculation of the profitability of UK annuity business. It also announced that it was performing further work to develop more detailed application guidance to increase consistency going forward. When the work has been completed, Prudential (and the Combined Group) will consider its approach to the new Principles. The adoption of the new Principles would give rise to different embedded value results from those prepared under the application of European Embedded Value Principles.

The resolution of several issues affecting the financial services industry could have a negative impact on the Prudential Group's and the Combined Group's reported results or on its relations with current and potential customers

The Prudential Group is, and the Combined Group will be, and both in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. This could be a review of business sold in the past under previously acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pension and mortgage endowment policies, changes to the tax regime affecting products and regulatory reviews on products sold and industry practices, including, in the latter case, businesses it has closed.

Regulators particularly, but not exclusively, in the US and the UK are moving towards a regime based on principles-based regulation which brings an element of uncertainty. These regulators are increasingly interested in the approach that product providers use to select third party distributors and to monitor the appropriateness of sales made by them. In some cases product providers can be held responsible for the deficiencies of third-party distributors.

In the US, federal and state regulators have focused on, and continue to devote substantial attention to, the mutual fund, fixed index variable annuity and insurance product industries. This includes new regulations in respect of the suitability of broker-dealers' sales of certain products. As a result of publicity relating to widespread perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. There is a risk that new requirements are introduced that are retrospectively applied to sales made prior to their introduction.

Litigation, disputes and regulatory investigations may adversely affect the Prudential Group's and the Combined Group's profitability and financial condition

The Prudential Group is, and may be in the future, and the Combined Group may be, subject to legal actions, disputes and regulatory investigations in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of the Prudential Group's or the Combined Group's businesses and operations that are specific to the Prudential Group or the Combined Group, or that are common to companies that operate in the Prudential Group's or the Combined Group's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by the Prudential Group or the Combined Group, and may be class actions. Although the Prudential Group believes that it has adequately provided in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on the Prudential Group's and the Combined Group's results of operation or cash flows.

The Prudential Group's businesses are conducted, and the Combined Group's businesses will be conducted, in highly competitive environments with developing demographic trends and the Prudential Group's and Combined Group's continued profitability depends on its management's ability to respond to these pressures and trends

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting the Prudential Group's and Combined Group's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. In some of its markets, the Prudential Group faces, and the Combined Group may face, competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates or claims-paying ratios. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit the Prudential Group's and the Combined Group's potential to grow its business as quickly as planned.

In Asia, the Prudential Group's and Combined Group's principal regional competitors are international financial companies, including Allianz, AXA, ING, and Manulife. In a number of markets, local companies have a very significant market presence.

Within the UK, the Prudential Group's principal competitors in the life market include many of the major retail financial services companies including, in particular, Aviva, Legal & General, Lloyds Banking Group and Standard Life.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as AIG, AXA Financial Inc., Hartford Life Inc., Lincoln National, MetLife and TIAA-CREF.

The Prudential Group believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. The Prudential Group's and the Combined Group's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in the Prudential Group's, and following the Transaction, the Combined Group's, financial strength and credit ratings could significantly impact its competitive position and hurt its relationships with creditors or trading counterparties

The Prudential Group's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in most of the Prudential Group's products, and as a result its competitiveness. Changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or the Prudential Group's financial condition, or following the Transaction, the Combined Group's financial condition. Downgrades in the

Prudential Group's, AIA Group's and/or Combined Group's ratings could have an adverse effect on its ability to market products and retain current policyholders. In addition, the interest rates the Prudential Group pays on its borrowings are affected by its debt credit ratings, which are in place to measure the Prudential Group's ability to meet its contractual obligations.

Prudential's long-term senior debt is rated as A2 (negative outlook) by Moody's, A+ (negative outlook) by Standard & Poor's and A+ (negative outlook) by Fitch.

Prudential's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1+ by Fitch.

The Prudential Assurance Company Limited ("Prudential Assurance") long-term fund is rated Aa2 (negative outlook) by Moody's, AA (negative outlook) by Standard & Poor's and AA+ (negative outlook) by Fitch.

Jackson's financial strength is rated AA (negative outlook) by Standard & Poor's and Fitch, A1 (negative outlook) by Moody's, and A+ (negative outlook) by AM Best.

The Combined Group has not yet been rated. There can be no assurance that the Combined Group will be rated the same or higher than the current rating of Prudential.

Adverse experience in the operational risks inherent in the Prudential Group's and the Combined Group's business could have a negative impact on its results of operations

Operational risks are present in all of the Prudential Group's businesses and will be present in all of the Combined Group's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. The Prudential Group's business is, and the Combined Group's business will be, dependent on processing a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. In addition, the Prudential Group outsources several operations, including in the UK a significant part of its back office and customer-facing functions as well as a number of IT functions. In turn, the Prudential Group is reliant upon the operational processing performance of its outsourcing partners.

In addition, in 2009, AIA implemented a reorganisation of the AIA Group with the goal of improving operational efficiency and responding to the AIG Events. The challenges of operating as a recently reorganised company could adversely affect the performance of the AIA Group.

Further, because of the long-term nature of much of the Prudential Group's business, accurate records have to be maintained for significant periods. The Prudential Group's systems and processes incorporate controls which are designed to manage and mitigate the operational risks associated with its activities. For example, any weakness in the administration systems or actuarial reserving processes could have an impact on its results of operations during the effective period. The Prudential Group has not experienced or identified any operational risks in its systems or processes during 2009, which have subsequently caused, or are expected to cause, a significant negative impact on its results of operations.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that Prudential or any member of Prudential Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FSA.

Adverse experience against the assumptions used in pricing products and reporting business results could significantly affect the Prudential Group's and the Combined Group's results of operations

The Prudential Group needs, and the Combined Group will need, to make assumptions about a number of factors in determining the pricing of its products and setting reserves and for reporting its capital levels and the results of its long-term business operations. For example, the assumption that the Prudential Group makes about future expected levels of mortality is particularly relevant for its UK annuity business. In exchange for a premium equal to the capital value of their accumulated pension fund, pension annuity policyholders receive a guaranteed payment, usually monthly, for as long as they are alive. The Prudential Group conducts rigorous research into longevity risk, using data from its substantial annuitant portfolio. As part of its pension annuity pricing and reserving policy, the Prudential Group's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data from the Continuous Mortality Investigations (CMI) as published by the Institute and Faculty of Actuaries. If mortality improvement rates significantly exceed the improvement assumed, the Prudential Group's and Combined Group's results of operations could be adversely affected.

A further example is the assumption that the Prudential Group makes about future expected levels of the rates of early termination of products by its customers (persistence). This is particularly relevant to its lines of business other than its UK annuity business. The Prudential Group's persistence assumptions reflect recent past experience for each relevant line of business. Any expected deterioration in future persistence is also reflected in the assumption. If actual levels of future persistence are significantly lower than assumed (that is, policy termination rates are

significantly higher than assumed), the Prudential Group's and the Combined Group's results of operations could be adversely affected.

Another example is the impact of epidemics and other effects that cause a large number of deaths. Significant influenza epidemics have occurred three times in the last century, but neither the likelihood, timing, nor the severity of future epidemics can be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics and severity of any epidemic could have a material impact on the Prudential Group's and Combined Group's loss experience.

In common with other industry participants, the profitability of the Prudential Group's and the Combined Group's businesses depends on a mix of factors including mortality and morbidity trends, policy surrender rates, investment performance and impairments, unit cost of administration and new business acquisition expense.

The business and prospects of the Combined Group may be materially and adversely affected if it is not able to manage the growth of the AIA Group's operations successfully

The life insurance market in the Asia region has experienced significant growth in recent years. Management of the AIA Group's growth to date has required significant management and operational resources and is likely to continue to do so. Future growth of the Combined Group will require, among other things: the continued development of adequate underwriting and claim handling capabilities and skills, sufficient capital base, increased marketing and sales activities and the hiring and training of new personnel.

There is no assurance that the Combined Group will be successful in managing future growth. In particular, there may be difficulties in hiring and training sufficient numbers of customer service personnel and agents to keep pace with any future growth in the number of customers in the Asia region. In addition, the Combined Group may experience difficulties in upgrading, developing and expanding information technology systems quickly enough to accommodate any future growth. If it is unable to manage future growth successfully, the Combined Group's business and prospects may be materially and adversely affected.

As holding companies, Prudential and AIA are each dependent upon their respective subsidiaries to cover operating expenses and dividend payments and, following the Transaction, New Prudential will in turn depend on dividend payments from Prudential and AIA

The Prudential Group's and AIA Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries.

As holding companies, Prudential's and AIA's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper. Certain of the subsidiaries of each of Prudential and AIA are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit the payment of dividends, which in some circumstances could limit the ability to pay dividends to shareholders. In particular, AIA has historically been limited by regulators in Thailand on the extent to which it can distribute surplus capital from AIA Thailand to any other subsidiary or branch of the AIA Group.

Following the Transaction, New Prudential will be dependent on dividend payments from Prudential and AIA.

The Prudential Group operates, and the Combined Group will operate, in a number of markets through joint ventures and other arrangements with third parties (including in China and India). These arrangements involve certain risks that the Prudential Group does not, and the Combined Group will not, face with respect to its consolidated subsidiaries

The Prudential Group operates, and the Combined Group will operate, and in certain markets is required by local regulation to operate, through joint ventures (including in China and India). The Prudential Group's and Combined Group's ability to exercise management control over its joint venture operations and its investment in them depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. The Prudential Group and the Combined Group may also face financial or other exposure in the event that any of its joint venture partners fails to meet its obligations under the joint venture or encounters financial difficulty. In addition, a significant proportion of the Prudential Group's and the Combined Group's product distribution is and will be carried out through arrangements with third parties not controlled by the Prudential Group and Combined Group respectively and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements could adversely affect the results of operations of the Prudential Group's and the Combined Group's.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings between a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Following the Transaction, the Combined Group may have difficulty identifying all the liabilities associated with the AIA Group's historical activities

In many markets in which the AIA Group operates, there have been significant changes in the legal and regulatory regimes relevant to its business during its tenure in these markets, and legal compliance and enforcement practices have varied widely across the region and over time. In addition, the ownership, management, personnel and reporting structures of the businesses have changed over time. For example, some of the businesses contributed to the AIA Group as part of the reorganisation following the AIG Events, including Philamlife, AIA Korea, AIA Taiwan and certain businesses and operations of AIA-B, have been managed as part of the AIA Group for only a limited period of time. The AIA Group have recognised all of the liabilities and disclosed all material contingent liabilities identified by it. However, it cannot be assured that the AIA Group has identified all potential liabilities associated with its historical activities, and unidentified liabilities could materially and adversely affect the AIA Group's (and therefore the Combined Group's) business, financial condition and results of operations.

Events relating to the AIG Group could continue to harm the AIA Group's business and reputation and could also harm the Prudential Group's business and reputation

Following the AIG Events, the AIA Group's customers, agents and employees, regulators and business counterparties expressed concerns about the business and financial condition of the AIG Group and the AIA Group. As a result, the AIA Group experienced a temporary increase in policy surrenders and withdrawals and a reduction in new business, primarily attributable to a perceived reduction in the AIA Group's financial strength. Following completion of the Transaction, the AIA Group will continue to have relationships with the AIG Group, including the provision of services. In addition, although the AIA Group have re-branded a number of its products and businesses to more closely associate them with AIA, in part to overcome any perception of instability surrounding the AIG Group, the re-branding efforts may not be successful or events related or relating to the AIG Group may still adversely impact the AIA Group's reputation. There is also the risk that the Prudential Group's business may suffer due to the association with the AIA Group (and therefore AIG) following the Transaction, which may lead to, for example, higher withdrawals, lower new business sales, a negative impact on relations with creditors, or a negative impact on the Prudential Group's credit ratings.

Agent, employee and distribution partner misconduct is difficult to detect and deter and could harm the Combined Group's reputation or lead to regulatory sanctions or litigation

Agent, employee or distribution partner misconduct could result in violations of law, regulatory sanctions, litigation or serious reputational or financial harm. Such misconduct could include: binding the Combined Group to transactions that exceed authorised limits; hiding unauthorised or unsuccessful activities resulting in unknown and unmanaged risks or losses; improperly using or disclosing confidential information, illegal or improper payments; recommending products, services or transactions that are not suitable for customers; misappropriation of funds; engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities when marketing or selling products to customers; engaging in unauthorised or excessive transactions to the detriment of customers; or otherwise not complying with applicable laws or internal policies and procedures.

The measures that the Combined Group takes to detect and deter misconduct by agents, employees and distribution partners may not be effective in all cases and may therefore not always be successful in detecting or deterring such misconduct. There is no assurance that any such misconduct would not have a material adverse effect on the Combined Group's reputation, business, financial condition, results of operation or prospects.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation, may change, possibly with retrospective effect in any of the jurisdiction in which the Combined Group operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Prudential Group or the Combined Group or in taxation legislation or its interpretation could affect the Prudential Group's and the Combined Group's profitability and ability to provide returns to shareholders or alter the post-tax returns to shareholders.

Risks relating to the Transaction

The Transaction may not complete

Completion of the Transaction is subject to the satisfaction (or waiver) of a number of conditions precedent (including the approval of the holders of Prudential Shares, the approval of the Scheme by the Court and relevant competition and regulatory clearances). Any relevant body may refuse its approval or, in the case of competition authorities, may seek to make their approval subject to compliance by Prudential with unanticipated or onerous conditions. In certain jurisdictions, although consent may not be required from the relevant regulator, there may be the risk of that regulator imposing onerous requirements on the Combined Group because of the Transaction. These conditions, if accepted, could have the effect, among other things, of imposing significant additional costs on the Combined Group, limiting the Combined Group's revenues, requiring divestitures of certain assets, reducing the anticipated benefits of the Transaction or imposing other operating restrictions upon the business of the Combined Group.

The Combined Group may fail to realise the anticipated benefits, including estimated synergies, in relation to the Transaction

The board of directors of Prudential anticipates that it can realise material synergies and growth opportunities from the combination of the Prudential Group and the AIA Group. To realise the anticipated benefits of this combination, the Combined Group will need to, amongst other things, develop strategies and implement a business plan to achieve higher growth through improved sales productivity, higher efficiency, cost savings and complementary distribution channels and broader product offering. Other anticipated synergies for the Combined Group include opportunities for enhanced agency distribution, leveraging of bancassurance and other relationships and asset management activities. If, however, the Combined Group's strategies and business plan following the Transaction fail to achieve these anticipated benefits, if the value of these anticipated benefits is lower than expected, or if these anticipated benefits take longer or cost more to achieve, the estimated synergies may not be achieved or the profitability of the Combined Group going forward could be significantly impacted.

The integration of the Prudential Group and AIA Group may be more difficult than anticipated

The integration process following the completion of the Transaction may prove more difficult than anticipated, or if the focus on this process impacts on the performance of its business, there is also a risk to the results or operations of the Combined Group. The integration may take longer than expected, or difficulties relating to the integration may arise or may cost more than estimated. The integration could fail to achieve the increased revenues, earnings, cost savings and operational benefits that are expected to result from the Transaction and could even incur substantial costs as a result of, for example, inconsistencies in standards, controls, procedures and policies and business cultures between the Prudential Group and the AIA Group and the diversion of management's attention from their responsibilities as a result of the need to deal with integration issues. Any difficulties in the integration of internal policies, procedures and controls, for example in relation to risk management, could correspondingly increase the risk exposure and losses may be experienced as a direct or indirect result of failures of the Combined Group's policies and controls.

In addition, the Combined Group will rely to a large extent on its ability to attract and retain key personnel who have in-depth knowledge and understanding of the life insurance market in the geographical markets in which it operates. Key personnel may depart because of issues relating to the uncertainty or difficulty of integration or a desire not to remain with the Combined Group. The loss of the services of these personnel may cause the Combined Group's business to suffer.

The unaudited illustrative narrative information in this announcement describing the possible impact of the Transaction does not constitute "pro forma information" for the Combined Group presented in accordance with Annex II of the Prospectus Directive Regulation (No. 2004/809/EC), and does not purport to be representative of the financial condition or results of operations of the Combined Group as of any date or for any period, past or future.

The unaudited illustrative narrative information is subject to important limitations that have prevented Prudential from presenting "pro forma information" for the Combined Group. These limitations included the limited access to the AIA Group financial and other information prior to this announcement. This and other limitations resulted in the information presented on the Combined Group being based on available information and certain estimates and assumptions that management believes are reasonable. No assurance can be given that the estimates and assumptions that have been made in preparing the information reflect what the Combined Group's financial

condition or results of operations would have been as of the dates or during the periods described if the Combined Group had reported on a consolidated basis, or what the actual effect of the Combined Group's financial condition or results of operations as a single consolidated entity would be as of any date or for any period in the future.

Change of control provisions in the AIA Group's and Prudential Group's agreements may be triggered upon the completion of the Transaction and may lead to adverse consequences

Each of the AIA Group and the Prudential Group may be party to contracts, agreements and instruments that contain change of control provisions that may be triggered upon the completion of the Transaction. Agreements with change of control provisions typically provide for, or permit the termination of, the agreement upon the occurrence of a change of control of one of the parties or, in the case of debt instruments, require repayment of all outstanding indebtedness. Usually these provisions, if any, may be waived with the consent of the other party, and Prudential will consider whether it will seek these waivers. In the absence of these waivers, the operation of the change of control provisions, if any, could result in the loss of significant contractual rights and benefits, the termination of significant agreements, the payment of a termination fee or the need to renegotiate financing agreements. In addition, employment agreements or other employee benefit arrangements with members of each of the AIA Group's and the Prudential Group's employees may contain change of control provisions providing for additional payments following a change of control.

The Transaction may negatively impact the Prudential Group's or the AIA Group's tax position

The Transaction is likely to constitute a change of ownership of the Prudential Group and the AIA Group, which may have a negative impact on their tax position. The tax consequences of a change of ownership of a company can include the loss or restriction of certain tax attributes arising before the change of ownership, including, but not limited to tax losses, tax credits and/or tax basis in assets. In addition, the change of ownership may result in other tax costs not normally associated with the ordinary course of business.

Share prices may fluctuate

The market price of Prudential Shares and New Ordinary Shares (including Nil Paid Rights and Fully Paid Rights) could be subject to significant fluctuations due to changes in sentiment in the market. Such risks depends on the market's perception of the likelihood of completion of the Rights Issue and of the Transaction, and/or in response to various facts and events, including variations in the Prudential Group's operating and results and business developments of Prudential Group and/or its competitors. Stock markets have from time to time experienced significant price and volume fluctuations that have affected the market prices for securities and which may be unrelated to the Prudential Group's operating performance or prospects. Furthermore, Prudential Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline the market price of Prudential Shares and Rights Issues Shares (including Nil Paid Rights and Fully Paid Rights).

Shareholders who do not take up their rights in full will experience dilution in their ownership

Those holders of Existing Shares who do not participate in the Rights Issue will suffer a reduction in their proportionate ownership and voting interest in the Prudential Shares as represented by their holding Prudential Shares immediately following Admission.

The trading market for Nil Paid Rights may not develop

An active trading market in the Nil Paid Rights may not develop on the London Stock Exchange during the trading period. In addition, because the trading price of the Nil Paid Rights depends on the trading price of the Prudential Shares, the Nil Paid Rights price may be volatile.

APPENDIX III: KEY TERMS OF THE SHARE PURCHASE AGREEMENT

Under the Share Purchase Agreement, AIA Aurora LLC has agreed to sell and New Prudential has agreed to purchase the entire issued share capital of AIA for USD 35.5 billion, comprising:

- USD 25.0 billion in cash;
- USD 5.5 billion in New Prudential Shares;
- USD 3.0 billion in MCS; and
- USD 2.0 billion in Preferred Securities.

The obligations of New Prudential under the Share Purchase Agreement are guaranteed by Prudential.

Conditions

The material conditions to completion of the Share Purchase Agreement are:

- the passing of the requisite resolutions by Prudential shareholders at the General Meeting;
- obtaining the requisite regulatory and antitrust approvals;
- there having been no material adverse change in AIA between the date of the Share Purchase Agreement and commencement of the Rights Issue;
- there having been no breach of warranty by AIG giving rise to a material adverse change;
- there having been no breach by AIG of the covenants relating to the conduct of the business of the AIA Group which is material in the context of the AIA Group taken as a whole;
- there having been no breach of the warranty by New Prudential giving rise to a material adverse effect on the ability of it or Prudential to complete the Transactions;
- the Scheme being sanctioned by the court and becoming effective; and
- admission of the Prudential shares to be issued pursuant to the Rights Issue, New Prudential Shares, MCS and Preferred Securities to listing on the Official List and to trading on the London Stock Exchange.

The parties to the Share Purchase Agreement have agreed to use their best endeavours to co-operate to satisfy the conditions (which may include Prudential agreeing to divest AIA Group or Prudential Group assets or businesses) and, in particular, Prudential has agreed that the Board of Prudential will recommend that shareholders vote in favour of the requisite resolutions at the General Meeting (the "**Board Recommendation**"), subject always to the Directors' fiduciary duties.

In the event that completion has not occurred and the Share Purchase Agreement has not been terminated by 31 August 2010, New Prudential agrees to pay to AIG an additional amount of consideration equal to USD5/1200ths of the cash consideration outstanding per month from 1 September 2010 to the completion date.

Termination

The material termination provisions under the Share Purchase Agreement allow termination:

- by AIG in the event that the Directors adversely withdraw, modify or qualify the Board Recommendation;
- by AIG in the event that Prudential shareholders have not passed the requisite resolutions by 1 August 2010;
- by any party in the event that completion does not occur by 1 March 2011 (the "**Long Stop Date**"), subject to options for either party to extend in limited circumstances;
- by New Prudential in the event of a breach of warranty by AIG giving rise to a material adverse change, subject to cure;
- by New Prudential in the event of a breach of covenant relating to the conduct of the business of the AIA Group which is material in the context of the AIA Group taken as a whole, subject to cure; and

- by AIG in the event of a breach of warranty by New Prudential giving rise to a material adverse effect on the ability of it or Prudential to complete the Transactions subject to cure.

New Prudential agrees to pay to AIG a termination fee of £153 million (inclusive of any VAT due in respect thereof) if the Share Purchase Agreement is terminated as a result of: (i) the requisite regulatory or antitrust approvals not having been obtained by the Long Stop Date; (ii) the Rights Issue not having been completed by the Long Stop Date; (iii) Prudential shareholders not having passed the requisite resolutions by 1 August 2010; or (iv) the Board Recommendation having been adversely withdrawn, modified or qualified; or (v) if the Long Stop Date shall have occurred and AIG would have had the right to terminate as described in (iii) and (iv) above (in each case, other than as a result of breach of warranty or covenant which was sufficiently serious to permit New Prudential to terminate the agreement).

Other provisions

The share purchase agreement contains an undertaking by AIG to use best endeavours to ensure that the business of the AIA Group is run in the ordinary course up to completion and that specified actions are not taken without the consent of New Prudential.

New Prudential's liability to AIG for breach of warranty terminates at completion, with the exception of warranties relating to capacity and title. AIG's liability to New Prudential for breach of warranty terminates at completion, with the exception of the warranties relating to capacity and title and certain other matters to the adequacy of the draft prospectus of AIA prepared in contemplation of the initial public offering of the AIA Group. AIG's liability under the prospectus warranty is capped at USD 7.5 billion and subject to a limitation period of 12 months.

AIG is subject to lock-up:

- in respect of New Prudential Shares, for a period of 24 months from the date of the Share Purchase Agreement, subject to orderly market disposals of up to 50 per cent. of its holding from the date falling 12 months from completion to the end of the lock-up period; and
- in respect of the MCS, for a period of 24 months from the date of the Share Purchase Agreement, in each case subject to customary exceptions.

Prudential and New Prudential are prohibited, from the date of the Share Purchase Agreement until the date on which Prudential shareholders pass the requisite resolutions, from:

- entering into discussions regarding any transaction which would require the approval of Prudential shareholders if to do so would result in the Board Recommendation being adversely withdrawn, modified or qualified;
- soliciting an offer for Prudential which would be subject to the City Code on Takeovers and Mergers, or assisting any person with, or providing information to any person for the purposes of, the aforementioned.

The Share Purchase Agreement contains a prohibition on AIG soliciting the senior employees of the AIA Group for a period of 18 months from completion of the Transaction, other than by way of general advertisement.

APPENDIX IV: DETAILED INFORMATION ON AIA GROUP

This Appendix contains certain forward looking statements relating to the AIA Group that are based on the beliefs of AIA Group's management as well as assumptions made by and information currently available to AIA Group's management. These forward looking statements are, by their nature, subject to significant risks and uncertainties. These forward looking statements include, without limitation, statements relating to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates. These forward looking statements are not a guarantee of future performance. You are strongly cautioned that reliance on any forward looking statements involves known and unknown risks and uncertainties. Actual results and events may differ materially from information contained in the forward looking statements as a result of a number of factors, including:

- Difficult operating conditions have had a material impact and may continue to materially impact our business, financial condition, results of operations and liquidity.
- Interest rate fluctuations may materially and adversely affect our profitability.
- We may be unable to match closely the duration of our assets and liabilities, which could increase our exposure to interest rate risk.
- An actual or perceived reduction in our financial strength or a downgrade in our credit ratings could increase policy surrenders and withdrawals, damage our business relationships and negatively impact new sales of our products.
- Our cross-border operations pose complex foreign currency, management, legal, tax and economic risks.
- If we are not able to attract, motivate and retain agency leaders and individual agents, our competitive position, growth and profitability will suffer.
- We depend on key management and actuarial, information technology, investment management, underwriting, sales staff and other personnel, and our business, profitability and prospects would suffer if we lose their services and are unable to adequately replace them.
- Differences between actual benefits and claims experience and underwriting and reserving assumptions, as well as deviations from the assumptions used in pricing our products, could have a material adverse effect on our financial condition and results of operations.
- Agent, employee and distribution partner misconduct is difficult to detect and deter and could harm our reputation or lead to regulatory sanctions or litigation against us.
- Losses on our investments may have a material adverse effect on our financial condition and results of operations.
- Increases in the amount of allowances and impairments taken on our investments could have a material adverse effect on our financial condition and results of operations.
- Our businesses are highly regulated and future regulatory changes may occur and could result in financial losses or harm to our business.
- The impact of epidemics, international tension, terrorist attacks, ongoing and new wars, military actions, natural disasters or other catastrophes may materially and adversely affect our claims experience, investment portfolio, financial condition and results of operations.
- Over our long operating history, our geographical markets have undergone significant legal and regulatory changes and there have been significant changes in the ownership, management, personnel and reporting structures of our businesses. This may make it difficult for us to identify all liabilities associated with our historical activities.
- We are subject to risks related to currency fluctuations and regulation.
- De-pegging of the HK dollar may adversely affect our financial condition and results of operations.
- We may need additional capital in the future, and we cannot assure you that we will be able to obtain such capital on acceptable terms or at all.
- Our risk management policies and procedures and internal controls, as well as the risk management tools available to us, may not be adequate or effective.
- We may have difficulty implementing our new financial reporting and information systems and processes.

- Failure to secure new distribution relationships, as well as any termination or disruption of our existing distribution relationships, may have a material adverse effect on our competitiveness and result in a material impact on our financial condition and results of operations.
- Concentration of our investment portfolio in any particular asset class, market or segment of the economy may increase our risk of suffering investment losses.
- We are subject to the credit risk of our investment counterparties, including the issuers or borrowers whose securities or loans we hold.
- We hold significant amounts of sovereign debt obligations in our investment portfolio.
- We rely on third party service providers in several areas of our operations and therefore do not have full control over the services provided to us or our customers.
- Our actual financial performance may vary materially from the financial information contained in this announcement.
- Litigation and regulatory investigations may result in significant financial losses and harm to our reputation.
- Our business and prospects may be materially and adversely affected if we are not able to manage our growth successfully.
- We may undertake investments, acquisitions, distribution arrangements, partnerships and new business lines and strategies, which may not be successful.
- Our operations could be disrupted by unexpected network interruptions caused by system failures, natural disasters or terrorist attacks, as well as by unauthorised tampering with, or security breaches of, our information technology systems.
- Our brand names and intellectual property are important to us and we may not be able to protect them.
- We face risks related to changes in our ownership.
- We face significant competition and our business and prospects will be materially harmed if we are not able to compete effectively.
- Consolidation of distributors of insurance, investment and pension products may have a material adverse effect on the industry and the profitability of our business.
- Compliance with solvency requirements may force us to raise additional capital, change our business strategy or reduce our growth.
- The rate of growth of the life insurance, investment and pension industries in the Asia Pacific region may not be as high or as sustainable as we anticipate.
- Customer preferences for insurance, investments and pension products as well as wealth management solutions may change and we may not respond appropriately or in time to sustain our business or our market share in the geographical markets in which we operate.
- Government measures and regulations in response to financial and other crises may materially and adversely affect our business.
- Changes in taxation on our business may materially and adversely affect our business, financial condition and results of operations.

DEFINITIONS

The following terms apply throughout this Appendix IV and Appendix V unless the context otherwise requires:

Active Agent	an agent who sells at least one life insurance product per month;
AIRCO	AIG Reinsurance Company, Limited, an AIG subsidiary;
ALICO	AIG Life Insurance Company, an AIG subsidiary;
AIA	AIA Group Limited;

AIA Group	AIA and its subsidiaries from time to time;
AIA Limited	AIA Company Limited;
AIA-B	American International Assurance Company (Bermuda) Limited, a AIA Limited subsidiary;
AIA-CM	AIA Corporate Marketing Company Limited, a AIA Limited subsidiary;
AIA-PT	AIA Pension and Trustee Company Limited, a AIA Limited subsidiary;
AIA – T	American International Assurance Company (Trustee) Limited, a AIA Limited subsidiary;
AIA Australia	AIA Australia Limited, a AIA Limited subsidiary;
AIA Brunei	the business and operations of AIA Limited’s branch in Brunei;
AIA Central	building located at 1 Connaught Road, Central, Hong Kong;
AIA China	the business and operations of AIA Limited’s China branches and sub-branches;
AIA Group	AIA and its subsidiary undertakings and branches from time to time;
AIA Hong Kong	the business and operations of AIA Limited’s and AIA-B’s Hong Kong branches;
AIA India	Tata AIG Life Insurance Company Limited, a joint venture between Tata Sons Limited and AIA Limited;
AIA Indonesia	PT AIA Financial, a AIA Limited subsidiary;
AIA Korea	the business and operations of AIA-B’s Korea branch;
AIA Macau	the business and operations of AIA-B’s Macau branch;
AIA Malaysia	American International Assurance Bhd., a AIA Limited subsidiary;
AIA New Zealand	the business and operations of AIA-B’s New Zealand branch;
AIA Pension	AIA-T and AIA-PT, collectively;
AIA Singapore	the business and operations of AIA Limited’s Singapore branch;
AIA Taiwan	the business and operations of AIA-B’s Taiwan branch;
AIA Thailand	the business and operations of AIA Limited’s Taiwan branch;
AIA Vietnam	AIA (Vietnam) Life Insurance Company Limited, a AIA Limited subsidiary;

AIG Events	has the meaning set forth in the section headed "History and Reorganisation" in this announcement;
AIG Group	AIG and its subsidiaries from time to time, excluding the AIA Group;
BPI	Bank of the Philippine Islands;
CIRC	China Insurance Regulatory Commission, a regulatory body responsible for the supervision and regulation of the PRC insurance industry;
China or PRC	The People's Republic of China, excluding for the purposes of this announcement only (unless otherwise indicated), Taiwan, Hong Kong and Macau;
FRBNY	The Federal Reserve Bank of New York;
FRBNY Credit Agreement	AIG's revolving credit agreement with FRBNY as described in the section headed "History and Reorganisation" in this announcement;
FY 2007	in relation to AIA and the AIA Group, the financial year ending 30 November 2007;
FY 2008	in relation to AIA and the AIA Group, the financial year ending 30 November 2008;
FY 2009	in relation to AIA and the AIA Group, the financial year ending 30 November 2009;
Hong Kong or HK	the Hong Kong Administrative Region of the PRC; in the context of the Key Markets, Hong Kong includes Macau;
IAS	the International Accounting Standards promulgated by the IASB;
IASB	the International Accounting Standards Board;
ICO	the Insurance Companies Ordinance, Chapter 41 of the Laws of Hong Kong
IFRS	international financial reporting standards;
India	The Republic of India;
Indonesia	The Republic of Indonesia;
Key Geographical Markets	Hong Kong, Thailand, Singapore, Korea, Malaysia, and China;
Key Markets	Hong Kong (including Macau), Thailand, Singapore (including Brunei), Korea, Malaysia and China;
Korea	The Republic of Korea;

Macau	the Macau Special Administrative Region of the People's Republic of China;
MDRT	the Million Dollar Round Table, an association that represents sales professionals in the life insurance based financial services industry;
MPFSO	Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong);
OCI	Office of the Commissioner of Insurance, a regulatory body responsible for the supervision and regulation of the Hong Kong insurance industry;
Other Geographical Markets	Australia, the Philippines, Indonesia, Vietnam, Taiwan, New Zealand, Macau, Brunei and the AIA Group's interests in its joint venture in India;
Other Markets	Australia, the Philippines, Indonesia, Vietnam, Taiwan, New Zealand, and the AIA Group's interest in its joint venture in India;
ORSO	Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong);
Philamlife	The Philippine American Life and General Insurance Company, a AIA Limited subsidiary;
Philippines	The Republic of the Philippines;
Policy and Shareholder Investments	total investment portfolio, excluding investment-linked investments;
SAA	strategic asset allocation;
Singapore	The Republic of Singapore; in the context of the Key Markets, Singapore includes Brunei
TAA	tactical asset allocation;
Thailand	The Kingdom of Thailand;
U.S. Dollars or USD	U.S. Dollars, the lawful currency of the United States of America, its territories and possessions, any state of the United States, and the District of Columbia;
US or United States	the United States of America, its territories, its possessions and all areas subject to its jurisdiction;
US Treasury Department	the United States Department of the Treasury; and
Vietnam	The Socialist Republic of Vietnam

GLOSSARY

This glossary contains explanations of certain terms used in this Appendix and Appendix IV of this announcement in connection with the AIA Group and its business. These terms and their meanings may not always correspond to standard industry meanings or usage of these terms.

A&H	accident and health and personal accident insurance products, which provide morbidity or sickness benefits and include health, disability, critical illness and accident coverage. A&H insurance products are sold both as standalone policies and as riders that can be attached to life insurance products. A&H riders are presented together with ordinary individual life insurance products for purposes of disclosure of financial information;
affinity customers	a group of customers who share a common enterprise or social affinity or relationship;
agency leaders	an agent who manages a group of agents;
allocated segment equity	segment assets less segment liabilities in respect of each reportable segment less fair value and foreign currency translation reserves and adjusted for subordinated intercompany debt;
annualised new premium	a measure of new business activity that is calculated as the sum of annualised regular premiums from new business plus 10 per cent. single premiums on new business written during the period;
annuity	a contract providing for periodic payments to an annuitant for a specified period of time, often until the annuitant's death;
bancassurance	the distribution of insurance products through bank branches and/or joint ventures with banks;
cash surrender value	the amount of cash available to a policy holder on the surrender of or withdrawal from a life insurance policy or annuity contract;
cede	when an insurer reinsures its risk with another insurer, it "cedes" business;
claim	an occurrence that is the basis for submission and/or payment of a benefit under an insurance policy. Depending on the terms of the insurance policy, a claim may be covered, limited or excluded from coverage;
commission	a fee paid to an agent or broker by an insurance company for services rendered in connection with the sale or maintenance of an insurance product;
credit risk	the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation;
currency risk	the risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates;
deferred acquisition costs or DAC	deferred acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of

	existing insurance policies. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses;
discretionary participation features or DPF	<p>a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:</p> <ul style="list-style-type: none"> • that are likely to be a significant portion of the total contractual benefits; • whose amount or timing is contractually at the discretion of the issuer; or • the profit or loss of the company, fund or other entity that issues the contract;
duration	the number of years required to receive the present value of a streamed future cash flow, which is often used as an indicator of a bond's price volatility resulting from changes in interest rates;
endowment product	an ordinary individual life insurance product that provides the insured party with various guaranteed benefits if it survives specific maturity dates or periods stated in the policy. Upon the death of the insured party within the coverage period, a designated beneficiary receives the face value of the policy;
equity securities and alternative investments	equity securities (comprising private and public equities, securities held by consolidated mutual funds managed by AIG, interests in investment funds and the AIA Group's holding of shares in AIG) and investment property;
financial investments	equity and fixed income securities plus receivables and derivative financial instruments classified as assets, excluding cash and cash equivalents;
first year premiums	premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold;
fixed income securities	debt securities (consisting of government and government agency bonds, corporate bonds and structured securities) as well as policy loans, mortgage loans on residential and commercial real estate, inter-company loans to fellow subsidiaries of AIG and other loans (less any allowance for loan losses) plus long term deposits and cash and cash equivalents;
high net worth	individuals who have investable assets of USD1.0 million or more;
IFA	independent financial advisor;
in-force	an insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated;
investment experience	realised and unrealised investment gains and losses recognised in the consolidated income statement;

investment funds	pools of funds held for collective investment purposes;
investment grade	BBB- or above for S&P Baa3 or above for Moody's;
investment income	investment income comprises interest income, dividends and rental income;
investment-linked investments	investments held to back investment-linked contracts;
investment-linked products or investment-linked contracts	investment-linked products are insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges. Investment-linked products are presented together with pension products for purposes of disclosure of financial information
investment property	property (land and/or a building or part of a building) held to earn rentals or for capital appreciation or both rather than for use by the AIA Group;
investments	fixed income securities plus equity securities and alternative investments. This may be further defined as financial investments excluding receivables, plus investment property and cash and cash equivalents;
life insurance premiums	consideration received with respect to life insurance policies issued or reissued by an insurance company;
loans	policy loans, mortgage loans on residential and commercial real estate and inter-company loans to subsidiaries of AIG and loans to subsidiaries of AIG and other loans;
operating margin	operating margin measures the operating profitability of the AIA Group's business relative to the volume of the business the AIA Group generates; operating margin is calculated as operating profit for the year before tax as a percentage of TWPI;
operating profit	profit before tax excluding investment experience and investment income related to investment-linked contracts; changes in insurance and investment contract benefits in respect of investment-linked contracts and the investment experience of participating funds; changes in third party interests in consolidated funds, and other significant items of non-operating income and expenditure;
participating funds	participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits

based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. AIA may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits;

participating policies or participating business	contracts of insurance where the policyholders have a contractual right to receive, at the discretion of the insurer, additional benefits based on factors such as investment performance, as a supplement to any guaranteed benefits;
policy fees	an annual charge to the policyholder collected in addition to the premium to cover the costs of policy administration (premium collected and tax payments);
policyholder and shareholder investments	investments other than those held to back investment-linked contracts;
private equities	ordinary shares in a company that are not publicly traded on a stock exchange;
public equities	ordinary shares publicly traded on an exchange;
recapture	the voluntary termination of a contract of life insurance;
regular premium product	a life insurance product with regular periodic premium payments;
reinsurance	the practice whereby an insurer, in consideration of a premium paid to it, agrees to indemnify another party for part or all of the liabilities assumed by the reinsured party under an insurance contract, which the reinsured party has issued;
renewal premiums	premiums receivable in subsequent years of a multi-year insurance policy;
repurchase agreement	a repurchase transaction involves the sale of financial investments by the AIA Group to a counterparty, subject to an simultaneous agreement to repurchase those securities at a later date at an agreed price;
reserves	liability established to provide for future payments of claims and benefits to policyholders net of liability ceded to reinsurance companies;
re-Takaful	reinsurance of Takaful business compliant with Islamic principles;
rider	a supplemental plan that can be attached to a basic insurance policy, with payment of additional premium;
securities lending	securities lending consists of the loan of certain of the AIA Group's financial investments in third parties securities on a short term basis;

single premiums	single premium policies of insurance are those that require only a single lump sum payment from the policyholder;
solvency margin	a measure of an insurance company's solvency;
surrender	the termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract;
surrender charge or surrender fee	the fee charged to a policyholder when a life insurance policy or annuity contract is surrendered for its cash surrender value prior to the end of the surrender charge period;
Takaful	insurance that is compliant with Islamic principles;
tied agency, tied agent	an agency model which employs sales representatives who sell the products of one company exclusively; a sales representative who sells the products of one company exclusively;
total investment portfolio	investment portfolio composed of cash and cash equivalents, investment property and financial investments but excluding receivables (consisting of amounts due from insurance and investment contract holders, amounts due from agents, brokers and intermediaries as well as insurance and intercompany receivables, receivables from sales of investments and other receivables);
total premiums	life insurance premiums for both in-force insurance policies and insurance policies sold during that year;
total weighted premium income or TWPI	total weighted premium income consists of 100 per cent. of renewal premiums, 100 per cent. of first year premiums and 10 per cent. of single premiums (which the AIA Group refers to as weighted single premiums); it provides an indication of the AIA Group's longer term business volumes as it smoothes the peaks and troughs in single premiums;
underwriting	the process of examining, accepting or rejecting insurance risks, and classifying those accepted, in order to change an appropriate premium for each accepted risk;
universal life	an insurance product where the customer pays flexible premiums, subject to specified limits, that are accumulated in an account and are credited with interest (at a rate either set by the insurer or reflecting returns on a pool of matching assets). The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge;
weighted single premium	10 per cent. of single premium; it provides an indication of longer term business volumes that takes account of changes in the mix of regular and

single premium business.

The following is a summary of certain information that has been derived from AIA Group's unaudited results of operations. This information has not been audited and is subject to completion and issuance of the AIA Group's audited financial statements. In addition, the AIA Group's financial information has not been prepared in accordance with Prudential's accounting policies and is not directly comparable to Prudential's financial information.

OVERVIEW

The AIA Group is a leading life insurance organisation in Asia Pacific that traces its roots in the region back more than 90 years. It provides individuals and businesses with products and services for their evolving insurance, protection, savings, investments and retirement needs in 15 geographical markets in the region: Hong Kong, Korea, Thailand, Singapore, China, Malaysia, the Philippines, Australia, Indonesia, Vietnam, Taiwan, New Zealand, India, Macau and Brunei. In FY 2009, the AIA Group had USD11,632 billion in total weighted premium income ("TWPI").. As of 30 November 2009, it had USD90.7 billion in total assets and total equity attributable to shareholders of AIA of USD14.9 billion.

The AIA Group believes that it has a scale and scope in the Asia Pacific region that its competitors may find difficult to replicate, particularly in more developed markets. As of 30 November 2009 the AIA Group had approximately 23,500 employees serving the holders of its more than 23 million in-force policies and more than 10 million participating members of its clients for group life, medical, credit life coverage and pension products.

The AIA Group derives substantially all of its premiums from its 15 geographical markets across the Asia Pacific region. The AIA Group's individual local operating units are significant businesses in their own right, with Hong Kong, Singapore and Thailand each contributing more than USD350 million of operating profit in FY 2009. At the same time, in FY 2008 and FY 2009, no more than 25 per cent. of the AIA Group's TWPI came from any one geographical market.

The AIA Group's extensive book of in-force business has created a stable operating profit base, with high renewal premiums (84.1 per cent. of its TWPI consisted of renewal premium in 2009). In FY 2009 the AIA Group had an operating profit of USD1,835 million and an operating margin of 15.8 per cent.. In addition, as of 30 November 2009, it had capital significantly in excess of its requirements under relevant Hong Kong insurance regulatory guidance and it complies with relevant capital adequacy requirements in each of its geographical markets.

The AIA Group was a market leader in the Asia Pacific region based on life insurance premiums in 2008, and held number one positions in 6 of its 15 geographical markets. The AIA Group was also the largest foreign life insurer in China in terms of life insurance premiums during the same period. Due to its historic roots in the Asia Pacific region, the AIA Group has built a network of almost entirely wholly-owned businesses operating as branches or subsidiaries, in contrast to most other multi-national insurance companies which operate via joint ventures and partnerships with domestic companies. In addition, the AIA Group believes it possesses a strong brand name and brand awareness in the markets it serves and a reputation as an industry leader in quality and service excellence.

Since 1931, the AIA Group has been building its tied agency force that spans the Asia Pacific region from developed urban centres to rural areas. As of 30 November 2009, the AIA Group's tied agency force consisted of more than 320,000 agents. In each of Hong Kong, Singapore, and Thailand, the AIA Group's agency force made up more than 20 per cent. of the total agents in that market in 2008. The AIA Group believes it has the leading agency presence in these markets based on total agents.

More recently, the AIA Group has expanded, and continues to expand, its other distribution channels, particularly bancassurance and direct marketing, to create a multi-channel distribution platform that is tailored to the unique characteristics of its geographical markets. This has significantly increased the AIA Group's exposure and reach. For example, its bancassurance relationships provide potential access to more than 13,000 of its partners' bank branches.

As a result of its long track record in the region, the AIA Group has also acquired significant experience and know how that enables it to provide insurance products and services across all classes of consumers, from the mass market to high net worth individuals in diverse geographical markets.

HISTORY AND REORGANISATION

HISTORY

Introduction

The AIA Group traces its roots in Asia to 1919 when Cornelius Vander Starr, a young American entrepreneur, established a fire and marine insurance agency in Shanghai — a key commercial centre of the region at that time. From this beginning, the foundations were laid for many of the Asia Pacific life insurance businesses that today form the core of the AIA Group's business, as well as a network of life insurance, general insurance, financial services and asset management businesses that would span the globe and become one of the world's largest insurance and financial services groups, AIG. Leveraging its legacy in the region, the AIA Group has become a leading life insurer stretching across Asia Pacific, whose future growth and prospects remain intrinsically linked to the future growth and dynamism of the region. The AIA Group's history is also interwoven with that of the growth and development of AIG into a world leader in insurance and financial services until it experienced a series of events in 2008 described in "— The Growth of the Global Group which Became AIG" that have required AIG to undertake a comprehensive global divestment and restructuring program.

The Founding of the AIA Group

In 1931, AIA's principal operating subsidiary, AIA Limited, was initially registered in Shanghai as a Hong Kong company under the name International Assurance Company, Limited ("INTASCO") to sell life insurance as part of Mr. Starr's growing group of insurance operations based in Shanghai. Within seven years, INTASCO's business had expanded into several other markets in Asia Pacific through the establishment of branches in Singapore (1931), Hong Kong (1931), Malaysia (1934) and Thailand (1938), all of which remain key markets for the AIA Group today.

In many Asia Pacific markets, the AIA Group was among the first to begin selling life insurance, and its early entry into these markets has given it an historic advantage in establishing an ownership structure and operating infrastructure that the AIA Group believes would be difficult for its competitors to replicate. As life insurance industry pioneers in the region, the AIA Group has gained invaluable experience and contributed to the development of the insurance industry in many of its markets. For example, the AIA Group was among the first to develop and implement the tied agency model that remains an important distribution channel in the region today.

In 1939, Mr. Starr moved his group's headquarters to New York as political instability increased in Asia. Two years later, business activity in the Asia Pacific region was significantly impacted by the Pacific War. At the end of the war, the group moved quickly to return to Asia and re-open its operations in China.

In the late 1940s, an extensive reorganisation of Mr. Starr's group of expanding insurance operations was undertaken and the network of companies was organised into distinct groups based on their businesses and geographic coverage. At INTASCO, this led to the changing of its name to AIA Limited and the assignment of a designated role within the group to sell life insurance in South East Asia.

In 1947, events in China led to the transfer of AIA Limited's regional office to Hong Kong and, in late 1950, the closure of the Shanghai office and the suspension of operations in the PRC. The AIA Group's new Hong Kong base became the platform for a program of post-war expansion that permitted it to leverage its historic roots and grow its life insurance network and business across the Asia Pacific region. Through the years, the geographic footprint of the AIA Group companies has expanded to include Brunei (1957), Australia (1970), Macau (1982), New Zealand (1981), Indonesia (1984), Korea (1987), Taiwan (1990), Vietnam (2000) and India (2001). Hong Kong was also the gateway back to the AIA Group's roots in mainland China in 1992 when it became the first foreign insurer to receive a licence to sell life insurance in the PRC and opened a branch office in Shanghai. In 2008, the AIA Group was the largest foreign life insurance company in terms of life insurance premiums operating in the PRC with licensed sales offices in two provinces (Guangdong and Jiangsu) and three cities (Shanghai, Beijing and Shenzhen).

Today, the AIA Group's Hong Kong base is the hub of an insurance network that spans the following 15 geographical markets:

Geographical Market	Commencement of Operations	Ownership Structure
Singapore.....	1931	Branch
Hong Kong	1931	Branch
Malaysia	1934	Wholly-owned subsidiary (transferred from a branch in 2008)
Thailand	1938	Branch
Philippines.....	1947	Subsidiary (owned 99.78%)
Brunei.....	1957	Branch
Australia	1970	Wholly-owned subsidiary
New Zealand.....	1981	Branch
Macau	1982	Branch
Indonesia.....	1984	Joint Venture*
Indonesia.....	1999	Subsidiary**
Korea.....	1987	Branch
Taiwan.....	1990	Branch
PRC.....	1992	Branches
Vietnam	2000	Wholly-owned subsidiary
India	2001	Joint-venture

* Initial operation was via a joint-venture that was divested on 22 October 2009.

** The current Indonesian business is operated through PT AIA Financial. See the section headed "Primary Operating Units".

The Growth of the Global Group which Became AIG

As part of the global reorganisation of worldwide operations after the Second World War, it was decided that Mr. Starr's U.S. businesses would be managed and serviced from New York, while the non-U.S. businesses would be managed from Bermuda. A new Bermuda holding company named American International Company Limited was established by a special Act of the Bermudan parliament in December 1947. This holding company incorporated two subsidiaries — one, American International Underwriters Overseas, Ltd., to hold the general insurance businesses outside of the United States and the other, American International Reinsurance Company (Panama), Inc. ("AIRCO-P"), to hold the life insurance businesses in Asia.

Through the 1950s and 1960s, Mr. Starr's group of companies continued to grow rapidly. AIG's current corporate structure began to emerge in 1967 following another corporate reorganisation that led to the formation by AIRCO-

P, as a controlling shareholder, of AIG to hold the shares of the U.S.- based companies. In 1969, under the leadership of a new generation of management led by Maurice R. Greenberg, AIG's shares began trading on the over-the-counter market in the United States. As a result of a series of reorganisation transactions during the 1970s, AIA Limited and other affiliated businesses became members of the AIG Group. In 1984, AIG's shares were listed on the New York Stock Exchange.

The turn of the 21st century marked a new period of significant growth for AIG and included a number of significant acquisitions. By 2007, AIG had grown to be one of the largest financial services groups in the world with assets of approximately USD1 trillion and USD110 billion in annual revenues and 116,000 employees in 130 countries and jurisdictions.

Over the years, AIG built upon its premier global franchises in life and general insurance by expanding into a range of financial services businesses, including AIG Financial Products Corp., a company that engaged as principal in a wide variety of financial transactions for a global client base. During the second half of 2008, AIG experienced an unprecedented strain on liquidity. This strain led to a series of transactions with the FRBNY and the U.S. Treasury Department. The two principal causes of the liquidity strain were demands for the return of cash collateral under AIG's U.S. securities lending program and collateral calls on AIG Financial Product Corp.'s super senior multisector CDO credit default swap portfolio.

Both of these liquidity strains were significantly exacerbated by the downgrades of AIG's long term debt ratings by S&P, Moody's and Fitch on 15 September 2008.

As a result of these immediate liquidity requirements and other events (collectively, the "AIG Events"), and AIG's inability to find a viable private sector solution to its liquidity issues, AIG entered into an USD85 billion revolving credit agreement, as amended (the "FRBNY Credit Agreement") with the FRBNY on 22 September 2008. Since 2008, the FRBNY and the U.S. Treasury Department have extended significant additional financial assistance to the AIG Group in the form of debt and equity investments..

With the FRBNY Credit Agreement in place, the AIG management team developed a plan to sell or separate many of AIG's leading businesses, including AIA, in order to repay the FRBNY loan.

In March 2009, AIG announced adjustments to existing restructuring plans and several new initiatives. At that time, AIG announced that it had agreed to transfer its equity ownership of AIA Limited to a special purpose vehicle in return for a reduction of the debt owed by AIG under the FRBNY Credit Agreement.

Impact of the AIG Events on the AIA Group

The impact of the AIG Events on AIA Limited included primarily reputational damage and the adverse impact on its capitalisation resulting from the decline in the value of AIG stock owned by AIA Limited. Throughout this period, AIA Limited worked closely with its regulators to ensure that policyholders were not adversely impacted by the AIG Events and to comply with regulatory requirements (including regulatory orders designed to protect AIA's assets in several of its geographical markets). Subsequent to the AIG Events, AIA Limited's management moved quickly to enhance the capital adequacy of the AIA Group by unwinding certain arrangements with the AIG Group.

AIA's Next Chapter

Building on its 90-year heritage, the AIA Group's core businesses in the Asia Pacific region have historically been operated locally while remaining part of AIG's overall governance stewardship. The AIA Group's profitable businesses have permitted the AIA Group to finance and construct a largely standalone operating infrastructure in the region. The AIA Group has been engaged in a series of separation initiatives since 2007. In 2009, it launched a new branding initiative throughout the Asia Pacific region to communicate its new identity and to transition branding in certain markets that have historically used the AIG brand.

BUSINESS

COMPETITIVE STRENGTHS

The Asia Pacific life insurance market is one of the largest in the world. As a leading life insurer in the Asia Pacific region with a deep knowledge of the region, market leadership and scale, extensive distribution and product marketing expertise and financial strengths, the AIA Group believes that it is well positioned to take advantage of this market's potential future growth.

The AIA Group's competitive strengths include:

Deep and historic roots in the Asia Pacific region.

The AIA Group traces its roots in the Asia Pacific region back more than 90 years. The AIA Group was among the first insurers to establish operations in many of its Key Geographical Markets and in certain cases played a role in the development of the life insurance industry in these markets. In Hong Kong, Singapore, Thailand and Malaysia, the AIA Group has sold life insurance products to its customers since the 1930's. It was also the first licensed foreign life insurer to establish operations in the PRC. The AIA Group's early entry into many of its geographical markets has given it a historic advantage in establishing a network of almost entirely wholly-owned businesses in a region in which most other multi-national insurance companies operate via joint ventures and partnerships with domestic companies.

The AIA Group believes that its long history of serving customers in the Asia Pacific region gives it an in-depth understanding of its geographical markets as they have evolved which has enabled it to leverage lessons learned decades ago in certain markets to grow its business across other developing markets. In addition, the experience that the AIA Group has gained and proprietary data that it has gathered are valuable tools for the AIA Group in developing products that the AIA Group believes remain profitable under many economic and market scenarios.

Through the years, the AIA Group has served successive generations of customers and offered financial security through various crises in the Asia Pacific region. The AIA Group has grown to become a household name with high brand recognition in most of its geographical markets. The AIA Group's strong reputation in these markets has helped it build long-term relationships with its customers and its tied agents. In some cases, the AIA Group's agents have worked with it for most of their careers — sometimes passing the business relationship down to the next generation.

A broad footprint and market leadership across the Asia Pacific region.

Within the Asia Pacific region, the AIA Group has the broadest geographic footprint of any life insurer, with a network stretching across 15 geographical markets. As of 30 November 2009, the AIA Group had more than 320,000 agents and approximately 23,500 employees serving the holders of its more than 23 million in-force policies and its more than 10 million participating members of its clients for group life, medical, credit life coverage and pension products.

The AIA Group was a market leader in the Asia Pacific region based on life insurance premiums in 2008 and held number one positions in six of its fifteen geographical markets. It was also the largest foreign life insurer in China in terms of life insurance premiums in 2008. The AIA Group's leadership positions throughout the region are evidence of its ability to successfully implement its customer-centric business model across varied geographical markets that are at different stages of development.

The AIA Group believes the scale and efficiencies of its operations at the regional level, and in many of its geographical markets, gives it a competitive advantage in pricing its products and investing in strategic initiatives, such as infrastructure and information technology.

The following table shows the AIA Group's market position and market share in terms of life insurance premiums in each of its geographical markets in 2008 unless otherwise indicated:

Market	Market Position*	Market Share (%)*
Our Key Geographical Markets		
Hong Kong ⁽¹⁾	1	16.4
Singapore	1	20.2
Thailand ⁽²⁾	1	37.5
Korea (Domestic and Foreign)	9	3.5
Korea (Foreign Life Insurers)	2	15.2
China (Domestic and Foreign)	9	1.0
China (Foreign Life Insurers)	1	21.0
Malaysia	3	13.3
Our Other Geographical Markets		
Philippines	1	23.1
Australia	14	1.4
Indonesia ⁽³⁾	3	12.6
Taiwan	26	0.3
Vietnam ⁽²⁾	4	6.6
New Zealand ⁽²⁾	6	6.2
Macau ⁽⁴⁾	1	36.1
Brunei	1	70
India ⁽⁵⁾	9	1.0

* For information regarding market position and market share in individual geographical markets, see “— Primary Operating Units”.

(1) Excluding retirement scheme-related group business classes G and H, as categorised by the OCI

(2) Based on total premiums as of 30 June 2009

(3) Based on annual premiums (as classified by the Indonesian Life Insurance Association)

(4) Based on gross written premiums

(5) Based on total premiums as of 31 March 2009

An extensive tied agency network and an expanding multi-channel distribution platform.

The AIA Group has a large, long-standing tied agency force of more than 320,000 agents (as of 30 November 2009) that are the cornerstone of its distribution platform. For many decades, the AIA Group's agents have provided it with significant reach and access in terms of face to face customer targeting and servicing capabilities, enabling it to more effectively build and maintain long-term relationships with its customers. The AIA Group's tied agency force spans across the Asia Pacific region from developed urban centres to rural areas. The AIA Group believes that this established infrastructure and the scale of its agency force would be difficult for its competitors to replicate.

In each of Hong Kong, Singapore, and Thailand, the AIA Group's tied agency force made up more than 20 per cent. of the total agents in that market in 2008 and the AIA Group believes it has the leading agency presence in these markets based on total number of agents. Moreover, as of 1 August 2009, more than 1,300 of the AIA Group's agents were members of the Million Dollar Round Table, a global professional trade association that recognises significant sales achievements while working to develop professional and ethical sales practices.

In many of its geographical markets, the AIA Group has built and continues to expand other distribution channels to increase penetration and broaden its access to potential customers and to meet the evolving preferences of its current customers. For example, as of 30 November 2009, the AIA Group has established more than 120 bank relationships, which give it access to its partners customers across more than 13,000 bank branches. The AIA Group has also developed its direct marketing and IFA distribution channels across the region by drawing on well-established models in some of its key markets to capitalise on emerging direct marketing and IFA opportunities.

A diversified suite of products and innovative product capabilities.

The AIA Group has a broad and diversified suite of products, ranging from traditional to investment oriented products, that are designed to meet its customer's needs at different stages of their lives. The AIA Group believes that its diversified product suite positions it well to capture shifting demand across its geographical markets and cater to differences in such markets due to the varying stages of development of the life insurance industry. Throughout the AIA Group's long history in Asia Pacific, it has acquired experience and know-how that enables it to innovate and develop insurance products and services across all classes of consumers, from the mass market to high net worth individuals across diverse geographical markets. The AIA Group strives to find and react quickly to market trends and to be market leaders with differentiated products that target strong business opportunities. The

AIA Group believes that its product portfolio management capabilities help it meet customer needs and reaffirm its position as a customer-centric organisation. For example, the AIA Group continues its focus on developing Takaful and Shariah-compliant products and services by actively pursuing Takaful opportunities in the region.

The AIA Group believes that it is a market leader in terms of product development and that its strong product capabilities are based on a number of factors, including:

- centralised regional infrastructure supported by local business know-how;
- disciplined underwriting standards and extensive experience data accumulated over a long history in the Asia Pacific region;
- a rigorous product development process to ensure product features meet risk controls and are focused on long-term profitability; and
- an ability to enhance profitability via product mix optimisation and packaging.

Stable profitability and financial strength derived from a diversified base of geographical markets and products.

The AIA Group has a track record of stable and profitable growth, which it considers is evidence of the success of its business model and market leadership. The AIA Group's extensive book of in-force business has created a stable profit base, with high renewal premiums (84.1 per cent. of the AIA Group's TWPI in FY 2009 consisted of renewal premiums). In FY 2009 the AIA Group had an operating profit of USD1.8 billion and an operating margin of 15.8 per cent.

The AIA Group derives its income from a diverse range of sources across its geographical markets, which it believes puts it in a strong position to maintain its financial strength and profitability, as it is not reliant on a single line of business or geographical market. Three of the AIA Group's Key Markets, Hong Kong, Singapore and Thailand, each generated more than USD350 million of operating income in FY 2009, and Malaysia and its Other Markets, produced USD150 million and USD191 million, respectively. At the same time, no more than 25 per cent. of TWPI in FY 2009 was derived from any one geographical market.

In addition, the AIA Group has a strong solvency position on both a regional and individual geographical market basis. As of 31 November 2009, it had capital significantly in excess of its requirements under relevant Hong Kong insurance regulatory guidance and it complies with relevant capital adequacy requirements in each of its geographical markets.

Experienced management driving new and innovative business initiatives.

The AIA Group's experienced management team includes professionals with substantial experience in the Asia Pacific life insurance and financial services industries. The AIA Group believes that the breadth and depth of experience of its management is a significant component in the success of its operating and financial performance. In addition to its management strength at the group level, local operating units have senior management teams that are highly experienced and well-established in their markets.

Since 2007, the AIA Group's group and local management teams have developed a comprehensive growth strategy that the AIA Group has branded the "AIA FastForward" plan. This plan is intended to leverage the collective knowledge of the AIA Group's senior management's industry experience. The AIA Group believes that its management team will be able to develop and execute its customer-centric business strategies effectively, while quickly responding to changes in its business environment.

PRODUCTS

To serve the constantly evolving needs of its customers, the AIA Group has developed and continues to expand a broad, diversified product suite that is designed to respond to its customer's needs at each stage of their lives. The AIA Group's product development process is rigorous, and the AIA Group typically develops and launches numerous new products across its multi-channel distribution platform annually.

The AIA Group believes that its long history in the Asia Pacific region, broad product suite and product development know-how allows it to:

- respond swiftly and cater products to changing customer preferences;
- adapt quickly to changing market environments; and
- capture opportunities in different market and economic cycles.

Product Strategy and Development

The mission statement of the AIA Group's product strategy and development group is: "To proactively provide tailor-made solutions and expert knowledge-based support to our businesses in the development and marketing of innovative and relevant products that add real value for customers." A key element of the AIA Group's product development strategy is to provide relevant product solutions that meet its clients' evolving insurance, protection, savings, investment and retirement needs. In addition, the AIA Group varies its product offerings by geographical market in order to respond to both their varying stages of economic and regulatory development and specific market trends.

The AIA Group head office oversees a product development group consisting of three distinct teams: strategic marketing; customer value management; and product management, each of which plays a key role in creating products. The AIA Group head office is increasingly utilising sophisticated consumer research and analysis tools to identify trends and fill new product niches.

The AIA Group believes that its long track record and extensive experience give it a competitive advantage when pricing its products in many of its geographical markets. In particular, the AIA Group has an extensive proprietary information database accumulated over its long history in the Asia Pacific region. In addition, the AIA Group rigorously tests its products to ensure product features meet risk controls. The pricing of all products is overseen by the actuarial group which has established specific criteria that ensure that all new products are carefully vetted for profitability, capital efficiency and sustainability (i.e., that they remain profitable under many economic and market scenarios). Existing products are also reviewed annually to ensure that they continue to meet the AIA Group's profitability and capital efficiency requirements.

One of the goals of the product development process is to be a market leader with differentiated products as demonstrated by the following recent new products:

- In February 2009, the AIA Group was the first life insurance company to launch an investment-linked product in Thailand to address customers' growing need for wealth accumulation solutions that were not being fully met by traditional endowment products. The AIA Group was able to leverage its group level investment-linked product development expertise and customise the product for the Thai market.
- In July 2009, the AIA Group was one of the first insurers in Hong Kong to launch an innovative product that embedded critical illness benefits into a limited pay participating whole life plan. The AIA Group determined that customers were demanding even more protection elements as part of their overall financial planning needs due to the global economic downturn and therefore decided to integrate its critical illness benefits into Executive Life, its existing successful regular savings plan.

Key Product Lines

TWPI and other unaudited information for the AIA Group's key products lines for the periods indicated is set forth in the table below.

	Year Ended 30 November			CAGR 2007-2009
	2007	2008	2009	
	(in US\$ millions)			
Ordinary individual life insurance	7,216	7,439	7,285	0.5%
Investment-linked products	2,223	2,532	2,069	(3.5)%
Standalone accident & health	1,304	1,426	1,349	1.7%
Group insurance.....	502	704	877	32.2%
Other	113	102	52	(32.2)%
Total.....	11,358	12,203	11,632	1.2%

The following table sets forth the product offering in all of the key markets.

	Ordinary Individual Life	Investment-linked	Standalone A&H	Group	Other ⁽¹⁾
Hong Kong.....	✓	✓	✓	✓	✓
Thailand.....	✓	✓	✓	✓	✓
Singapore	✓	✓	✓	✓	✓
Malaysia	✓	✓	✓	✓	✓
China	✓	✓	✓	✓	✓
Korea	✓	✓	✓	✓	✓
Philippines	✓	✓	✓	✓	
Australia.....	✓		✓	✓	
Indonesia	✓	✓	✓	✓	✓
Taiwan	✓		✓	✓	
Vietnam	✓		✓	✓	
New Zealand	✓		✓	✓	
Macau.....	✓	✓	✓	✓	✓
Brunei.....	✓	✓	✓	✓	
India.....	✓	✓	✓	✓	✓

(1) Includes annuities and personal line.

Ordinary Individual Life Insurance

The AIA Group offers a wide variety of life insurance products for individuals in four principal categories: term life; traditional basic participating; traditional basic non-participating; and universal life products. These products continue to be the major contributor to the AIA Group's TWPI, accounting for 63.6 per cent., 61.0 per cent. and 62.6 per cent. in FY 2007, FY 2008 and FY 2009, respectively..

Term Life

Term life insurance provides life insurance protection for a defined period of time. The sum assured under the policy is paid to the beneficiary if death occurs during the period of coverage.

Traditional Basic Participating Life Insurance

Participating policies are contracts of insurance where the policyholders have a contractual right to receive additional benefits based on investment return and/or other factors, as a supplement to any guaranteed benefits. In some markets, participating business is written in a participating fund that is distinct from the other assets of the insurer. In these markets, the allocation of benefits to participating policyholders from the assets held in the distinct participating fund is typically subject to minimum levels or other mechanisms established by applicable regulation. In markets where participating business is not written in a distinct fund, allocations to participating policyholders are based, at the insurer's discretion, on the investment performance of a group of assets or contracts and other factors. Whether participating policies are written in a distinct participating fund largely depends on local practice and regulation. The extent of policy participation may change over time.

Traditional Basic Non-Participating Life Insurance Traditional basic non-participating life insurance products are contracts of insurance where the policyholder has a guaranteed right to the benefit, which is not at the contractual discretion of the insurer.

Universal Life Products

Universal life products are insurance products where the customer pays flexible premiums that are accumulated in an account and are credited with interest (at a rate either set by the insurer or reflecting returns on a pool of assets). The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge.

Investment-Linked Products

Investment-linked products, including variable universal life products, are insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the policy, subject to surrender charges. Investment-linked products are presented together with pension products for purposes of disclosure of financial information.

Accident & Health

The AIA Group offers A&H and personal accident insurance products, which provide morbidity or sickness benefits and include health, disability, critical illness and accident cover across its multi-channel distribution platform. A&H insurance products are sold both as standalone policies and as riders that can be attached to the AIA Group's life insurance products. A&H riders are presented together with ordinary individual life insurance products for purposes of disclosure of financial information.

The AIA Group believes that it is well-positioned to benefit from expected growth in this market as healthcare costs are shifted from governments to citizens in certain markets. These products are key drivers of the AIA Group's profitability due to: its extensive claims database; continuous experience tracking; proactive remedial actions; and economies of scale in operations.. The AIA Group believes that A&H insurance products are less susceptible to changes in the investment environment as compared to investment-linked products and traditional life insurance products because in many of its markets these products are increasingly being purchased by individuals to cover gaps in government healthcare coverage.

Group Insurance

The group insurance business is operated through the Group Corporate Solutions division ("AIA GCS"), a leading employee benefits, credit insurance and pension product and service provider in the Asia Pacific region, which serves nearly 100,000 corporate clients with more than 10 million participating members as of 30 November 2009. The AIA Group believes that it is the leader in the Asia Pacific region for these services and that it occupied the leading position in terms of market share of life insurance premiums in 2008 in Hong Kong (17.9 per cent.), Thailand (26.2 per cent.), Australia (20.5 per cent.) and Singapore (32 per cent.) and a top three position in the majority of its geographical markets as measured by life insurance premiums. The AIA Group distributes these products in all 15 of its geographical markets, generally by leveraging off its multi-channel distribution network. The AIA Group's most important geographical markets for these products and services are Australia, Hong Kong, Malaysia, Singapore and Thailand.

The AIA Group's regional team works closely with its local operating units to provide comprehensive employee benefits and pension solutions to corporations of all sizes, ranging from small- and medium-sized local enterprises to multinational companies. AIA GCS also provides insurance solutions to banks, financial institutions and other groups to cover their customers' or members' needs.

One of the AIA Group's key strategies in this area is to leverage off its access to its participating members to distribute additional individual life insurance and A&H insurance products that are tailored to improve the coverage provided by their employers. The AIA Group is increasing its agents' training on AIA GCS products to encourage

greater sales, drive agency force productivity and explore alternative distribution models. For example, it is working to increase IFA sales of corporate products to smaller and medium-sized local enterprises.

Group insurance, which is typically marketed to corporations, government entities and associations, has been a driver of both the AIA Group's product volume and profitability growth. Group insurance coverage is typically arranged by employers for employees of corporate or government entities. The employers typically pay premiums for basic policies, such as group term life and group medical coverage. Group credit life insurance products typically provide life insurance protection to the customers (borrowers) of financial lending institutions. The premium is usually built into the cost of the loans, which may cover mortgages, credit cards and auto loans. The AIA Group has a significant in-force portfolio of group insurance policies with nearly 60,000 corporate policyholders and approximately six million insured employees/members for group life insurance products, as well as nearly 1,500 corporate policyholders and more than 2.5 million insured members for group credit life insurance products as of 31 August 2009. In addition, the AIA Group believes that Korea, China and Vietnam represent largely untapped markets for this type of insurance product.

Corporate Pension Products

The AIA Group's corporate pension products business is mainly operated by AIA Pension and Trustee Co. Ltd., a British Virgin Islands company ("AIA-PT") and American International Assurance Company (Trustee) Limited, a Hong Kong company ("AIA-T"). AIA-PT and AIA-T serve as trustees of a multiinvestment manager platform offering more than 50 constituent funds under Hong Kong's ORSO with respect to voluntary corporate pensions and MPFSO with respect to defined contribution plans. These products are distributed across a wide range of distribution channels. AIA Pension also acts as the trustee of other collective investment schemes.

Since 2000, there has been a substantial increase in the AIA Group's pension business due to the Hong Kong government requiring mandatory provident funds for employees. As of 30 June 2009, AIA Pension has a combined USD5.1 billion of assets under management for its pension management business that covers more than 700,000 members of its approximately 37,000 ORSO and MPFSO clients in Hong Kong.

In recent years, prevailing market conditions have provided opportunity for the AIA Group to promote pension products to corporate institutions in China, India, Indonesia, Macau and Thailand. The AIA Group utilises mainly tied agency, brokerage and direct marketing channels to distribute pension products and its operations are supported by its proprietary Regional Pensions Administration System. Assets under management for these businesses has increased steadily to more than USD6 billion from more than 38,000 sponsoring employers covering over 1.1 million employees as of 31 August 2009. The AIA Group uses a mixture of in-house managed funds and third party managed funds with most products being defined contribution in nature.

Other Products

Annuity Products

The AIA Group's annuities products are savings products where the accumulated amount can be paid out to the customer in a variety of income streams. The purpose of these products is to fund retirement. The AIA Group has two main types of annuities products: a single premium product where a customer can invest money in a deferred annuity by paying a single lump sum or a flexible premium product where a customer can invest over a period of years. Customers can also purchase an immediate or income annuity with a single premium where annuity payments continue during the lifetime of the annuitant or for a fixed period of time.

General Insurance (Personal Lines) Products

The AIA Group's personal lines insurance business is comprised of private motor insurance, buildings and household contents insurance, accident and health insurance, pet insurance, travel insurance and insurance for domestic helpers. It underwrites selected personal lines insurance in Hong Kong, Singapore and Malaysia. Key products include travel, home contents, private motor, domestic helper and personal liability insurance.

DISTRIBUTION

The AIA Group distributes its broad range of products through all major distribution channels, including tied agents, banks, direct marketing, IFAs and brokers. It believes that its experience with a broad range of distribution models

across many geographical markets at different stages of economic development positions it well to respond to trends and effectively transfer successful distribution strategies across markets.

Since 1931, the AIA Group has been developing a tied agency force that spans across the Asia Pacific region, from developed urban centres to rural areas. As of 30 November 2009, its tied agency force consisted of more than 320,000 agents.

The AIA Group is expanding its other distribution channels to further extend its exposure and reach, while anticipating the needs of its customers and evolving geographical markets. In particular, it strives to become a preferred partner of banks and financial service providers across the Asia Pacific region. As of 30 November 2009, it has more than 120 relationships with banks and financial institutions throughout the region and utilises a full range of partnership models to constantly evolve its bancassurance models to meet specific market needs and expand the breadth of channels through which it reaches its customers.

In a number of its markets, the AIA Group has had significant success with sophisticated direct marketing distribution such as database marketing to further expand its distribution platform. In addition, its products are also increasingly sold on a non-exclusive basis by IFAs and brokers, particularly in more developed markets such as Hong Kong, Singapore and Australia.

Agency Channel

The AIA Group believes that it has one of the strongest tied agency franchises in the Asia Pacific region, with its agents accounting for more than 20 per cent. of the total tied agency force in Hong Kong, Singapore and Thailand in 2008. While tied agents distribute almost all of the AIA Group's insurance products, they are a preferred distribution channel for many of its more complex, and generally more profitable, insurance products, such as its universal life products. In addition, the AIA Group believes the scale and breadth of penetration of its agency channel results in cost efficiencies which may be difficult for its competitors to replicate, particularly in developed markets. The tied agents are not employees of AIA. The AIA Group believes that its contracts with its tied agents provide terms and compensation structures that are customary and competitive for such contracts in its business. For instance, the number of new agents increased to approximately 82,234 in the second half of FY 2009 from approximately 61,532 in the first half of FY 2009 which the AIA Group believes is evidence of the attractiveness of its compensation schemes. The contracts with our tied agents are reviewed by its legal and compliance departments to ensure that they comply in all material respects with the requirements of applicable law.

The tied nature of its agency model and its role in managing, training and motivating the agency force provide the AIA Group with significant control over the distribution channel. This also permits the AIA Group to (i) drive the product strategy and development process to meet specific customer segments and demands; (ii) anticipate the needs of its customers and potential new customers; and (iii) create new products and disseminate best practices based on these needs.

The AIA Group believes that it has a productive agency force. Its first year premium per Active Agent (i.e., an agent who sells at least one life insurance product per month) for both FY 2008 and 2009 was more than USD22,000 per year, or USD1,800 per month, across its 15 geographical markets. Each Active Agent on average sold more than 42 life insurance products per year during FY 2008 and 2009. The persistency of insurance products sold through AIA's tied agency force for FY 2009 ranged from 80 per cent. in most of its markets to around 95 per cent. in some developed markets. The number of new agent leaders increased to approximately 10,064 in the second half of FY 2009 from approximately 5,417 in the first half of FY 2009.

In 2009, more than 1,300 of the AIA Group's tied agents were rewarded for their productivity by membership in the MDRT, a global trade association that recognises significant sales achievements and works to develop professional and ethical sales practices. MDRT membership is an important measure of success in the life insurance industry. Fewer than 1 per cent. of life insurance agents industry-wide are registered MDRT members.

The following table shows the approximate size of the AIA Group's tied agency force in each of its Key Geographical Markets and its Other Geographical Markets as of 30 November 2009:

Agency Size

Geographical Market	Number of Tied Agents
Hong Kong ⁽¹⁾	8,600
Thailand	81,000
Singapore ⁽²⁾	3,800
Korea.....	4,400
China.....	26,000
Malaysia.....	10,700
Other Geographical Markets ⁽³⁾	185,500
Total	320,000

(1) Amount includes Macau

(2) Amount includes Brunei

(3) Amount includes all of the approximately 140,400 agents that are part of the agency force of TATA AIG Life Insurance Company Limited

The AIA Group believes that it was among the first life insurers operating in the Asia Pacific region to pioneer the tied agency model, which is one of the most important legacies of its long-standing roots in the Asia Pacific region. Among other things, the AIA Group believes that the history and track record of its agency network foster stability and agent retention, particularly among its agency leaders. Approximately 22 per cent. of its agency leaders have been AIA Limited agents for more than 10 years while approximately 7.2 per cent. of its total tied agency force (which includes its agency leaders) have been AIA Group agents for more than 10 years as of 31 January 2010. In its Key Geographical Markets, approximately 40.8 per cent. of its agency leaders and approximately 15.1 per cent. of its total tied agency force have been AIA Limited agents for more than 10 years as of 31 January 2010. In some of the AIA Group's markets, tied agents have passed their agency businesses on to succeeding generations. The AIA Group believes the stability of its agency force has enabled its agents to develop long-term relationships with its customers that are strengthened by face to face interaction and the convenience of the 24 hours a day, seven days a week service that many of AIA's agents provide.

Agency Management

The AIA Group has established a comprehensive agency training, compliance and compensation structure to ensure that its tied agency force operates effectively. The AIA Group's tied agency force is led by a chief agency officer and a team of directors of agencies and agency executives. In each local operating unit, it has a team of employees dedicated to optimising its agency force, which is structured as a hierarchy in which high achievers can advance to supervise and manage other agents. Its agency executives supervise the agency leaders who, in turn, supervise the tied agents. As of 30 November 2009, it had approximately 850 agent trainers dedicated to the training of its tied agency force. Its agency staff monitor and audit the activities of its tied agency force. In order to supervise and motivate its agents, each local agency team has a wide range of responsibilities, including:

- developing and implementing strategic plans for agency expansion;
- providing advice to agency leaders on how to better manage their agencies;
- working with AIA group agency to develop annual strategic plans and productivity goals;
- working with development teams to create agency incentive contests and award programs; and
- overseeing training and development programs for various levels of agents.

The AIA Group also finds that its close relationship with its agents provides important feedback that assists it in meeting its customers' needs. For example, its agents employ its proprietary "Financial Health Check" questionnaire for customers, which the AIA Group considers a valuable tool for identifying gaps in its customers' insurance coverage and other specific needs that it can match with one of its products or use to develop new products.

The AIA Group has developed an agency business strategy reflecting the varying nature of the markets in which it operates. In more developed markets, such as Hong Kong and Singapore, it is focusing on greater market and agent segmentation to better serve the high net worth population, improving agent compensation schemes to incentivise sales of more profitable products and developing a "needs-based" selling approach. In addition, it has taken steps to rationalise less productive agents in Hong Kong and Singapore. In faster growing markets, such as China, the priority is to expand the agency force by aligning manager compensation with recruiting success.

Compensation

The compensation system for tied agents closely aligns their incentives with the AIA Group's key objectives, such as sales of more profitable products, production and policy persistency. The core components of the agency compensation scheme are commissions, production bonuses and persistency bonuses. Reflecting the wide variety of operating environments in the Asia Pacific region, the specific terms and conditions regarding agent compensation vary from market to market. For example, in many of the markets that the AIA Group has entered relatively recently, compensation is designed to drive agent recruitment and growth of the agency force, while arrangements in established markets place greater emphasis on sales of more complex and profitable products. The AIA Group constantly reviews its compensation arrangements in light of industry developments and has a well-defined internal approval process for any modifications to its compensation schemes.

The AIA Group also intends to implement one or more long-term incentive arrangements for its agency force. The purpose of these long-term incentive arrangements is intended to further align the incentives of the agents with its key objectives. In addition, the long-term incentive arrangements will contribute towards the retention of high performing agents and generating a long-term profitable relationship between the AIA Group and its leading agents.

Training and Development

To enhance agent productivity and retention, the AIA Group has developed a specialised training program designed for new agents, experienced agents, new agency leaders and experienced agency leaders. At all levels, training focuses on compliance with local licensing requirements and the AIA Group's conduct guidelines, as well as productivity and profitability, with an emphasis on understanding the AIA Group's product suite so as to permit its agents to respond to customer needs with the relevant product solutions. The AIA Group employs a staff of approximately 850 dedicated agency trainers across the Asia Pacific region to ensure that its agents receive robust training.

Bancassurance Channel

The AIA Group has focused on extending its presence in bancassurance, through which it distributes all categories of its insurance products and which is an increasingly important distribution channel for its ordinary life and A&H insurance products. As of 30 November 2009, it had more than 120 bancassurance relationships, which range from exclusive agreements, which generally have a term of five years or more, to open architecture agreements. Open architecture agreements are nonexclusive and typically allow the AIA Group's partners to sell the insurance products of two to four insurance companies and have open-ended or one-year renewable terms. The AIA Group's bancassurance partners have a network of over 13,000 bank branches, which the AIA Group believes provide it with an opportunity to extend its reach and access their extensive customer base. In FY 2008, it entered into 19 new bank relationships, and in FY 2009, it added another 10 relationships, including an exclusive strategic joint venture in the Philippines in which Philamlife acquired a 51 per cent. stake in Ayala Life Insurance, Inc. ("Ayala Life"), the life insurance subsidiary of the Bank of the Philippine Islands ("BPI"), which is the largest bank in the Philippines in terms of capital value as of 31 August 2009, and distribution network with more than 800 branches.

Bancassurance is particularly attractive because it provides immediate access to the AIA Group's partners' client base and branch infrastructure, and extends its market reach and exposure. Bancassurance distribution is also responsive to the evolving needs of those of its customers who prefer a single point of entry for banking, insurance and other financial services.

The AIA Group continues to pursue additional bancassurance opportunities and believes that it is an attractive partner for banks and financial institutions because of a number of unique attributes:

- it is open to and has significant experience with a wide range of bancassurance models that can be customised to meet its partner's needs from joint ventures and strategic alliances to non-exclusive distribution relationships for the supply of specific products or services;
- the AIA brand is widely recognised in most of its markets;
- it has a broad product offering tailored to the customer segment specific to its partners and related expertise resulting from its long track record in the region;
- its infrastructure and scale permit it to offer a greater range of services and support than most of its competitors; and

- its extensive agency force creates significant cross-selling opportunities for credit cards and other bank services.

Direct Marketing Channel

Direct marketing is an increasingly important distribution channel for the AIA Group and has become a key driver of its growth. The AIA Group employs direct marketing teams in Taiwan for both direct-to-consumer sales and for sponsor arrangements where it markets products to the customers of consumer lending partners. In Korea, the AIA Group utilises hybrid marketing, a distribution channel that relies on a phased sales approach consisting of telephone marketing followed by face-to-face meetings. It typically establishes sponsor partnerships on a market-by-market basis. The AIA Group's approach to direct marketing is diverse, leveraging several sub-channels such as: broad media advertising; database marketing; outbound calling of affinity customers; and direct marketing agencies, which are external call centres that distribute its products. The AIA Group is developing additional direct marketing centres in Thailand, Australia and Indonesia, where it believes the regulatory and consumer environment is also well-suited to the channel. In Thailand, it signed agreements with five new sponsor partners in 2008 and 2009. These agreements provide it with access to 2 million potential customers. It also launched a broad marketing campaign in the fourth quarter of 2008 for a guaranteed issue whole life product for senior citizens that has generated over 400,000 in-bound calls as of 31 January 2010. In Indonesia, it set up a call centre in 2008 and extended many of its bancassurance relationships to include a direct marketing component in 2009.

IFA/Brokerage Channel

The AIA Group primarily utilises IFA/brokerage distribution channels in Hong Kong, Singapore and Australia. As of 30 November 2009, it had approximately 400 active relationships (i.e., the business partner regularly submits new business to the AIA Group) with business partners in this channel, including relationships with approximately 270 broker-dealerships in Australia, 123 IFAs in Hong Kong and 8 financial advisors in Singapore. Arrangements entered into between the AIA Group and its IFA/brokerage partners are typically non-exclusive and include commission-based payment terms. As of 30 November 2009, the average duration of AIA's IFA/brokerage relationships in Hong Kong, Australia and Singapore was approximately 10.6, 5.5 and 2.5 years, respectively.

The AIA Group expects IFA/brokerage distribution to become increasingly important in its more developed markets, as sophisticated customers, particularly high net worth individuals, seek independent advice from advisers. To meet this demand, it has established a dedicated team of channel specialists at the AIA Group level to drive its "partnership model" to develop sustainable long-term and productive relationships in its existing markets. The establishment of a robust platform will also best position it to expand this channel presence into new markets as prevailing conditions and regulations allow.

The AIA Group's approach is based upon the use of a dedicated distribution model, executed by local specialists under disciplined sales activity management monitored by proprietary software. This enables it not only to track sales but to assist in developing and training its dedicated personnel. The partnership model value proposition is focused on a customer-centred product solution including concierge sales support and underwriting service, sales and product training as well as access to information via dedicated hotline and on-line access, all of which are aimed at deepening working relationships and assisting intermediaries to grow their business in partnership with AIA Limited.

PRIMARY OPERATING UNITS

The AIA Group has local operating units in 15 geographical markets which gives it a broad geographic footprint in the Asia Pacific region and access to both high growth emerging markets and more developed markets like Hong Kong, Singapore and Malaysia. The AIA Group considers Hong Kong, Korea, Thailand, Singapore, China and Malaysia to be its Key Geographical Markets. Local operating units in the Philippines, Australia, Indonesia, Vietnam, Taiwan, New Zealand, India, Macau and Brunei are referred to below as Other Geographical Markets.

Key Geographical Markets

Hong Kong

The AIA Group began conducting business in Hong Kong in 1931 when [AIA Limited] established a branch in Hong Kong. The AIA Group has maintained a presence in Hong Kong for over 70 years, except for limited interruptions. Hong Kong is the location of the AIA Group's head office. The AIA Group occupied the leading position in the Hong Kong life insurance market with a reported 16.4 per cent. market share of life insurance premiums (excluding certain retirement scheme-related group business classes) in 2008, based on data published by the OCI. AIA Hong Kong served more than 1 million individual customers as of 30 November 2009.

AIA Hong Kong maintains a multi-channel distribution network. AIA Hong Kong's primary distribution channel is its agency force. Based on data published by the Hong Kong Federation of Insurers, AIA Hong Kong had the largest agency force in the Hong Kong life insurance market with approximately 8,000 agents, which represents more than 25 per cent. of the total individual agents in the market as of 30 June 2009. AIA Hong Kong's agency force is characterised by both its stability (more than 2,500 agents had over 10 years of service with AIA Hong Kong as of 31 July 2009) and its professionalism and productivity (more than 660 agents, the highest number in the Hong Kong market, were MDRT members as of August 2009). Through its IFA/brokerage distribution channel, AIA Hong Kong has partnered with approximately 480 broker firms and established approximately 40 significant business relationships as of 30 November 2009.

AIA Hong Kong is focused on the following key strategies:

- continue to expand and increase the productivity of its agency force, and implement a customer-centric agency delivery model to further enhance the productivity of its agency force through the use of custom value management tools and grow its agency force;
- expand and build its alternative distribution channels, including further development of its retail and high net worth customer bancassurance channels and its IFA/brokerage channel to further access high net worth customers; and
- build wealth management capability to provide one-stop personal financial and wealth management solutions.

Thailand

The AIA Group began conducting business in Thailand in 1938 when AIA Limited established a branch in Thailand. The AIA Group believes it was one of the first international life insurance companies to operate in Thailand and, in part as a result of its long operating history, AIA Thailand is the only wholly-owned branch of a foreign life insurance company operating in the market. The AIA Group occupied the leading position in Thailand's life insurance market with a reported 37.5 per cent. market share of total premiums in 2008, based on data published by the Thai Life Assurance Association. AIA Thailand had the largest number (approximately 6.4 million based on data published by the Thai Life Assurance Association) of in-force insurance policies for life and personal accident products among life insurance companies operating in the country as of 31 December 2008.

The cornerstone of AIA Thailand's distribution strategy is its large network of approximately 81,000 agents as of 30 November 2009, which the AIA Group believes is the largest active agency force in the market. This distribution channel has historically accounted for a high proportion of AIA Thailand's business. In addition, AIA Thailand's approximately 7 bancassurance relationships gives it access to more than 1,300 bank branches and an estimated six million potential customers. AIA Thailand also has approximately 8 direct marketing relationships. Within the direct marketing channel, the AIA Group believes AIA Thailand is a market leader in direct response distribution. Direct response distribution does not rely on customer databases, but instead involves the distribution of products to customers who respond to AIA Group newspaper, television and similar advertisements.

AIA Thailand is focused on the following key strategies:

- improve agency force productivity through agency segmentation, improved customer service, cross-selling and maturing policy recapture programs, leveraging AIA Thailand's extensive customer database and credible experience data as well as through the implementation of a specialized program aimed at cultivating a new generation of agents;
- leverage its agency force through product and customer segmentation and agency training initiatives focused on to build a leadership position in the growing rural market and a new range of cities;
- expand its financial services footprint to wealth management and beyond traditional life insurance; and
- capitalize on its dominant position in the health segment through its health and wellness strategy.

Singapore

The AIA Group began conducting business in Singapore in 1931 when AIA Limited established a branch in Singapore. It has maintained a presence in Singapore for nearly 80 years, except for limited interruptions, and was one of the first international insurers to operate in the country. The AIA Group occupied the leading position in Singapore's life insurance market with a reported 20.2 per cent. market share of life insurance premiums in 2008, based on data published by the Monetary Authority of Singapore. AIA Singapore served more than 900,000 individual customers as of 30 November 2009, which represents approximately 23 per cent. of Singapore's total population.

AIA Singapore's agency channel has historically been the major contributor to AIA Singapore's sales production, although bancassurance is a growing distribution channel. AIA Singapore had one of the largest agency forces in Singapore's life insurance market with more than 3,700 agents, which represents more than 28.0 per cent. of the total agency forces in the market as of September 2009, based on data published by the Life Insurance Association of Singapore. AIA Singapore had a reported 24.0 per cent. market share of tied agency production in 2008 based on data published by the Life Insurance Association of Singapore. AIA Singapore has approximately 4 bancassurance relationships. Among other things, AIA Singapore's bancassurance channel is used to access Singapore's high net worth customer segment and to distribute investment products.

AIA Singapore is focused on the following key strategies:

- continue to expand its distribution channels by further developing (i) its agency channel by strengthening its agency structure and compensation, recruiting new talent and recapturing maturing policy proceeds; (ii) meaningful bancassurance relationships; (iii) integrated marketing and sponsorship programs with targeted Singapore-based financial advisory and key international brokerage firms; and (iv) a successful direct marketing model that leverages the AIA Group's database and business partners;
- further expand its high net worth and wealth management business by developing products, in particular investment-linked products, tailored to such business and focusing segments of its agency and bancassurance distribution on such business; and
- strengthen and grow its group business by further developing AIA Singapore's "e-platform" for its customers, targeting new market segments and focusing on designing competitive products.

Malaysia

The AIA Group began conducting business in Malaysia in 1934 as a branch of AIA Limited. In 2008, its Malaysian branch operations were converted to a locally incorporated company. In 2008, AIA Malaysia became the first life insurance company in Malaysia to receive an international Takaful operator licence, and is one of few life insurance companies in Malaysia offering Takaful products in international currencies. AIA Takaful International Bhd. was then formed to focus on foreign currency denominated Takaful insurance and re-Takaful business. The AIA Group occupied the third position in Malaysia's life insurance market with a reported 13.3 per cent. market share of life insurance premiums in 2008, based on data published by the Life Insurance Association of Malaysia. AIA Malaysia had an in-force book of business in excess of 2 million policies as of 30 September 2009.

A number of channels within AIA Malaysia's multi-channel distribution network contribute to its sales, with its agency force constituting the majority of sales production and bancassurance and direct marketing representing growing distribution channels. AIA Malaysia had the second largest agency force in the Malaysian life insurance market with more than 10,000 agents as of 30 June 2009, based on data published by the Life Insurance Association of Malaysia. AIA Malaysia has approximately 6 bancassurance relationships. The AIA Group believes that AIA Malaysia's growing direct marketing distribution channel, with over 20 direct marketing relationships, is one of the market leaders in the channel.

AIA Malaysia is focused on the following key strategies:

- expand its product suite to include Takaful, pension and mutual fund products;
- grow its financial services capabilities by capitalizing on industry liberalisation initiatives resulting from Bank Negara Malaysia's Financial Sector Master Plan and inorganic growth opportunities; and
- further expand multi-channel distribution network through agency force expansion and leveraging the direct marketing channel and bancassurance to expand into other distribution channels.

China

The AIA Group returned to the PRC in 1992 when it opened a branch in Shanghai, but the AIA Group has roots in China dating back to 1919. AIA China currently operates in two provinces (Guangdong and Jiangsu) and three cities (Shanghai, Beijing and Shenzhen), representing a population of more than 200 million people. AIA China was the first foreign life insurance company to be licensed to operate in China and is currently the only wholly-owned foreign life insurance company operating in China.

The AIA Group occupied the leading market position among foreign life insurance companies, with an approximately 21% market share of life insurance premiums earned by foreign life insurance companies in 2008, based on data published by the CIRC. The AIA Group had a reported 1.0 per cent. market share of life insurance premiums earned by both domestic and foreign life insurance companies, based on data published by the CIRC.

AIA China maintains a multi-channel distribution network. Agency is the core distribution channel and, based on industry data distributed at a nationwide insurance industry conference, AIA China had the largest agency force among foreign life insurance companies in China's life insurance market with approximately 26,000 agents as of 30 November 2009. AIA China has a growing presence in both bancassurance and the direct marketing channels. AIA China has approximately 17 bancassurance relationships, which provides it with access to more than 1,100 bank branches. AIA China's direct marketing channel, supported by a sales force of approximately 460 telesales representatives as of 30 November 2009, has grown significantly since its introduction.

AIA China is focused on the following key strategies:

- seek continuous geographic expansion opportunities, including expanding into a range of new cities;
- grow the size and quality of its agency force through systematic recruiting and productivity improvement; and
- grow bancassurance and scale up its direct marketing channel, including by developing new products focused on the emerging high net worth customer segment.

Korea

AIA Korea commenced operations in 1987, initially as a branch of ALICO. AIA Korea was reorganised as a branch of AIA-B in 1997, although ALICO continued to have some management and reporting oversight over AIA Korea through 2008. In 2000, AIA Korea began operating under the name "AIG Life Korea". In June 2009, AIA Korea initiated a comprehensive, and the AIA Group believes successful, re-branding campaign and currently operates

under the name "AIA Life". The AIA Group occupied the second position among foreign life insurance companies, with an approximate 15.2 per cent. market share of life insurance premiums earned by foreign life insurance companies in 2008, based on data published by the Korea Life Insurance Association. The AIA Group had a reported 3.5 per cent. market share of life insurance premiums earned by both domestic and foreign life insurance companies in 2008, based on data published by the Korea Life Insurance Association. AIA Korea served more than 2 million individual customers and had approximately 3.7 million in-force policies as of 30 November 2009.

A number of channels within AIA Korea's multi-channel distribution network contribute to its sales. AIA Korea's agency force had more than 4,400 agents as of 30 November 2009, and is one of the most productive agency forces in the AIA Group, with first year premiums of approximately 111 million Korean Won per agent in 2008. The AIA Group believes AIA Korea is a strong participant in the direct marketing distribution channel, leveraging its 15 dedicated call centres and total staff of approximately 620 telemarketers as of 30 November 2009. In September 2006, AIA Korea launched hybrid marketing, a distribution channel that relies on a phased sales approach consisting of telephone marketing followed by face-to-face meetings. This channel had more than 500 master planners (i.e. personnel that work in the hybrid marketing channel) as of 30 November 2009 and is an important distribution channel for AIA Korea. Bancassurance is also an important distribution channel, and AIA Korea has bancassurance relationships with approximately 17 banks and 7 securities companies. AIA Korea's goal is to equip each of its agency, bancassurance, direct and hybrid marketing channels with every insurance product category AIA Korea offers.

AIA Korea is focused on the following key strategies:

- grow its agency business by increasing the size of its agency force, enhance its branch management model, improve its business alliance with general agents and build quality financial advisory capability;
- redesign and reposition its A&H insurance products as part of a diversified product offering aligned with its customer segmentation strategy;
- further develop its pension product and business capabilities; and
- further increase AIA brand awareness through re-branding activities and enhance capital and risk management capabilities.

Other Geographical Markets

Philippines

Philamlife was formed in 1947 and is one of only three life insurers in the Philippines with a composite insurer's licence. Philamlife recently joined the AIA Group. Philamlife occupied the leading position in the Philippines' life insurance market with an approximately 24 per cent. market share of premium income (as classified by the Philippine Insurance Commission) in 2008, based on preliminary data published by the Philippine Insurance Commission. Philamlife served more than one million individual customers and corporate clients as of 31 December 2008. Although a part of the AIA Group, Philamlife will continue to use the "Philamlife" brand, which the AIA Group believes is one of the most recognised life insurance brands in the Philippines' life insurance market.

Philam Asset Management, Inc. ("PAMI"), established in 1992, provides asset management services. PAMI had more than USD330 million assets under management, representing approximately 23 per cent., or the second highest amount, of assets under management in the Philippines' asset management industry, based on data published by the Investment Company Association of the Philippines. PAMI leverages the distribution platform of Philamlife to distribute its broad line of investment products, including six PAMI-managed mutual funds.

Philamlife's agency force and bancassurance relationships constitute the majority of Philamlife's sales production. Based on publicly available data, Philamlife had the largest agency force in the Philippine's life insurance market with approximately 6,000 agents as of 30 November 2009. Philamlife has a strategic exclusive bancassurance joint venture entered into in the second half of 2009 with BPI, in which Philamlife acquired a 51 per cent. stake in Ayala Life, the life insurance subsidiary of BPI and entered into a bancassurance distribution agreement with BPI. The total consideration paid by Philamlife was USD39 million. This amount is subject to purchase price adjustment, estimated to be USD7 million, based on the final adjusted net worth of Ayala Life as at the date of acquisition. Among other things, this strategic bancassurance joint venture provides Philamlife with access to BPI's network of over 750 bank branches. Philamlife is focused on the following key strategies:

- continue to build the leading agency force by recruiting dynamic agents and agency leaders and improve the productivity and geographic reach of the agency force;
- continue expanding new distribution channels, including by accelerating growth in bancassurance and the direct marketing channel; and
- focus on key customer segments through programs tailored to the market such as its Overseas Filipino Workers business program.

Australia

AIA Australia, a wholly-owned subsidiary of AIA Limited, was formed in 1970. AIA Australia has historically operated under the "AIA" brand, although from 2004 to June 2009 it operated under the "AIG" and related brands. In June 2009, AIA Australia re-branded back to the "AIA" brand.

Based on data published by Plan for Life, AIA Australia occupied the (i) sixth position in Australia's life risk insurance segment, with a reported 8.4 per cent. market share of total premiums in the 12 months ended 30 June 2009; (ii) second position in Australia's life risk insurance segment in terms of total new sales, with a reported 14.7 per cent. market share in the 12 months ended 30 June 2009; and (iii) leading position in the group life risk insurance segment with a reported 20.0 per cent. market share of total premiums in the 12 months ended 30 June 2009.

The life risk group insurance channel and IFA channel have historically been the most important to AIA Australia's sales production. AIA Australia's life risk group insurance channel distributes products through its approximately 20 contracts with regulated superannuation funds. AIA Australia has more than 2,200 IFA relationships. AIA Australia served approximately 1.8 million customers as of 30 November 2009.

AIA Australia is focused on the following key strategies:

- consolidate its market position as the leading group life risk insurance provider through enhanced business service capabilities to the superannuation market;
- outperform market growth in the IFA/brokerage channel, and expand its direct marketing and bancassurance distribution channels through alliances with Australian companies with high brand awareness and strong customer affinity; and
- expand its business by seeking inorganic growth opportunities in the life risk insurance market.

Indonesia

The AIA Group entered Indonesia in 1984 via a joint-venture, PT Asuransi AIA Indonesia. In order to simplify its operations in Indonesia and enable the AIA Group to focus on running one core, wholly-owned multi-channel life insurer under the AIA brand in Indonesia, the AIA Group exited this joint venture by selling its 60 per cent. interest to its joint venture partner on 22 October 2009. The AIA Group's current business in Indonesia is not related to its former joint venture and operates through PT AIA Financial, which is a successor to PT Asuransi Jiwa Lippo Utama, a separate company that was acquired in 1999. AIA Indonesia was granted a Sharia life insurance licence in August 2009. AIA Indonesia occupied the third position in Indonesia's life insurance market with a reported 12.6 per cent. market share of annual premium (as classified by the Indonesian Life Insurance Association) in 2008, based on data published by the Indonesian Life Insurance Association.

AIA Indonesia maintains a multi-channel distribution network. AIA Indonesia had the third largest agency force in Indonesia's life insurance market with more than 9,500 agents as of 31 December 2009, based on data published by the Indonesian Life Insurance Association. AIA Indonesia has approximately 8 bancassurance relationships that provide it with access to over 1,100 bank branches. AIA Indonesia served approximately 600,000 in force policies as of 30 November 2009. AIA Indonesia also utilises direct marketing and group distribution channels.

AIA Indonesia is focused on the following key strategies:

- grow the size of its agency force and accelerate the development of its bancassurance, direct marketing and group distribution channels; and
- build its Sharia business and provide innovative life, A&H, group and pension products.

Taiwan

The AIA Group's branch in Taiwan commenced business in 1990. On 1 June 2009, AIA-B acquired the business of the Taiwan branch of ALICO and changed the legal name of that business to American International Assurance (Bermuda) Limited — Taiwan Branch. AIA Taiwan served more than 110,000 individual customers as of 30 November 2009.

AIA Taiwan's multi-channel distribution network consists of bancassurance, direct marketing and broad marketing, a channel that utilises mass marketing through television, newspapers and magazines. AIA Taiwan has approximately 7 bancassurance relationships and, as of 31 October 2009, employed more than 200 direct marketers in charge of selling its products by phone. The AIA Group believes AIA Taiwan currently occupies the leading position in the broad marketing distribution channel.

AIA Taiwan is focused on the following key strategies:

- become the leader in the direct marketing channel; and
- expand sponsor marketing programs, grow AIA Taiwan's customer database by developing broad marketing campaigns and further develop its alternative distribution channels to reach under-served customer segments

Vietnam

AIA Vietnam, a wholly-owned subsidiary of [AIA Limited], was formed in 2000 and was one of the first foreign-owned life insurers to operate in the country. AIA Vietnam has historically operated under the "AIA" brand, although during a limited period between August 2008 and June 2009 it operated under the "AIG" brand. In June 2009, AIA Vietnam re-branded back to the "AIA" brand. AIA Vietnam occupied the fourth position in Vietnam's life insurance market with a reported 6.6 per cent. market share of total premiums in the 12 months ended 30 June 2009, based on data published by the Association of Vietnamese Insurers. AIA Vietnam had approximately 230,000 in-force policies as of 30 November 2009.

AIA Vietnam's agency channel has historically dominated its sales production. AIA Vietnam had the third largest individual agency force in the Vietnamese life insurance market with more than 11,700 agents as of 30 September 2009, based on data published by the Association of Vietnamese Insurers. AIA Vietnam is focused on building multi-channel distribution capabilities and has entered into distribution agreements with four bank partners. AIA Vietnam is focused on the following key strategies:

- develop its agency distribution channels by implementing programs to recruit experienced agency leaders and improving its agency activity ratio and its agents' productivity, sales quality and volume; and
- extend its distribution reach by developing alternative distribution channels, including the bancassurance channel by entering into a long-term or exclusive partnership agreement with a major bank and increasing market penetration through partnerships with smaller banks.

New Zealand

AIA New Zealand commenced business in 1981, initially as a branch of ALICO. In 1993, the business was transferred to AIA-B and began doing business under the "AIA New Zealand" brand. Based on data published by the Investment Savings and Insurance Association of New Zealand, the AIA Group occupied the sixth position in New Zealand's life and health insurance market with a reported 6.2 per cent. market share of total premiums as of 30 June 2009. AIA New Zealand served more than 48,000 individual customers and corporate clients as of 30 November 2009. AIA New Zealand actively participates in the group insurance market.

AIA New Zealand's IFA channel has historically dominated AIA New Zealand's sales production. AIA New Zealand has over 2,500 IFA relationships. This distribution channel has been supplemented by a modest tied agency force and bancassurance channel. AIA New Zealand is focused on the following key strategies:

- develop new products and services to support growth within IFA, bancassurance and group distribution channels; and
- develop a direct marketing distribution channel.

Macau

AIA Macau began its business in 1982. AIA Macau is managed and supported by AIA Hong Kong and is a branch of AIA-B. AIA Macau occupied the leading position in Macau's life insurance market with a reported 36.1 per cent. market share of gross premiums (as classified by the Monetary Authority of Macau) in 2008, based on data published by the Monetary Authority of Macau.

AIA Macau had the largest agency force in the Macau life insurance market with more than 800 agents, representing over 35 per cent. of the total individual agents in the market as of August 2009, based on data published by the Monetary Authority of Macau. AIA Macau is focused on the following key strategies: grow its agency force to 1,000 agents by 2011; and build alternative distribution channels, including bancassurance.

Brunei

AIA Brunei was registered for business in 1957, and the AIA Group was one of the first international life insurance companies to operate in the country. AIA Brunei is managed and supported by AIA Singapore and is a branch of AIA Limited. The AIA Group occupied the leading position in Brunei's life insurance market with an estimated 70 per cent. market share of the life insurance market (excluding Takaful) in 2008, based on data published by Axco Insurance Information Services.

AIA Brunei's main distribution channel is its network of more than 180 agents as of 30 November 2009. Bancassurance is a growing distribution channel for AIA Brunei, and it has had significant distribution relationships with major financial institutions since 2001.

AIA Brunei is focused on the following key strategies:

- grow its agency force through initiatives that include a recruitment project with Brunei's Department of Labour;
- expand its bancassurance channel by introducing more group, life and other products that meet the needs of its customers; and
- improve customer service by introducing initiatives such as "e-Care", an on-line policy services system for its customers to enquire on their policies.

AIA Pension

AIA-PT was formed in 1992 and AIA-T was formed in 1987. AIA-PT and AIA-T serve as trustees of a multi-investment manager pension platform offering more than 50 constituent funds under Hong Kong's Optional Retirement Schemes Ordinance ("ORSO") with respect to voluntary corporate pensions and Mandatory Provident Funds Scheme Ordinance with respect to defined contribution plans. AIA Pension also acts as the trustee of other collective investment schemes. AIA Pension strives to provide a comprehensive investment platform to satisfy the spectrum of individual members risk appetites as well as investment management needs.

There are approximately 19 approved trustees in the mandatory provident fund market and AIA Pension occupied the third position in the mandatory provident fund market with an approximately 10.1 per cent. market share of assets under management as of 30 June 2009, based on available data. As of 30 November 2009, AIA Pension has a combined USD6.6 billion of assets under management for its pension management business that covers more than 700,000 members of its approximately 37,000 ORSO and mandatory provident fund clients. AIA Pension's products are distributed across a wide range of distribution channels, including nearly 4,800 registered mandatory provident fund intermediaries in AIA Hong Kong's tied agency force as well as over 200 brokers, IFAs, consultants and bank partners. AIA Pension has received a number of awards from third parties in recognition of its products and services.

AIA Pension is focused on the following key strategies:

- continue to promote its products to corporate customers;
- implement strategies to satisfy future needs of any retail segment of the MPFSO market in the event proposed regulatory changes shift the MPFSO market from a pure corporate pension market to a retail pension market;
- expand MPFSO-licensed agency force; and
- further develop services to improve customer access to pension information.

Joint Ventures

India

The AIA Group commenced operations in India in 2001 through a joint venture established with Tata Sons Limited under the name Tata AIG Life Insurance Company Limited. The AIA group has a 26 per cent. equity interest in AIA India. As described on Tata Group's internet website (www.tata.com), Tata Group companies operate in seven business sectors: communications and information technology, engineering, materials, services, energy, consumer products and chemicals. They are, by and large, based in India and have significant international operations. Tata Sons Limited was incorporated as a company in 1917. Tata Sons Limited is the promoter of all key Tata companies and holds the bulk of shareholding in these companies. The equity shares of Tata Sons Limited are not listed on any stock exchange and approximately two-thirds of the equity capital of Tata Sons Limited is held by philanthropic trusts endowed by members of the Tata family.

Based on data published by the Insurance Regulatory and Development Authority of India, AIA India's market share of total premiums generated by non-state-owned life insurance companies was approximately 4.0 per cent. for the 12 months ended 31 March 2009. Based on data published by the Insurance Regulatory and Development Authority, AIA India's market share of total premiums generated by all life insurance companies was approximately 2.0 per cent. for the 12 months ended 31 March 2009.

While AIA India has developed a multi-channel distribution network, its agency force of approximately 14,400 agents as of 30 November 2009 contributes the majority of its sales production. AIA India has over 400 sales offices across more than 200 cities and towns in India as of August 2009.

AIA India is focused on the following key strategies:

- calibrate growth in a changing financial services landscape and balancing scale, productivity, expenses and capital requirements; and
- strengthen agency distribution and further expand its alternative distribution channels and products suite.

INVESTMENTS

Overview

The carrying value of the AIA Group's total investment portfolio was USD76 billion as of 30 November 2009, of which policyholder and shareholder investments (i.e., excluding investment-linked investments) ("Policyholder and Shareholder Investments") represented 82 per cent. and investments related to investment-linked and pension business ("Investment-linked Investments") represented 18 per cent. of the AIA Group's total investment portfolio. Investment return associated with investment-linked, including pension products, is generally passed through to policyholders. The AIA Group's investments and investment management functions are key aspects of the AIA Group's business and can create significant value for the AIA Group's customers and shareholders. The AIA Group's financial strength and ability to profitably underwrite insurance business depends significantly on the quality and performance of its investment portfolios. The AIA Group invests the premiums and other income generated from its insurance business with an objective of meeting the future liabilities associated with the insurance products that it underwrites, as well as to generate desired return for its business. The AIA Group's success in investment management contributes to the competitiveness of its products, its financial strength and business reputation.

The AIA Group's long-standing culture of disciplined investing, active management of investments and risk management have enabled it to maintain financial stability through many varied business and economic cycles, including the global economic downturn. The AIA Group believes that it has considerable investment expertise to manage its portfolios across its geographical markets. As significant volatility and uncertainty pervaded the markets in recent years, the AIA Group preserved its capital and the value of its investments by reducing its exposure to riskier assets and increasing its fixed income investment allocation and cash balances. The AIA Group believes that the scale of its investment portfolio well positioned it to pursue various investment strategies and asset allocations while maintaining flexibility to manage its portfolio prudently and take measured risks to increase its portfolio returns.

Investment Objectives and Processes

Policyholder and Shareholder Investments

For the AIA Group's Policyholder and Shareholder Investments, the primary investment principle is to achieve optimal levels of risk-adjusted return for policyholders and shareholders over the long-term while: (i) preserving capital; (ii) maintaining adequate solvency and liquidity levels; (iii) remaining in line with risk management and asset-liability management objectives; and (iv) ensuring full compliance with applicable regulations and internal policies. The AIA Group's investment objective is to produce stable and consistent income and returns, mainly through investments in long duration fixed income instruments. The AIA Group also invests a portion of its portfolio in other asset classes, such as public equities, private equities and real estate, to generate higher returns.

To meet these objectives, the AIA Group has established a structured investment management framework including: (i) a liability-driven strategic asset allocation ("SAA") benchmark designed to match its long-term liability requirements (i.e., one to five year horizon); (ii) a market-driven tactical asset allocation ("TAA") overlay designed to reduce risk and benefit from market opportunities in the near term; and (iii) a combination of internal and external investment management for individual asset class management designed to create value from optimising the mix of managers.

Investment Framework

The AIA Group has established an investment framework to ensure that its investments are properly authorised, monitored and managed. The investment committees of the local operating units report both to a group investment committee and their respective boards of directors and/or executive committees. The investment committees and the AIA Group's investment officers determine the AIA Group's investment strategy, including the SAA target and TAA band for each local operating unit, in conjunction with their responsibility of maintaining and monitoring the management of the assets included in Policyholder and Shareholder Investments. These SAA targets and TAA bands also require the approval of the AIA Group's ALM Committee and relevant asset-liability management committees.

The SAA sets long-term asset allocation targets, while the TAA defines the range around such targets in response to financial market conditions. Both the SAA target and the TAA band are designed with consideration given to liability characteristics, long-term investment return expectations, financial market volatilities and changes in correlations of asset classes, capital management consideration and regulations at both group and local levels, local financial market conditions, as well as macroeconomic factors.

At the local operating units, investment transactions are carried out by its investment teams in accordance with the objectives established by the SAA and TAA. The investment committee of each local operating unit reviews and, to the extent within its authority, approves investment transactions.

Investment Activities Tailored to the AIA Group's Geographical Markets

The AIA Group's investments are managed at both the group level and local operating unit level, with investment strategies tailored to the business needs of, and regulatory requirements applicable to, each operating unit. The AIA Group's operating units sell varying mixes of insurance products, which give rise to varying liability profiles across the operating units. In addition, the AIA Group's local operating units are subject to varying regulations governing their investments, including regulations requiring them to invest a portion of their premiums in on-shore local investments. In view of these regulations, the AIA Group's strategies in most of its geographical markets focus on investing in such markets, which also tend to provide better asset-liability management by mitigating exposure to foreign exchange rate fluctuations.

The composition of the AIA Group's insurance policies sold in each geographical market also impacts the its investment strategy. For example, with respect to participating policies issued in Singapore, Malaysia and China, the AIA Group generally holds a higher portion of equities and alternative investments in order to increase potential returns, the risk profile of which is consistent with policyholder expectation.

As of 30 November 2008

	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Investment- linked Investments	% of Total Investment- linked Investments	Total
(in US\$ millions)					
Fixed income securities.....	46,905	93%	2,631	32%	49,536
Equity securities and alternative investments.....	3,282	7%	5,682	68%	8,964
Total.....	50,187	100%	8,313	100%	58,500

As of 30 November 2009

	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Investment- linked Investments	% of Total Investment- linked Investments	Total
(in US\$ millions)					
Fixed income securities.....	56,640	91%	2,598	19%	59,238
Equity securities and alternative investments.....	5,342	9%	11,080	81%	16,422
Total.....	61,982	100%	13,678	100%	75,660

The AIA Group generally allocates a large proportion of its investment portfolio to fixed income securities, which represented 84 per cent., 93 per cent. and 91 per cent. of the carrying value of total Policyholder and Shareholder Investments as of 30 November 2007, 2008 and 2009, respectively. Equity securities and alternative investments, which totalled 16 per cent., 7 per cent. and 9 per cent. of the carrying value of total Policyholder and Shareholder Investments as of 30 November, 2007, 2008 and 2009, respectively, declined in FY 2008 primarily as a result of the AIA Group de-risking its investment portfolio as a result of the global economic downturn and the AIG Events as well as the decline in fair value of AIG shares, which made up approximately 25 per cent. of its total equity portfolio as of 30 November 2007.

Fixed Income Investment Portfolio

Overview

The following table sets forth the unaudited carrying value of the subcategories of fixed income securities in the AIA Group's investment portfolio as of the dates indicated.

As of 30 November 2007

	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Investment- linked Investments	% of Total Investment- linked Investments	Total
(in US\$ millions)					
Debt securities:					
Government bonds.....	15,811	27%	286	2%	16,097
Government agency bonds.....	6,862	12%	164	1%	7,026
Corporate bonds.....	18,210	31%	1,020	8%	19,230

As of 30 November 2007

	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Investment- linked Investments	% of Total Investment- linked Investments	Total
(in US\$ millions)					
Structured securities	2,033	3%	18	—%	2,051
Subtotal	42,916	73%	1,488	11%	44,404
Loans:					
Policy loans	1,327	2%	—	—%	1,327
Mortgage loans on residential real estate	609	1%	—	—%	609
Mortgage loans on commercial real estate	112	—%	—	—%	112
Inter-company loans to fellow subsidiaries of AIG	1,589	3%	—	—%	1,589
Other loans	179	—%	3	—%	182
Allowance for loan losses	(15)	—%	—	—%	(15)
Subtotal	3,801	6%	3	—%	3,804
Term deposits	557	1%	38	—%	595
Cash and cash equivalents	1,969	3%	614	5%	2,583
Total fixed income securities	49,243	84%	2,143	16%	51,386

As of 30 November 2008

	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Investment- linked Investments	% of Total Investment- linked Investments	Total
(in US\$ millions)					
Debt securities:					
Government bonds.....	14,663	29%	261	3%	14,924
Government agency bonds.....	7,295	15%	220	3%	7,515
Corporate bonds.....	17,956	36%	971	12%	18,927
Structured securities.....	942	2%	15	—%	957
Subtotal.....	40,856	81%	1,467	18%	42,323
Loans:					
Policy loans.....	1,437	3%	—	—%	1,437
Mortgage loans on residential real estate.....	587	1%	—	—%	587
Mortgage loans on commercial real estate.....	105	—%	—	—%	105
Inter-company loans to fellow subsidiaries of AIG.....	29	—%	—	—%	29
Other loans.....	242	—%	—	—%	242
Allowance for loan losses.....	(7)	—%	—	—%	(7)
Subtotal.....	2,393	5%	—	—%	2,393
Term deposits.....	608	1%	48	1%	656
Cash and cash equivalents.....	3,048	6%	1,116	13%	4,164
Total fixed income securities.....	46,905	93%	2,631	32%	49,536

As of 30 November 2009

	Policyholder and Shareholder Investments	% of Total Policyholder and Shareholder Investments	Investment- linked Investments	% of Total Investment- linked Investments	Total
(in US\$ millions)					
Debt securities:					
Government bonds.....	17,690	29%	280	2%	17,970
Government agency bonds.....	7,641	12%	256	2%	7,897
Corporate bonds.....	24,147	39%	1,170	9%	25,317
Structured securities.....	997	2%	20	0%	1,017
Subtotal.....	50,475	81%	1,726	13%	52,201
Loans:					
Policy loans.....	1,644	3%	—	0%	1,644
Mortgage loans on residential real estate.....	527	1%	—	0%	527
Mortgage loans on commercial real estate.....	48	0%	—	0%	48
Inter-company loans to fellow subsidiaries of AIG.....	87	0%	—	0%	87
Other loans.....	371	1%	75	1%	446
Allowance for loan losses.....	(12)	0%	—	0%	(12)
Subtotal.....	2,665	4%	75	1%	2,740
Term deposits.....	859	1%	33	0%	892
Cash and cash equivalents.....	2,641	4%	764	6%	3,405
Total fixed income securities.....	56,640	91%	2,598	19%	59,238

Debt securities constitute the largest asset class in the AIA Group's Policyholder and Shareholder Investments, representing 73 per cent., 81 per cent. and 81 per cent. of the carrying value of total Policyholder and Shareholder Investments as of 30 November 2007, 2008 and 2009, respectively. The remaining asset classes within the fixed income investments portion of the AIA Group's investment portfolio include loans, term deposits and cash and cash equivalents.

A large proportion of the AIA Group's investments in debt securities are in the form of government bonds and government agency bonds. Government agency bonds comprise bonds issued by government sponsored institutions such as state owned enterprises, provincial and municipal authorities and supranational financial institutions, such as the Asian Development Bank. This allocation is driven primarily by asset-liability and capital

management purposes as these assets tend to be capital efficient and provide longer maturities to enable the AIA Group to better match its liability profiles. In all of its operating units, the AIA Group maintains currency matching between assets and liabilities to the extent appropriate. The AIA Group also holds a large portfolio of corporate bonds, comprising 31 per cent., 36 per cent. and 39 per cent. of carrying value of total Policyholder and Shareholder Investments as of 30 November 2007, 2008 and 2009, respectively. The AIA Group's corporate bond investments are primarily investment grade issues in their respective geographical markets and generally offer yield enhancement as compared to government bonds, and also provide duration matching for the AIA Group's liabilities.

In conducting its credit risk assessment of potential investment opportunities, the AIA Group uses an internal risk rating system which is conceptually similar to systems used by external credit rating agencies, such as Moody's and S&P. The AIA Group evaluates each security and assigns it an internal rating and use external credit ratings as a reference.

A portion of the AIA Group's investment in fixed income securities is composed of government agency bonds, corporate bonds and structured securities that are below investment grade or not rated by international credit rating agencies. These investments, and the rationales for our investments in such securities, principally consist of:

- Government and government agency bonds whose ratings are capped by the sovereign debt rating ceiling issued by rating agencies and the AIA Group's internal rating system. These fixed income securities are held primarily for asset-liability management purposes in countries that are rated below investment grade.
- Bonds and structured notes issued by infrequent issuers in local markets that do not seek credit ratings from international credit rating agencies. These fixed income securities are held for their credit spreads to enhance the yield of the AIA Group's portfolios.
- Bonds that were rated investment grade at time of purchase but have been subsequently downgraded. The AIA Group reassesses its holding of such securities upon a downgrade.
- Certain below investment grade or non-rated emerging market bonds that offer yield enhancement opportunities by capturing their relative value through trading strategies managed by PineBridge Investments Europe Ltd., an independent third party and an affiliate of Bridge Partners, L.P. See "- Investment Management" in this section.

Below investment grade or non-rated securities typically carry risks. Complementing the AIA Group's investment framework described above in " – Investment Framework" and the tools used in connection with its investment process, such as its internal risk rating system, certain aspects of its risk management framework help it to manage the risks associated with such investments.

Government Bonds

Government bonds constituted 27 per cent., 29 per cent. and 29% per cent. of the carrying value of total Policyholder and Shareholder Investments as of 30 November 2007, 2008 and 2009, respectively.

The following tables (unaudited) show the breakdown of government bonds issued in local and foreign currency by country. In order to diversify investment risk, the AIA Group maintains a portfolio of foreign currency denominated government bonds from a diverse range of countries outside its geographical markets which are set forth below, including a small portfolio of emerging markets debt securities.

As of 30 November 2007						
Rating	Policyholder and Shareholder Investments	Investment-linked Investments		Total		
		%	%			
(in US\$ millions)						
Government bonds — Issued by governments in their local currency						
Singapore.....	AAA	1,846	14%	51	24%	1,897
Thailand	A	5,826	44%	—	—%	5,826
Philippines.....	BB	1,200	9%	30	14%	1,230
Malaysia.....	A	1,374	10%	1	—%	1,375
China.....	A	895	7%	30	14%	925
Indonesia.....	BB	514	4%	86	40%	600
Korea.....	A	1,399	10%	16	7%	1,415
Other		313	2%	—	—%	313
Total.....		13,367	100%	214	100%	13,581

As of 30 November 2008

	Rating	Policyholder and Shareholder Investments	(in US\$ millions)		Total	
			%	Investment-linked Investments		%
Government bonds — issued by governments in their local currency						
Singapore.....	AAA	1,713	13%	69	32%	1,782
Thailand	A	6,377	50%	—	—%	6,377
Philippines.....	BB	862	7%	12	5%	874
Malaysia	A	1,482	12%	3	1%	1,485
China.....	A	967	8%	70	32%	1,037
Indonesia.....	BB	315	2%	59	27%	374
Korea.....	A	857	7%	6	3%	863
Other		244	2%	—	—%	244
Total.....		12,817	100%	219	100%	13,036

As of 30 November 2009

	Rating	Policyholder and Shareholder Investments	(in US\$ millions)		Total	
			%	Investment-linked Investments		%
Government bonds — issued by governments in their local currency						
Singapore.....	AAA	2,255	15%	70	33%	2,325
Thailand	A	7,374	47%	—	0%	7,374
Philippines.....	BB	1,309	8%	22	10%	1,331
Malaysia	A	1,149	7%	1	0%	1,150
China.....	A	1,107	7%	3	1%	1,110
Indonesia.....	BB	494	3%	115	53%	609
Korea.....	A	1,539	10%	4	2%	1,543
Other		317	2%	—	0%	317
Total.....		15,544	100%	215	100%	15,759

Source: AIA Group data

As of 30 November 2007

	Rating	Policyholder and Shareholder Investments	Investment-linked Investments		Total
			%	%	
(in US\$ millions)					
Government bonds — issued by governments in foreign currency					
Mexico.....	BBB	168	7%	—	168
South Africa.....	BBB	103	4%	1	104
Philippines.....	BB	632	26%	39	671
Malaysia.....	A	307	13%	1	308
Indonesia.....	BB	360	15%	17	377
Korea.....	A	365	15%	1	366
China.....	A	53	2%	1	54
Other.....		456	19%	12	468
Total.....		2,444	100%	72	2,516

As of 30 November 2008

	Rating	Policyholder and Shareholder Investments	Investment-linked Investments		Total
			%	%	
(in US\$ millions)					
Government bonds — issued by governments in foreign currency					
Mexico.....	BBB	167	9%	3	170
South Africa.....	BBB	116	6%	2	118
Philippines.....	BB	465	25%	18	483
Malaysia.....	A	266	14%	2	268
Indonesia.....	BB	252	14%	5	257
Korea.....	A	67	4%	2	69
China.....	A	59	3%	2	61
Other.....		454	25%	8	462
Total.....		1,846	100%	42	1,888

As of 30 November 2009

	Rating	Policyholder and Shareholder Investments	Investment-linked Investments		Total
			%	%	
(in US\$ millions)					
Government bonds — issued by governments in foreign currency					
Mexico.....	BBB	159	7%	2	161
South Africa.....	BBB	166	8%	2	168
Philippines.....	BB	761	35%	46	807
Malaysia.....	A	88	4%	1	89
Indonesia.....	BB	268	12%	—	268
Korea.....	A	222	10%	2	224
China.....	A	46	2%	2	48
Other.....		436	20%	10	446
Total.....		2,146	100%	65	2,211

Source: AIA Group data

Government Agency Bonds

Government agency bonds constituted 12 per cent., 15 per cent. and 12 per cent. of the carrying value of total Policyholder and Shareholder Investments as of 30 November 2007, 2008 and 2009, respectively. These securities are primarily issued by government-sponsored institutions largely in the geographical markets in which the AIA Group operates.

The following tables (unaudited) show the breakdown of the AIA Group's government agency bond holdings by credit rating. 97 per cent., 96 per cent. and 95 per cent. of total government agency bonds were rated BBB or higher as of 30 November 2007, 2008 and 2009, respectively. The credit ratings of government agency bonds are capped at the ratings of the individual country, some of which are below investment grade (BB+ or below).

As of 30 November 2007					
	Policyholder and Shareholder Investments	%	Investment- linked Investments	%	Total
	(in US\$ millions)				
Government agency bonds:*					
AAA.....	1,336	19%	31	19%	1,367
AA.....	290	4%	35	21%	325
A.....	3,165	46%	63	38%	3,228
BBB.....	1,884	27%	16	10%	1,900
Below investment grade.....	85	1%	3	2%	88
Not rated.....	102	1%	16	10%	118
Total government agency bonds.....	6,862	100%	164	100%	7,026

As of 30 November 2008

	Policyholder and Shareholder Investments	Investment- linked Investments		Total	
		%	%		
(in US\$ millions)					
Government agency bonds:*					
AAA	1,190	16%	15	7%	1,205
AA	395	5%	65	30%	460
A	3,069	42%	100	45%	3,169
BBB	2,377	33%	6	3%	2,383
Below investment grade	264	4%	1	— %	265
Not rated	—	— %	33	15%	33
Total government agency bonds.....	7,295	100%	220	100%	7,515

As of 30 November 2009

	Policyholder and Shareholder Investments	Investment- linked Investments		Total	
		%	%		
(in US\$ millions)					
Government agency bonds:*					
AAA	1,236	16%	64	25%	1,300
AA	195	3%	64	25%	259
A	3,408	45%	116	45%	3,524
BBB	2,456	32%	4	2%	2,460
Below investment grade	346	5%	—	0%	346
Not rated	—	0%	8	3%	8
Total government agency bonds.....	7,641	100%	256	100%	7,897

* Source: AIA Group data. For ease of reference, the AIA Group uses S&P ratings where available. For securities where S&P ratings are not immediately available, it uses Moody's ratings as an alternative. Where S&P and Moody's ratings are not readily available, our internal rating methodology is used. The following conventions have been adopted to conform the various ratings.

Reported Above As:	S&P	Moody's	Internal Ratings
AAA	AAA	Aaa	1
AA	AA+ to AA-	Aa1 to Aa3-	2+ to 2-
A	A+ to A-	A1 to A3	3+ to 3-
BBB	BBB+ to BBB-	Baa1 to Baa3	4+ to 4-
Below investment grade	BB+ and below	Ba1 and below	5+ and below

Corporate Bonds

Corporate bonds constituted 31 per cent., 36 per cent. and 39 per cent. of the carrying value of total Policyholder and Shareholder Investments as of 30 November 2007, 2008 and 2009, respectively. In each of the AIA Group's

geographical markets, its corporate bond investments include both local and foreign currency denominated bonds. The AIA Group invests in U.S. dollar denominated bonds primarily to match the U.S. dollar liabilities of certain operating units, such as AIA Hong Kong, and to enhance yields of investment portfolios of certain operating units, such as AIA Singapore and AIA Thailand, where the supply of corporate debt in the local geographical markets in which they operate is limited. AIA Singapore and AIA Thailand use currency swaps and foreign exchange forwards to hedge their U.S. dollar exposure of the U.S. dollar bond investments.

AIA Group's corporate bond investments are diversified across markets, industries and issuers or obligors. During FY 2008 and 2009, it recognised impairment losses of USD67 million and USD3 million, respectively, relating to bonds issued by Lehman Brothers. Sale of the defaulted bonds in 2009 resulted in a gain of USD19 million in 2009.

The table below shows the unaudited carrying value of the AIA Group's corporate bonds invested in various industries as of the dates indicated.

	As of 30 November					
	2007		2008		2009	
	Policyholder and Shareholder Investments	%	Policyholder and Shareholder Investments	%	Policyholder and Shareholder Investments	%
	(in US\$ millions)					
Banks	5,470	30%	6,090	34%	6,864	28%
Oil and Gas	1,859	10%	2,168	12%	3,089	13%
Telecommunications	2,496	14%	1,730	10%	2,293	9%
Diversified Financial Services	1,950	11%	1,601	9%	2,079	9%
Electricity Power and Gas	1,288	7%	1,329	7%	2,359	10%
Conglomerates	635	3%	696	4%	924	4%
Real Estate	514	3%	556	3%	760	3%
Insurance	580	3%	440	2%	543	2%
Transport Marine	407	2%	358	2%	612	3%
Mining	149	1%	232	1%	257	1%
Others	2,862	16%	2,756	15%	4,367	18%
Total	18,210	100%	17,956	100%	24,147	100%

Source: AIA Group data

The banking sector represented the AIA Group's largest sector exposure in its Policyholder and Shareholder Investments corporate bond portfolio as of 30 November 2008 which include bank hybrid capital securities. Bank hybrid capital securities generally provide better spreads as compared to senior debt securities, and also serve to enhance returns of the AIA Group's investment portfolio. A significant proportion of the AIA Group's holdings consist of securities issued by Asia Pacific banks and international banks whose business is largely focused on Asia.

The following tables (unaudited) show that 93 per cent., 94 per cent. and 94 per cent. of total corporate bonds were rated BBB or higher as of 30 November 2007, 2008 and 2009, respectively.

As of 30 November 2007

	Shareholder and Policyholder Investments	%	Investment- linked Investments	%	Total
	(in US\$ millions)				
Corporate bonds:*					
AAA.....	301	2%	59	6%	360
AA	3,496	19%	281	28%	3,777
A	8,096	44%	292	29%	8,388
BBB.....	5,064	28%	200	20%	5,264
Below investment grade.....	1,171	6%	151	15%	1,322
Not rated	82	—%	37	4%	119
Total corporate bonds	18,210	100%	1,020	100%	19,230

As of 30 November 2008

	Policyholder and Shareholder Investments	%	Investment- linked Investments	%	Total
	(in US\$ millions)				
Corporate bonds:*					
AAA.....	225	1%	78	8%	303
AA	3,271	18%	298	31%	3,569
A	7,981	44%	292	30%	8,273
BBB.....	5,397	30%	211	22%	5,608
Below investment grade.....	997	6%	45	5%	1,042
Not rated	85	—%	47	5%	132
Total corporate bonds	17,956	100%	971	100%	18,927

As of 30 November 2009

	Policyholder and Shareholder Investments	%	Investment- linked Investments	%	Total
	(in US\$ millions)				
Corporate bonds:*					
AAA.....	533	2%	34	3%	567
AA	3,233	13%	253	22%	3,486
A	11,297	47%	454	39%	11,751
BBB.....	7,730	32%	198	17%	7,928
Below investment grade.....	1,106	5%	41	4%	1,147
Not rated	248	1%	190	16%	438

As of 30 November 2009

	Policyholder and Shareholder Investments		Investment-linked Investments		Total
		%		%	
	(in US\$ millions)				
Total corporate bonds	24,147	100%	1,170	100%	25,317

* Source: AIA Group data. For ease of reference, the AIA Group uses S&P ratings where available. For securities where S&P ratings are not immediately available, it uses Moody's ratings as an alternative. Where S&P and Moody's ratings are not readily available, its internal rating methodology is used. The following conventions have been adopted to conform the various ratings.

Reported Above As:	S&P	Moody's	Internal Ratings
AAA	AAA	Aaa	1
AA	AA+ to AA-	Aa1 to Aa3-	2+ to 2-
A	A+ to A-	A1 to A3	3+ to 3-
BBB	BBB+ to BBB-	Baa1 to Baa3	4+ to 4-
Below investment grade	BB+ and below	Ba1 and below	5+ and below

Structured Securities

The AIA Group's fixed income investment asset class also includes structured securities, which consist of asset-backed securities, mortgage-backed securities and collateralised debt obligations, constituting 3 per cent., 2 per cent. and 2 per cent. of the carrying value of total Policyholder and Shareholder Investments as of 30 November 2007, 2008 and 2009, respectively. Structured securities issued by Asia Pacific entities represented approximately 25 per cent., 30 per cent. and 75 per cent. of the total carrying value of structured securities as of 30 November 2007, 2008 and 2009, respectively.

During 2008 and 2009, the AIA Group recognised impairment losses of USD52 million and USD9 million respectively relating to collateralised debt obligations.

The following tables (unaudited) show that 95 per cent., 90 per cent. and 85 per cent. of the AIA Group's total structured securities were rated BBB or higher as of 30 November 2007, 2008 and 2009, respectively.

	As of 30 November 2007				
	Policyholder and Shareholder Investments	%	Investment-linked Investments	%	Total
	(in US\$ millions)				
Structured Securities:*					
AAA	998	49%	—	—%	998
AA	268	13%	—	—%	268
A	440	22%	—	—%	440
BBB	220	11%	3	17%	223
Below investment grade	71	3%	15	83%	86
Not rated	36	2%	—	—%	36
Total structured securities	2,033	100%	18	100%	2,051

As of 30 November 2008

	Policyholder and Shareholder Investments		Investment-linked Investments		Total
		%		%	
(in US\$ millions)					
Structured Securities:*					
AAA	479	51%	—	—%	479
AA	72	8%	—	—%	72
A	78	8%	—	—%	78
BBB	218	23%	1	7%	219
Below investment grade	95	10%	14	93%	109
Not rated	—	—%	—	—%	—
Total structured securities	942	100%	15	100%	957

As of 30 November 2009

	Policyholder and Shareholder Investments		Investment-linked Investments		Total
		%		%	
(in US\$ millions)					
Structured Securities:*					
AAA	29	3%	—	0%	29
AA	—	0%	—	0%	—
A	463	46%	—	0%	463
BBB	357	36%	5	25%	362
Below investment grade	143	14%	15	75%	158
Not rated	5	1%	—	0%	5
Total structured securities	997	100%	20	100%	1,017

* Source: AIA Group data. For ease of reference, the AIA Group uses S&P ratings where available. For securities where S&P ratings are not immediately available, it uses Moody's ratings as an alternative. Where S&P and Moody's ratings are not readily available, its internal rating methodology is used. The following conventions have been adopted to conform the various ratings.

Reported Above As:	S&P	Moody's	Internal Ratings
AAA	AAA	Aaa	1
AA	AA+ to AA-	Aa1 to Aa3-	2+ to 2-
A	A+ to A-	A1 to A3	3+ to 3-
BBB	BBB+ to BBB-	Baa1 to Baa3	4+ to 4-
Below investment grade	BB+ and below	Ba1 and below	5+ and below

Loans

The AIA Group extends loans to enhance yields on its fixed income investments asset class. Loans represented 6 per cent., 5 per cent. and 4 per cent. of the carrying value of total Policyholder and Shareholder Investments as of 30 November 2007, 2008 and 2009, respectively. These loans principally consisted of policy loans, mortgage loans on residential and commercial real estate properties and intercompany loans to subsidiaries of AIG. The decrease in loans in FY 2008 is primarily due to the pay down of inter-company loans to subsidiaries of AIG.

The AIA Group has stringent lending policies that are based on a comprehensive credit analysis process and underwriting guidelines that account for diverse factors, including market conditions, industry specific conditions, company cash flows and quality of collateral. It also has a monitoring program in place whereby its credit teams review the status of the obligor on a regular basis to anticipate any credit issues. Policy loan amounts are restricted to the policy's cash surrender values and, as a result, the AIA Group is not exposed to credit risk on policy loans. The loss on residential mortgage loans and other loans was insignificant in each of FY 2007, 2008 and 2009.

Term Deposits and Cash and Cash Equivalents

The AIA Group's term deposits and cash and cash equivalents constituted 4 per cent., 7 per cent. and 6 per cent. of the carrying value of total Policyholder and Shareholder Investments as of 30 November, 2007, 2008 and 2009, respectively. The increase in cash and cash equivalents in FY 2008 resulted from the AIA Group's de-risking of its investment portfolio as well as liquidity management initiative by shifting to cash, the results of operations, as well as capital contributions from AIG.

Equity securities and Alternative Investments

The AIA Group allocates a portion of its investments to equity securities and alternative investments for yield-enhancement and risk-return optimisation purposes. A significant proportion of its equity securities are held to match investment-linked products and products with participating features where investment returns are shared between it and policyholders. The asset allocation strategies used to match these products are generally consistent with the nature of the products.

In certain other Policyholder and Shareholder Investment portfolios that back other products and shareholder funds, the AIA Group invests in equity securities in order to enhance overall investment portfolio returns. These investments are subject to the SAA and TAA, which seeks to optimise risk and return on such portfolios.

The following table (unaudited) sets forth the carrying value of the subcategories of the AIA Group's equity securities and alternative investments in its investment portfolio as of the date indicated.

	As of 30 November 2007				
	Policyholder and Shareholder Investments	%	Investment-linked Investments	%	Total
	(in US\$ millions)				
Equity Securities:					
Private equities.....	191	—%	—	—%	191
Public equities.....	4,255	7%	2,268	17%	6,523
Ordinary shares ⁽¹⁾	4,446	8%	2,268	17%	6,714
Securities held by consolidated mutual funds managed by AIG.....	1,154	2%	1,558	12%	2,712
Interests in investment funds:					
Private equity and alternative asset classes.....	288	—%	—	—%	288
Other.....	691	1%	7,214	55%	7,905
Subtotal.....	979	2%	7,214	55%	8,193
Shares in AIG.....	2,520	4%	—	—%	2,520
Equity securities-total.....	9,099	16%	11,040	84%	20,139
Investment property.....	190	—%	—	—%	190
Total equity securities and alternative investments.....	9,289	16%	11,040	84%	20,329

(1) Other than shares in AIG.

As of 30 November 2008

	Policyholder and Shareholder Investments		Investment-linked Investments		Total
		%		%	
(in US\$ millions)					
Equity Securities:					
Private equities.....	86	—%	—	—	86
Public equities.....	1,619	3%	1,211	15%	2,830
Ordinary shares ⁽¹⁾	1,705	3%	1,211	15%	2,916
Securities held by consolidated mutual funds managed by AIG.....	728	1%	805	10%	1,533
Interests in investment funds:					
Private equity and alternative asset classes	287	1%	—	—%	287
Other	258	1%	3,666	44%	3,924
Subtotal	545	1%	3,666	44%	4,211
Shares in AIG.....	87	—%	—	—%	87
Equity securities-total	3,065	6%	5,682	68%	8,747
Investment property	217	—%	—	—%	217
Total equity securities and alternative investments	3,282	7%	5,682	68%	8,964

(1) Other than shares in AIG.

As of 30 November 2009

	Policyholder and Shareholder Investments		% of Total Investment-linked Investments		Total
		% of Total Policyholder and Shareholder Investments		% of Total Investment-linked Investments	
(in US\$ millions)					
Equity Securities:					
Private equities.....	69	0%	—	—	69
Public equities.....	3,624	6%	2,738	20%	6,362
Ordinary shares ⁽¹⁾	3,693	6%	2,738	20%	6,431
Securities held by consolidated investment funds	661	1%	1,333	10%	1,994
Interests in investment funds:					
Private equity and alternative asset classes	151	0%	—	0%	151
Other	531	1%	7,009	51%	7,540
Subtotal	682	1%	7,009	51%	7,691
AIG shares	62	0%	—	0%	62
Subtotal	5,098	8%	11,080	81%	16,178
Investment property	244	0%	—	0%	244
Total equity and alternative investments	5,342	9%	11,080	81%	16,422

(1) Other than shares in AIG

The AIA Group's equities and alternative investment portfolio includes investments in public equities, private equities and investment funds that may invest in public equities and other alternative asset classes. Its equities and alternative investment portfolio represented 16 per cent., 7 per cent. and 9 per cent. of the carrying value of total Policyholder and Shareholder Investments as of 30 November 2007, 2008 and 2009, respectively. The significant decrease in equities in FY 2008 was due to the implementation of de-risking strategy and the reduction in the carrying value of AIG shares.

The AIA Group's portfolio of private equities is relatively small, constituting 0.3 per cent., 0.2 per cent. and 0.1 per cent. of the carrying value of total Policyholder and Shareholder Investments as of 30 November 2007, 2008 and 2009, respectively. The AIA Group has made investments in private equity in high growth economies, such as China and India, and diverse sectors, including manufacturing, services, retail and infrastructure.

The AIA Group's investment funds portfolio represented 4 per cent., 3 per cent. and 2 per cent. of the carrying value of total Policyholder and Shareholder Investments as of 30 November 2007, 2008 and 2009, respectively. The AIA Group owns a portfolio of investment properties used strictly for investment purposes. It also owns real estate for operational use but these are not reflected in its investment portfolio. The AIA Group's investment property portfolio had a net book value of USD190 million, USD217 million and USD244 million as of 30 November 2007, 2008 and 2009, respectively, excluding the carrying value of operating leases of leasehold land relating to long-term leaseholds.

OPERATIONS

The AIA Group's operations unit focuses on processing new business and servicing policies and policyholders across the company.

Operations are currently structured as three separate departments, representing various functional responsibilities:

- Underwriting and New Business;
- Claims Management; and
- Customer Service.

As part of an ongoing strategic initiative to rationalise the AIA Group's infrastructure and achieve greater operational efficiencies, the operations unit is currently engaged in several key strategic initiatives, including increasing automation, reducing the amount of paper-based processing and increasing the internet-based self-service capability that the AIA Group can offer customers in developed markets.

For markets with large geographical coverage, such as Thailand and Indonesia, the AIA Group is engaged in a consolidation effort aimed at reducing the number of smaller processing centres and achieving economies of scale by concentrating processing in one or two processing centres per geographical market. For markets where operational costs are higher, the AIA Group has constructed a low-cost shared services centre.

Underwriting and New Business

The AIA Group's underwriting operations involve the evaluation of its insurance products by a professional staff of underwriters and actuaries who determine the type and the amount of risk that it is willing to accept. The AIA Group has established rigorous personnel qualification requirements and review procedures for its underwriting professionals. It also employs a certain level of automated rules based systems in both medical and non-medical underwriting that is centrally managed by its regional AIA Group office. Underwriting is governed by detailed policies, guidelines and procedures centrally designed and established to assist the AIA Group's underwriters to assess and quantify risks before issuing an insurance policy or contract to a qualified customer. Based on regional approval, local personnel and underwriters in the business units in each of the geographical markets in which the AIA Group operates customise the underwriting systems to serve their respective local markets. The AIA Group's geographical reach also allows it to utilise its underwriting experience from more developed markets and apply it to developing markets with less historical underwriting data by sharing established best practice underwriting principles among markets. In this manner it is able to leverage its long history and experience in markets such as Thailand, and assess risk in geographical markets with limited statistical data, such as Vietnam.

The AIA Group's underwriters evaluate the risk characteristics of each prospective insured risk and underwriting decisions are based on a group-wide model. Requests for coverage are reviewed based on their merits. An insurance policy or contract is not issued unless the particular risk has been examined and approved for underwriting or falls within certain pre-established criteria. The AIA Group sets authorisation limits and procedures depending on the size of the policy or contract and have pre-established authorisation limits for its underwriting personnel depending on their level of qualification.

In order to maintain high standards of underwriting quality and consistency, the AIA Group engages on an ongoing basis in a multilevel series of internal underwriting audits. Its product pricing philosophy reflects its underwriting standards and is based on the expected payout of benefits, calculated through the use of assumptions for mortality, morbidity, persistency, expenses and investment returns, as well as certain macroeconomic factors such as inflation. These assumptions include a margin for expected profitability and the possibility that actual experience deviates from anticipated experience, and are based on the AIA Group's own extensive experience and internal data as well as data published by external sources in each of the geographical markets in which it operates.

Claims Management

Claims that the AIA Group receive on its products are processed and investigated in a structured manner by the claims team in each of the geographical markets in which the AIA Group operates. Claims are typically received by the AIA Group's employees or agents who assist policyholders with claims for submission and forward them to the claims team for further review and verification. Major and unusual claims, such as early death claims, are elevated to senior assessors and sometimes will be referred to the regional group office. If a claim is verified, the amount payable is calculated and, if approved, is distributed to the customer or directly settled with the service provider. Claims policies, procedures and controls are determined by the regional group office. The AIA Group manages claims management risk through organisational and computer systems controls. The AIA Group's organisational controls include pre-established procedures, guidelines and authorisation limits for various operating levels as well as periodic and ad hoc inspections of the local operating units in each of the geographical markets in which it operates. Routine quality assurance control is part of its standard operating procedure to ensure that claim assessment quality and accuracy are in line with its expected loss ratio. The AIA Group also imposes specific requirements on the qualification and employment of its claims staff. It has service standards for claims processing and strives to resolve claims in a timely and structured manner with appropriate diligence.

The AIA Group has established a claims assessment process to ensure the authenticity and quality of submitted claims, including those related to health and medical insurance. Its staff assess the submitted claims in accordance with detailed internal guidelines and checklists, which require comprehensive review and verification of key documents and events. Claimants are required to submit detailed documentation. For example, a typical reimbursement claim requires a full set of original, duly signed claims forms, receipts and, if applicable, hospital statements. The AIA Group's staff check the authenticity of documents by, among other things, reviewing the signatures on the documents, checking that submitted documents are in the usual formats issued by the relevant authorities and reviewing the official stamps of the relevant clinic, hospital or authority. The AIA Group's staff assess the appropriateness of submitted claims by reviewing the status of the relevant policies or benefits, as well as any limitations set forth in the relevant contracts, such as terms related to exclusions, pre-existing conditions and waiting periods. The AIA Group verifies the identities of the claimants or insured beneficiaries and collects and reviews documentation related to the events on which the claim is based. In addition, its staff conduct background checks of the hospitals and physicians or other health care providers referenced in the claims to ensure that they have the necessary authorisations and appropriate medical qualifications. The claims assessment process also provides staff with flexibility to properly assess the submitted claim. For example, staff may accept a late claim if it determines that the reason for delay is reasonable or may conduct further investigations and fact findings if a submitted claim lacks critical information or appears fraudulent.

Customer Service and Contact Centre

The AIA Group seeks to provide quality services to its customers and potential customers and to be responsive to their needs, both before and after issuing a policy or contract, through an extensive customer service network. It delivers customer services primarily through its customer service units at each of its local operating units via its contact centres and offices, agency force, internet platform and telephone services based on guidelines established by group operations. It is continually enhancing its customer services through technology and innovation, such as innovation towards customer self-service through interactive voice response and other digital services, with a goal

of transitioning to a platform that is efficient for customers and distribution channels at all interactive sites. The AIA Group's customer services are also adapted based on geographic market needs. For example, AIA Korea's business emphasis is on internet- and website-based customer service, while AIA Singapore's business is testing a pilot program that focuses on high value customers.

The AIA Group's customer service network is managed by a specialised customer service department in each of its local operating units. The regional group office is responsible for setting uniform service standards and procedures for providing product-related services to customers, handling inquiries and complaints from customers and training customer services personnel. Customer service is consistent and well rated in the markets in which the AIA Group participates. The AIA Group is a frequent recipient of various industry awards, including:

- Readers Digest Trust Brand Award for Insurance (Hong Kong 2004 – 2009; Singapore 2004 – 2009; Thailand 2004 – 2009; Australia 2007 – 2009; Malaysia 2006 – 2008);
- Preferred Insurance Vendor of the Year 2008 — Singapore; and
- Insurance Company of the Year 2008 — Thailand.

Reinsurance

The AIA Group reinsures a portion of the risk that it assumes under its insurance products to reduce its exposure to loss and protect its capital resources. In addition, it makes use of reinsurance to obtain product pricing expertise when entering new lines of business, products or markets. The AIA Group's reinsurance includes both arrangements with third party reinsurers not affiliated with it (i.e., external reinsurance) and arrangements between and among businesses entirely within the AIA Group (i.e., internal reinsurance). A central component of the AIA Group's reinsurance strategy is to use internal reinsurance where applicable local regulations allow. As a result of its history and scale, the AIA Group has accumulated a substantial volume of experience and data which assists in its reinsurance strategy. Where it does not have adequate data, such as when it insures a new type of risk, it may reinsure a substantial portion or all of such risk. As it develops experience data related to such new risk, it may gradually retain more of the risk and reduce the use of related external reinsurance over time.

When the AIA Group uses reinsurance, it cedes to a reinsurer a portion of the risk that it assumes under its insurance products in exchange for a portion of the premiums it receive with respect to these products.

The AIA Group engages in a rigorous approval process when entering into reinsurance arrangements. The AIA Group's criteria for selecting third party reinsurers include financial strength, service, terms of coverage, claims settlement efficiency and price. It monitors the financial condition of its third party reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. To reduce reinsurance concentration risk, it has established reinsurance programs with various leading international third party reinsurers and limits exposure to any one third party reinsurer. In some geographical markets in which it operates, local insurance regulations require it to use local third party reinsurers for a portion of its reinsurance. The AIA Group has clearly defined risk limits, tailored to its products and geographical markets in which it operates, related to both internal and external reinsurance.

When the AIA Group uses internal reinsurance, one of its operating subsidiaries or branches cedes to another member of the group a portion of the risk that operating subsidiary or branch assumes under the AIA Group's insurance products. Under the AIA Group's internal reinsurance strategy, the member of the group that acts as reinsurer will typically obtain external reinsurance in order to cede to a third party reinsurer risk above certain defined risk limits.

Information Technology

The AIA Group's information technology group plays a significant role in supporting its business growth and providing reliable service to its customers, agents and business partners. The AIA Group has adopted a shared services strategy and currently has three shared services centres to improve quality, service and cost-efficiency. The majority of its core application development and support is delivered through these shared services centres.

It has a suite of information technology application systems that is capable of processing large volumes of data efficiently and cost effectively. Its systems include applications related to e-business processes, sales and management support, sales illustration, underwriting, imaging and workflow, policy administration, actuarial, financial management and analysis and human resources. The AIA Group is expanding its deployment of "straight through" process functions across the group to both expedite new business underwriting processes and

significantly improve control, turnaround time and customer and business partner satisfaction. It is also in the process of implementing a uniform group-wide financial system with service providers through its financial transformation programme.

The AIA Group's digital strategy includes the expansion of self-service functions to provide additional convenience to customers, agents and business partners. While its agents and business partners can already perform many self-service functions online, such as enquiries relating to their portfolio of fund switching products, status checks of new product applications and reviews of sales performance reports, the AIA Group is expanding the usage of the internet and other digital platforms (e.g., cell phones, PDA, etc.) to provide even more online functions. It has expanded, and will continue to expand, its strategy of centralising its information technology group to improve efficiency, quality and lower unit cost. Where permitted by local regulations, the AIA Group intends to consolidate its existing infrastructure and data centres and outsource them to third-party vendors.

To minimise the impact of a partial or complete failure of any of its information technology or communications systems, the AIA Group has implemented two programmes – the Business Continuity Plan and the Disaster Recovery Plan – which provide detailed processes and procedures to be applied in case of any such failure. Furthermore, it maintains a network of disaster recovery facilities designed to be activated in place of its primary facilities in case of failure and it has created a remote backup management system to limit potential losses of data resulting from system disruptions.

EMPLOYEES

As of 30 November 2009, the AIA Group had a total of approximately 23,500 permanent employees, employee agents and fixed term employees. The following table shows an approximate breakdown of its employees by function as of 30 November 2009:

	Number of Employees	% of Total
Sales & Marketing	12,100	51
Claims / Customer Services	2,350	10
Business Acquisition	2,250	10
General Services	1,750	7
Information Technology	1,500	6
Finance and Accounting	1,100	5
Actuarial / Product Development	500	2
Human Resources	400	2
Legal / Compliance / Internal Audit	400	2
Executive Management	200	1
Investment	200	1
Others	800	3
Total	23,500	100

The AIA Group enters into employment agreements with individual employees covering matters such as salary, employee benefits, confidentiality obligations and termination of employment. It generally formulates its employees' compensation to include one or more elements such as salaries, allowances, bonuses, long term incentives and benefits subject to applicable rules and regulations. The AIA Group's compensation programs are designed to remunerate its employees based on their performance, roles and responsibilities, skills and competencies. The AIA Group also performs market benchmarking with respect to its compensation programs.

APPENDIX V: THREE YEAR RESULTS FOR THE AIA GROUP

The following is a summary of certain information that has been derived from AIA Group's unaudited results of operations. This information has not been audited and is subject to completion and issuance of the AIA Group's audited financial statements. In addition, the AIA Group's financial information has not been prepared in accordance with Prudential's accounting policies and is not directly comparable to Prudential's financial information.

OVERVIEW

Overview of the Business

The AIA Group is a leading life insurance organisation in Asia Pacific that traces its roots in the region back more than 90 years. It provides individuals and businesses with products and services for their evolving insurance, protection, savings, investments and retirement needs. As of 30 November 2009, the AIA Group had approximately 23,500 employees serving the holders of its more than 23 million in-force policies and more than 10 million participating members of its clients for group life, medical, credit life coverage and pension products. Since 1931 the AIA Group has been building a tied agency force that spans the Asia Pacific region from developed urban centres to rural areas. As of 30 November 2009, the AIA Group's tied agency force consisted of more than 320,000 agents. More recently, it has expanded, and continues to expand, its other distribution channels, particularly bancassurance and direct marketing, to create a multi-channel distribution platform that is tailored to the unique characteristics of its geographical markets. The AIA Group derives all of its premiums from its 15 geographical markets across the Asia Pacific region. Its individual local operating units are significant businesses in their own right, with Hong Kong, Singapore and Thailand each generating more than USD350 million of operating profit in FY 2009. At the same time, the AIA Group's business is well diversified with no more than 25 per cent. of TWPI arising from any one geographical market in FY 2008 and FY 2009.

Financial Overview of the Business

The AIA Group had TWPI and operating profit before tax of USD11,632 million and USD1,835 million, respectively, in FY 2009, USD12,203 million and USD1,943 million, respectively, in FY 2008 and USD11,358 million and USD1,742 million, respectively, in FY 2007. Applying the average U.S. dollar exchange rates for a particular fiscal year to results reported in local currency for the previous fiscal year, which it refers to as "on a constant exchange rate basis", the increase in TWPI from FY 2008 to FY 2009 was 1.1 per cent. and the increase in TWPI from FY 2007 to FY 2008 was 6.7 per cent.

The AIA Group evaluates its financial results on a geographical market basis. Its business provides life insurance, A&H insurance, and pension and annuity products to customers in each of its geographical markets. The AIA Group's reporting segments are categorised as follows: (i) each Key Market; (ii) combined results for Other Markets; and (iii) Corporate and Other reporting segment. The Key Markets consist of the individual results of: Hong Kong (including Macau); Thailand; Singapore (including Brunei); Korea; Malaysia; and China. The Other Markets segment consists of the combined results of: Australia, the Philippines, Indonesia, Vietnam, Taiwan and New Zealand, and the AIA Group's interest in its joint venture in India. The Corporate and Other segment includes the AIA Group's corporate functions, shared services, and elimination of intragroup transactions.

The AIA Group's reporting segments had the following results:

	Year ended 30 November					
	2007	2008	2009	2007	2008	2009
	(in US\$ millions)			Operating profit/(loss) ⁽¹⁾		
	TWPI					
Hong Kong	2,845	2,916	2,861	408	590	698
Thailand	2,164	2,351	2,373	401	424	358
Singapore	1,514	1,641	1,524	348	333	356
Malaysia	667	727	707	123	123	150

	Year ended 30 November					
	2007	2008	2009	2007	2008	2009
	(in US\$ millions)					
	TWPI			Operating profit/(loss) ⁽¹⁾		
China	806	934	1,018	122	85	89
Korea.....	2,178	2,268	1,759	269	281	81
Other Markets ⁽²⁾	1,184	1,366	1,390	170	188	191
Corporate and Other.....	—	—	—	(99)	(81)	(88)
Total.....	11,358	12,203	11,632	1,742	1,943	1,835

(1) Operating profit/(loss) is stated before the effect of tax.

(2) The results the AIA Group's interest in its joint venture in India are reflected in operating profit of the Other Markets reporting segment, but are not included in TWPI because the AIA Group accounts for this interest using the equity method.

Major Factors Affecting the AIA Group's Financial Condition and Results of Operations

The AIA Group's financial condition and results of operations, as well as the comparability of its results of operations between periods, are affected by a number of factors, including: (i) economic conditions and demographic fundamentals in the Asia Pacific region; (ii) fluctuations in market interest rates and credit risk; (iii) fluctuations in equity markets; (iv) fluctuations in foreign exchange rates; (v) regulatory environment; (vi) customer sentiment and policyholder behaviour; (vii) claims experience; (viii) product mix and multi-channel distribution; and (ix) competition in its geographical markets.

Economic Conditions and Demographic Fundamentals in the Asia Pacific Region

The Asia Pacific region's economic growth trends, household savings rates, demographic profiles and life insurance penetration rates are some of the key factors affecting the performance of the region's life insurance industry. The AIA Group believes that the scale of its business, breadth of its product offering and diversity of its geographic coverage across the Asia Pacific region will enable it to benefit from the continued growth in the region's life insurance industry, adapt to changing customer and market needs and diversify its risk profile. Conversely, if the economic conditions in the Asia Pacific region deteriorate, or the impact on the AIA Group's business is different from what it expects, its business may be materially and adversely affected.

Fluctuations in Market Interest Rates and Credit Risk

The AIA Group is affected by fluctuations in market interest rates as a substantial portion of its investment portfolio is held in debt securities, in particular long-term fixed income government securities. Movements in interest rates may affect the level and timing of recognition of gains and losses on debt securities and other investments held in its investment portfolio. A sustained period of lower interest rates would generally reduce the investment yield of the AIA Group's investment portfolio over time as higher yielding investments mature or are redeemed and proceeds are reinvested in new investments with lower yields. However, declining interest rates would also increase realised and unrealised gains on its existing investments. Conversely, rising interest rates should, over time, increase its investment income, but may reduce the market value of its investment portfolio. The AIA Group's holding of debt securities also exposes it to corporate, sovereign and other credit risk.

In addition, interest rate risk arises from the AIA Group's insurance and investment contracts with guaranteed features. These contracts carry the risk that interest income from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable as interest rates fall or fail to meet customer expectations for participating products. In periods of rapidly increasing interest rates, policy loans, surrenders and withdrawals may and usually do increase. This trend may result in cash payments by the AIA Group requiring the sale of invested assets at a time of declining prices, which may result in realised losses.

Fluctuations in Equity Markets

Fluctuations in equity markets may affect the AIA Group's investment returns and sales of investment linked products. Its exposure to equity markets is significantly less than its exposure to debt markets, with equity securities representing only 6.4 per cent. of the total carrying value of other policyholder and shareholder

financial investments as of 30 November 2009. Other policyholder and shareholder investments form 17.9 per cent. of the total fair value of the AIA Group's equity securities as of 30 November 2009. The investment risk in respect of investments held to back investment-linked contracts is borne wholly by investment-linked contract holders whereas the investment risk associated with investments held by participating funds is shared between policyholders and AIA's shareholders..

Sales of investment-linked products typically decrease in periods of protracted or steep declines in equity markets and increase in periods of rising equity markets. In the AIA Group's experience, customers are generally reluctant to commit to new investment-linked savings products in times of uncertainty or market volatility, although some customers with regular premium paying policies may choose to maintain their payments of regular premiums as markets decline, following a strategy of dollar cost averaging. Policy loans, surrenders and withdrawals may increase at times of declining equity markets. This trend may result in cash payments by the AIA Group requiring the sale of invested assets at a time when prices are depressed, which may result in realised investment losses. Lower investment returns for investment-linked contracts would also reduce the asset management and other fees earned by the AIA Group, certain of which are based on the account balance of these contracts.

Fluctuations in Foreign Exchange Rates

The AIA Group's business spans 15 geographical markets in the Asia Pacific region. As each of its operating units operates largely in its local currency, the AIA Group faces foreign exchange rate risk arising from the conversion of the functional currencies of its local operations to its reporting currency, the U.S. Dollar. In addition, this means that profits generated in local currencies by its operating units must be converted to U.S. Dollars at the exchange rate in effect on the date at which they are repatriated to AIA.

The AIA Group's exposure to foreign exchange rate risk in each operating unit is partially mitigated because assets and liabilities in the local functional currency of each operating unit are usually matched. Premiums and deposits are largely received in the local functional currency, insurance and investment contract liabilities are largely determined in that currency and operating units typically invest in assets denominated in that currency to match insurance and investment contract liabilities. In addition, the AIA Group undertakes hedging activities to further mitigate its foreign exchange exposure to certain operating units, in particular Thailand, Singapore and Korea.

On a local operating unit level, foreign exchange rate risk could arise from transactions denominated in currencies that are different from the functional currency of the operating unit. For example, despite a significant increase in annuity surrenders in Korea in the fourth quarter of FY 2008, the AIA Group chose to maintain its investment in a portfolio of U.S. Dollar denominated assets originally held to back the annuity business, thereby creating a temporary currency mismatch that resulted in an underlying currency exposure to U.S. Dollars in its Korean operating unit.

In addition, there have been significant fluctuations in the exchange rate between the Korean Won and U.S. Dollar between FY 2007 and FY 2009. The average exchange rate of Korean Won to U.S. Dollar depreciated from 929.37 in FY 2007 to 1,047.12 in FY 2008 and further depreciated to 1,287.00 in FY 2009 which has had an adverse impact on the AIA Group's reported financial results.

Regulatory Environment

The AIA Group is subject to the regulatory oversight of a number of financial services, insurance, securities and related regulators. These regulators have broad authority over its business, including its capital requirements, where it is authorised to operate and its ability to enter certain lines of business, expand its operations, offer new products, enter into distribution arrangements and declare dividends. These regulators oversee the AIA Group's operations in each of the geographical markets in which it operates and, as a result of this broad and diverse oversight, the AIA Group is occasionally subject to overlapping, conflicting and/or expanding regulation. Its effort to comply with changes in regulations may lead to increased operating and administrative expenses. In addition, pursuant to the insurance laws, rules and regulations of the various geographical markets in which it operates, the AIA Group is restricted to a specified range of investment activities. These restrictions may limit the AIA Group's ability to diversify investment risks and improve returns on its investment portfolio, thereby impacting its results of operations. Furthermore, the AIA Group is subject to the tax regime of each geographical market in which it

operates. If the tax regime, or the application of the tax regime to the AIA Group, changes, its tax liabilities in each of these geographical markets could also materially change.

Customer Sentiment and Policyholder Behaviour

As an insurer with a long-established track record, a significant portion of the AIA Group's business is on a recurring premium basis, which has given it a recurring as well as growing revenue stream of renewal premiums over time. However, customer sentiment and actual policyholder behaviour (such as policy take-up rates, premium holidays, lapses and surrenders) may differ from the AIA Group's expectations due to factors that are outside of its control. In particular, persistency varies over time and from one type of product to another. Persistency measures the proportion of customers who continue to maintain their policies with the AIA Group, which the AIA Group calculates by reference to the percentage of insurance policies remaining in-force from month to month, as measured by premiums. Factors that cause policy take-up, lapses and surrender rates to vary over time include changes in investment performance of the assets underlying the contract (in the case of investment linked contracts), changes in the rate of policyholder dividends declared relative to competitors, regulatory changes that make alternative products more attractive, customer perception of the insurance industry in general and the AIA Group in particular, and general economic conditions in each of its Key Markets. These factors can cause its results of operations and the value of its business to fluctuate from year to year.

For example, the decline in Asian and global equity markets in the second half of 2008 resulted in lower demand for the AIA Group's investment-linked contracts, while demand for protection-based contracts increased in some of its Key Markets. Customers may also perceive particular value in investment linked contracts with guaranteed features at times of low market interest rates and thus lapses may be less than expected.

Claims Experience

The AIA Group's results are affected by its claims experience, which may vary from the assumptions that the AIA Group makes both when it designs and prices its products and when it calculates its insurance contract liabilities. Claims experience varies over time and from one type of product to another, and may be impacted by specific events and changes in macroeconomic conditions, population demographics, mortality, morbidity and other factors.

Product Mix and Multi-Channel Distribution

The AIA Group designs and distributes a broad range of insurance products. The performance of AIA's businesses, and the revenue it generates, are affected by its ability to deliver the most suitable products to its targeted customer segments through multiple distribution channels in each of its Key Markets on a timely basis. In addition to customer demand, the AIA Group takes into account various factors when determining its optimal product mix, including product price and margin, flexibility and product features, marketing and distribution arrangements, brand and name recognition, as well as the risk profile of its insurance liabilities, at both the group and operating unit level. Its ability to expand and build alternative distribution channels, including bancassurance, direct marketing and IFA/brokerage channels, may impact the performance of the AIA Group's businesses.

Competition in the AIA Group's Geographical Markets

Competition may negatively impact the AIA Group's business and future business prospects by reducing its market share in the geographical markets in which it operates, decreasing its margins and spreads, increasing its policy acquisition costs and operating expenses and reducing the growth of its customer base. Its competitors include insurance companies, mutual fund companies, banks and investment management firms.

Revenues, Expenses and Profitability

The AIA Group derives its revenues primarily from:

- insurance premiums from the sale of life insurance policies and annuity contracts, as well as A&H insurance products;
- policy fees for its investment-linked products; and

- investment returns from its investment portfolio.

The AIA Group's expenses consist primarily of:

- the change in insurance and investment contract liabilities;
- insurance and investment benefits, and claims paid to policyholders;
- commission and other acquisition expenses;
- operating expenses, including employee salaries and benefits, information technology, advertising, marketing, training, rental, depreciation and amortisation;
- investment management expenses and finance costs; and
- restructuring and separation costs.

The AIA Group's profitability depends mainly on its ability to: (i) attract new customers; (ii) retain existing customers; (iii) price and manage risk on insurance products; (iv) manage its investment portfolio; and (v) control its expenses. Specific drivers of its profitability include:

- its ability to design and distribute products and services that meet market needs and are delivered on a timely basis;
- its ability to manage persistency. Maintaining a high level of persistency is important to the AIA Group's financial results, as a large block of in-force policies provides it with recurring revenues in the form of renewal premiums. In addition, its ability to convert first year premiums into renewal premiums — thereby increasing the number of in-force policies — is an important factor affecting the AIA Group's financial condition and results of operations, as well as the long-term growth of its revenues and profitability;
- its ability to price its insurance products at a level that enables it to earn a margin over the cost of providing benefits and the expense of acquiring new policies and administering those products. The adequacy of the AIA Group's product pricing is, in turn, primarily a function of:
 - its mortality and morbidity experience on individual and group insurance;
 - the adequacy of its methodology for underwriting insurance policies and establishing reserves for future policyholder benefits and claims; and
 - the extent to which its actual expenses and investment performance meet assumptions;
- its ability to actively manage its investment portfolio to earn an acceptable return while managing liquidity, credit and duration risks in its asset and policy portfolios through asset liability management; and
- its ability to control expenses in order to maintain the target margins for its insurance products.

BASIS OF PRESENTATION

The AIA Group was formed following the combination of the branches and subsidiaries of AIA Limited, AIA's chief operating subsidiary, with certain of the Asia Pacific life insurance operations of the AIG Group. AIA is the parent company of the AIA Group and is referred to throughout this section as AIA. The AIA Group reorganisation and business combinations arising from transfers of interests in entities that are under the common control of AIG throughout all periods presented in the Financial Information have been accounted for as if they had occurred at the beginning of the earliest period presented. Accordingly, the Financial Information presents the results of operations of the AIA Group as if it had been in existence throughout the period from 1 December 2006 to date.

The AIA Group has also identified certain accounting policies that are significant to the preparation of its financial information.

Operating Profit and Operating Profit After Tax

Operating profit and operating profit after tax are key measures of the performance of each of the AIA Group's reportable segments, as well as at the AIA Group level.

The AIA Group's operating profit is stated before tax and non-controlling interests and excludes the following non-operating items: (i) investment experience (which consists of realised gains and losses, foreign exchange gains and losses, impairments and unrealised gains and losses on investments held at fair value through profit or loss); (ii) investment income related to investment-linked contracts (consisting of dividends, interest income and rental

income); (iii) investment management expenses related to investment-linked contracts; (iv) corresponding changes in insurance and investment contract liabilities in respect of investment-linked contracts and participating funds and changes in third party interests in consolidated investment funds resulting from the above; and (v) other significant items it considers to be non-operating income and expenses. IFRS recognises that an entity may elect to disclose in its financial statements the results of operating activities or a similar line item, even though this term is not defined in IFRS.

While these excluded non-operating items are significant components in the AIA Group's profit, the AIA Group considers that the presentation of operating profit enhances the understanding and comparability of its performance and that of its operating segments. It considers that trends can be more clearly identified without the fluctuating effects of these non-operating items, many of which are largely dependent on market factors. Operating profit after tax is the amount attributable to shareholders of AIA, after deducting non-controlling interests. The terms "operating profit" and "operating profit after tax" are used consistently with these meanings throughout this section " – Financial Information".

Operating profit and operating profit after tax are provided as additional information to assist in the comparison of business trends in different reporting periods on a consistent basis, and enhance overall understanding of the AIA Group's current financial performance and prospects for the future. Operating profit and operating profit after tax form part of its results of operations presented in accordance with IFRS, but should not be considered a substitute for or superior to net profit presented in accordance with IFRS. In addition, the AIA Group's calculation of operating profit and operating profit after tax may be different from the calculation used by other companies, and therefore comparability may be limited.

Net Profit

Net profit is the profit for the year attributable to shareholders of AIA, after deducting taxes and non-controlling interests. The term "net profit" is used consistently with this meaning throughout this section "— Financial Information".

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial information requires the AIA Group to select accounting policies and make estimates and assumptions that affect items reported in the consolidated financial information. The AIA Group considers its critical accounting policies to be those accounting policies where a diverse range of accounting treatments is permitted by IFRS and significant judgments and estimates are required. The critical accounting policies adopted are described below.

Product Classification

IFRS 4, Insurance Contracts, requires contracts written by insurers to be classified either as insurance contracts or investment contracts, depending on the level of insurance risk. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. Some insurance and investment contracts, which the AIA Group refers to as participating business, have discretionary participation features ("DPF"), which may entitle the customer to receive, as a supplement to guaranteed benefits, additional non-guaranteed benefits, such as policyholder dividends or bonuses. The AIA Group applies the same accounting policies for the recognition and measurement of obligations arising from investment contracts with DPF as it does for insurance contracts.

Accordingly, the AIA Group performs a product classification exercise covering its portfolio of contracts to determine the classification of contracts to these categories. Product classification requires the exercise of significant judgment to determine whether there are scenarios (other than those lacking commercial substance) in which an insured event would require the AIA Group to pay significant additional benefits to its customers. In the event that it has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. For investment contracts that do not contain DPF, IAS 39, Financial Instruments: Measurement and Recognition, and, if the contract includes an investment management element, IAS 18, Revenue Recognition, are applied. IFRS 4 permits the continued use of previously applied accounting policies for insurance contracts and investment contracts with DPF, and this basis has been adopted by the AIA Group in accounting for such contracts.

The judgments exercised in determining the level of insurance risk deemed to be significant in product classification affect the amounts recognised in the AIA Group's consolidated financial information as insurance and investment contract liabilities and deferred acquisition and origination costs.

Insurance Contract Liabilities (including liabilities in respect of investment contracts with DPF)

IFRS 4 permits a wide range of accounting treatments to be adopted for the recognition and measurement of insurance contract liabilities, including liabilities in respect of insurance and investment contracts with DPF. The AIA Group calculates insurance contract liabilities for traditional life insurance using a net level premium valuation method, whereby the liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. This method uses best estimate assumptions adjusted for a provision for the risk of adverse deviation for mortality, morbidity, expected investment yields, policyholder dividends (for other participating business), surrenders and expenses set at the policy inception date. These assumptions remain locked in thereafter, unless a deficiency arises on liability adequacy testing. Interest rate assumptions can vary by country, year of issuance and product. Mortality, surrender and expense assumptions are based on actual experience by each geographical market, modified to allow for variations in policy form. The AIA Group exercises significant judgment in making appropriate assumptions.

For contracts with an explicit account balance, such as universal life and investment-linked contracts, insurance contract liabilities represent the accumulation value, which represents premiums received and investment returns credited to the policy less deductions for mortality and morbidity costs and expense charges. The AIA Group exercises significant judgment in making appropriate assumptions of estimated gross profits, which are also regularly reviewed by the AIA Group.

Participating business, consisting of contracts with DPF, is distinct from other insurance and investment contracts as the AIA Group has discretion as to either the amount or the timing of the benefits declared. In some geographical markets, participating business is written in a participating fund which is distinct from the other assets and liabilities of the operating unit or branch. The allocation of benefits from the assets held in such participating funds is subject to minimum policyholder participation mechanisms which are established by applicable regulations. The extent of such policyholder participation may change over time.

The AIA Group accounts for insurance contract liabilities for participating business written in participating funds by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon applicable regulations. Establishing these liabilities requires the exercise of significant judgment. In addition, the assumption that all relevant performance is declared as a policyholder dividend may not be borne out in practice. The AIA Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

The judgments exercised in the valuation of insurance contract liabilities (including contracts with DPF) affect the amounts recognised in the AIA Group's consolidated financial information as insurance contract benefits and insurance contract liabilities.

Deferred Policy Acquisition and Origination Costs

The costs of acquiring new insurance contracts, including commission, underwriting and other policy issue expenses, which vary with and are primarily related to the production of new business or renewal of existing business, are deferred as an asset. Deferred acquisition costs are subject to assessment of recoverability at the time of policy issue to ensure that these costs are recoverable out of the estimated future margins to be earned on the policy. Deferred acquisition costs ("DAC") are assessed for recoverability at least annually thereafter. Future investment income is also taken into account in assessing recoverability. To the extent acquisition costs are not considered to be recoverable at inception or thereafter, these costs are expensed in the consolidated income statement.

Deferred acquisition costs for traditional life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of

policy issue and are consistently applied throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

Deferred acquisition costs for universal life and investment-linked contracts are amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. The interest rate used to compute the present value of revised estimates of expected gross profits is based on the AIA Group's estimate of the investment performance of the assets held to match these liabilities. Estimated gross profits are revised regularly. Deviations of actual results from estimated experience are reflected in the AIA Group's earnings. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favourable investment performance, previously expensed acquisition costs are reversed, not exceeding the amount initially deferred.

The costs of acquiring investment contracts with investment management services, including commissions and other incremental expenses directly related to the issue of each new contract, are deferred and amortised in line with revenue generated by the investment management service provided. Such deferred origination costs are tested for recoverability at each reporting date. The costs of acquiring new investment contracts without investment management services are included as part of the effective interest rate used to calculate the amortised cost of the related investment contract liabilities.

The judgments exercised in the deferral and amortisation of policy acquisition and origination costs affect amounts recognised in the AIA Group's consolidated financial information as deferred acquisition and origination costs and insurance and investment contract benefits.

Liability Adequacy Testing

The AIA Group evaluates the adequacy of its insurance and investment contract liabilities at least annually. Liability adequacy is assessed by portfolio of contracts in accordance with its manner of acquiring, servicing and measuring the profitability of its insurance contracts. It performs liability adequacy testing separately for each geographical market.

For traditional life insurance contracts, the insurance contract liabilities, reduced by DAC and value of business acquired on acquired insurance contracts, are compared with the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortised balance of DAC and value of business acquired on insurance contracts are written down to the extent of the deficiency. If, after writing down DAC to nil (for the specific portfolio of contracts) a deficiency still exists, the net liability is increased by the amount of the remaining deficiency. No such deficiency arose in FY 2009, FY 2008 or FY 2007.

For universal life and investment contracts, DAC, net of unearned revenue liabilities, is compared to estimated gross profits. If a deficiency exists, the DAC asset is written down.

Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. The judgments exercised in liability adequacy testing affect amounts recognised in the AIA Group's consolidated financial information as commission and other acquisition expenses, DAC and insurance contract benefits and insurance and contract liabilities.

Financial Investments

Financial Investments at Fair Value Through Profit or Loss

The AIA Group designates financial assets at fair value through profit or loss if this eliminates or reduces an accounting mismatch between the recognition and measurement of its assets and liabilities, or if the related assets and liabilities are actively managed on a fair value basis. This is the case for:

- financial assets held to back investment-linked contracts and held by participating funds;
- financial assets managed on a fair value basis; and
- compound instruments containing an embedded derivative which would otherwise require bifurcation.

Available for Sale Financial Assets

The available for sale category of financial assets is principally used for the AIA Group's holding of shares in the AIG Group and its portfolio of debt securities (other than those backing participating fund liabilities and investment linked contracts). Available for sale financial assets are initially recognised at fair value plus attributable transaction costs and are subsequently measured at fair value. Changes in the fair value of available for sale securities, except for impairment losses and foreign exchange gains and losses on monetary items, are recorded in a separate fair value reserve within total equity, until such securities are disposed of.

The classification and designation of financial investments at fair value through profit or loss, or as available for sale, determines whether movements in fair value are reflected in the AIA Group's consolidated income statement or in its consolidated statement of comprehensive income respectively.

Fair Values of Financial Assets

The AIA Group determines the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions and values obtained from current bid prices of comparable investments. More judgment is used in measuring the fair value of financial assets for which market observable prices are not available or are available only infrequently. As of 30 November 2009, financial assets with a total fair value of USD15,163 million, or 22.0 per cent., of the AIA Group's financial investments, were valued based upon quoted prices in active markets, while financial assets with a total fair value of USD52,784 million, or 76.7 per cent. of its financial investments, were valued based on observable inputs other than market prices.

Changes in the fair value of financial assets held by the AIA Group's participating funds affect not only the value of financial assets, but are also reflected in corresponding movements in insurance and investment contract liabilities, as an insurance liability is recorded for the proportion of the net assets of the participating funds that would be allocated to policyholders if all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based on current local regulations. Both of the foregoing changes are reflected in the consolidated income statement.

Changes in the fair value of financial assets held to back the AIA Group's investment-linked contracts result in a corresponding change in insurance and investment contract liabilities. Both of the foregoing changes are also reflected in its consolidated income statement.

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment regularly. This requires the exercise of significant judgment. A financial investment is impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the investment. The AIA Group recognised impairment losses of USD67 million in FY 2009, USD142 million in FY 2008 and nil in FY 2007.

KEY PERFORMANCE INDICATORS

Overview

The AIA Group believes the following performance measures are the key indicators of its performance. The table below provides a breakdown of the key performance indicators of the AIA Group presented on a consistent basis for the three years ended 30 November 2009, followed by a brief description of each performance indicator.

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions, except ratios)		
TWPI.....	11,358	12,203	11,632

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions, except ratios)		
Investment income ⁽¹⁾	2,706	3,144	3,059
Operating expenses	962	1,089	981
Operating profit	1,742	1,943	1,835
Operating profit after tax	1,270	1,588	1,438
Net profit	1,914	408	1,754
Ratios ⁽²⁾ :			
Expense ratio	8.5%	8.9%	8.4%
Operating margin.....	15.3%	15.9%	15.8%
Operating return on allocated equity	13.7%	15.1%	12.0%
Net return on equity.....	14.7%	3.7%	14.7%

(1) Excludes investment income related to investment-linked contracts.

(2) Definitions of key performance indicators are set forth in the section headed "— Definitions of KPIs" below.

Year Ended 30 November 2009 Compared with Year Ended 30 November 2008

TWPI was USD11,632 million in FY 2009, a 4.7 per cent. decrease compared to FY 2008. This decrease was influenced by foreign currency movements; on a constant exchange rate basis, TWPI increased by 1.1 per cent. over the period. Renewal premiums represented 84.1 per cent. of TWPI in FY 2009 compared with 80.5 per cent. in FY 2008. Despite growth in most of its geographical markets, operating profit decreased 5.6 per cent. to USD1,835 million in FY 2009 compared with USD1,943 million in FY 2008, due to the effects of the depreciation of most of the currencies in the Asia Pacific region, other than the Renminbi, against the U.S. Dollar. Of the geographical markets in which the AIA Group operates, the most significant impact of local currency depreciation was in Korea, where the average Korean Won exchange rate depreciated against the U.S. Dollar by 22.9 per cent. between FY 2008 and FY 2009, from 1,047.12 Korean Won to 1 U.S. Dollar in FY 2008 to 1,287.00 Korean Won to 1 U.S. Dollar in FY 2009. On a constant exchange rate basis, the decrease in operating profit was 0.1 per cent. over the period. Factors affecting the profitability of each of the geographical markets are discussed in greater detail in "— Segmental Information" in this section. The AIA Group's expense ratio decreased to 8.4 per cent. in FY 2009 compared with 8.9 per cent. in FY 2008 due to expense reduction from operational efficiency initiatives, and in spite of further investments in strategic initiatives, such as broadening its distribution capability, which increased by 148.0 per cent. from USD25 million in FY 2008 to USD62 million in FY 2009. The AIA Group's operating margin was 15.8 per cent. in FY 2009, a slight decrease from 15.9 per cent. in FY 2008. Operating return on allocated equity declined to 12.0 per cent. in FY 2009 compared with 15.1 per cent. in FY 2008, primarily reflecting the growth of its capital base between FY 2008 and FY 2009, in the absence of significant dividends in FY 2009. Net profit increased by 329.9 per cent. to USD 1,754 million in FY 2009 compared with USD408 million in FY 2008, driven in part by the increase in non-operating investment return to a net positive of USD665 million in FY 2009 compared with a net negative of USD2,412 million in FY 2008. The increase in non-operating investment return in FY 2009 compared with FY 2008 contributed to a significant improvement in the AIA Group's net profit and its net return on equity, which increased to 14.7 per cent. in FY 2009 compared with 3.7 per cent. in FY 2008. Excluding the effects of its securities lending activities, from which it withdrew in FY 2009, the AIA Group's non-operating investment return would have been a net positive of USD802 million in FY 2009, compared with a net negative of USD2,325 million in FY 2008, its operating profit would have been USD1,851 million in FY 2009 and USD1,949 million in FY 2008, and its net profit would have been USD1,907 million in FY 2009, compared with a net profit of USD501 million in FY 2008.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

The aggregate increase in TWPI was 7.4 per cent. in FY 2008 from FY 2007. The biggest contributor to the AIA Group's TWPI was renewal premiums, representing 80.5 per cent. of TWPI in FY 2008, compared with 78.1 per cent. in FY 2007. Operating profit increased by 11.5 per cent. to USD1,943 million in FY 2008 from USD1,742 million in FY 2007, primarily due to an increase in renewal premiums and increased investment income, which collectively grew at a faster rate than the AIA Group's expense base, as well as the beneficial effect of a reinsurance recapture described below. Its expense ratio increased to 8.9 per cent. in FY 2008 compared with 8.5 per cent. in FY 2007 principally due to the effect of recapturing a portfolio of business previously reinsured to another company in the AIG Group and costs associated with strategic initiatives in certain geographical markets primarily associated with expanding the AIA Group's multi-channel distribution capability. The recapture was effective from 1 March 2008 and increased its operating expense ratio related to such business. Overall, the recapture was beneficial to the AIA Group in increasing operating profit by an estimated USD90 million in addition to generating non-operating income in FY 2008 of USD447 million. Following the AIG Events and the significant declines in the global capital markets during the fourth quarter of FY 2008, the AIA Group experienced a significant increase in policy surrenders in certain of its geographical markets. This generated surrender fee income which more than offset the acceleration of DAC amortisation relating to these surrendered policies. Net profit decreased 78.7 per cent. to USD408 million in FY 2008 from USD1,914 million in FY 2007. This decrease was principally a result of the adverse investment return of USD2,412 million caused by declines in market values compared with a net gain of USD837 million in FY 2007, partially offset by the increase in operating profit, a USD447 million gain arising on the reinsurance recapture, and the release of a withholding tax provision of USD275 million on the clarification of a tax treaty. Excluding the effect of the AIA Group's securities lending activities, from which it withdrew in FY 2009, its non-operating investment return would have been a net negative of USD2,325 million compared with a net positive of USD837 million in FY 2007, its operating profit would have been USD1,949 million in FY 2008 compared with USD1,742 million in FY 2007, and its net profit would have been USD501 million in FY 2008 compared with USD1,911 million in FY 2007.

Definition of KPIs

TWPI provides an indicative volume measure of revenue in the reporting period that has the potential to generate profits for shareholders. TWPI consists of 100 per cent. of renewal premiums, 100 per cent. of first year premiums and 10 per cent. of single premiums (referred to as weighted single premiums) across all lines of business. The AIA Group applies a factor of 10 per cent. to single premiums because such weighting makes the value of a single premium sale broadly equivalent to the same dollar amount of first year premiums. As such, it provides an indication of longer term business volumes by taking into account changes in the mix of regular and single premium business.

Investment income (excluding investment income related to investment-linked contracts) is one of the key drivers of the AIA Group's profitability, and affects to a significant extent its ability to meet its obligations under its policies and offer attractive returns to its policyholders and shareholders. Investment income has been presented excluding investment income related to investment-linked contracts as investment income from these contracts is not attributable to its shareholders. Investment income includes interest, dividend and rental income.

Operating expenses is used as a key measure at the group level and in each geographical market to monitor and manage operational efficiency, which is one of the critical factors driving the AIA Group's profitability.

Operating profit measures the AIA Group's ability to generate earnings from its operations before tax expense, and is a key measure of the underlying profitability of its operations.

Operating profit after tax measures its ability to generate earnings from its operations for the shareholders of AIA, after tax expense and deducting non-controlling interests.

Net profit, consisting of profit for the year after tax, attributable to shareholders of AIA, measures profitability, including non-operating items.

Expense ratio measures the AIA Group's ability to manage its cost base as it grows its business. Expense ratio represents operating expenses as a percentage of TWPI.

Operating margin measures the operating profitability of the AIA Group's business relative to the volume of the business it generates. Operating margin is calculated as operating profit as a percentage of TWPI.

Operating return on allocated equity measures the efficiency of use of capital in operations. Operating return on allocated equity is calculated as operating profit after tax attributable to shareholders of AIA, expressed as a simple average of opening and closing total equity attributable to shareholders of AIA, less the fair value and foreign currency translation reserves, and adjusted for subordinated intercompany debt. Both operating margin and operating return on allocated equity are influenced to an extent by the level of surplus capital retained at each operating unit and on a group wide basis as any such surplus capital retained may earn investment returns.

Net return on equity measures AIA's ability to generate returns for its shareholders. Net return on equity is calculated as net profit attributable to shareholders of AIA as a percentage of average total equity attributable to shareholders of AIA, which is a simple average of the opening and closing balances.

RESULTS OF OPERATIONS

The table below provides a summary of the results of operations for the AIA Group presented on a consistent basis for the three years ended 30 November 2007, 2008 and 2009. The AIA Group presents certain financial information on a constant exchange rate basis to facilitate a comparison of year-on-year performance without the impact of movements in the functional currencies of its operating units against the U.S. dollar, and where applicable this is explicitly stated.

Selected Results of Operations

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI	11,358	12,203	11,632
Net premiums, fee income and other operating revenue (net of reinsurance ceded).....	8,817	10,361	10,173
Investment income ⁽¹⁾	2,706	3,144	3,059
Total revenue	11,523	13,505	13,232
Net insurance and investment contract benefits ⁽²⁾	7,586	8,630	8,624
Commission and other acquisition expenses	947	1,563	1,648
Operating expenses.....	962	1,089	981
Investment management expenses and finance costs ⁽³⁾	286	252	123
Total expenses	9,781	11,534	11,376
Share of loss from associates and joint ventures	—	(28)	(21)
Operating profit	1,742	1,943	1,835
Tax on operating profit	(461)	(348)	(392)
Sub-total	1,281	1,595	1,443
Less: amounts attributable to non-controlling interests	(11)	(7)	(5)
Operating profit after tax ⁽⁴⁾	1,270	1,588	1,438

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
Operating profit may be reconciled to net profit as follows:			
Operating profit	1,742	1,943	1,835
Add: non-operating investment return(5)	837	(2,412)	665
Add: non-operating item — gain on recapture of reinsurance from former parent company	—	447	—
Add: non-operating item — restructuring and separation costs	—	(10)	(89)
Profit/(loss) before tax	2,579	(32)	2,411
Tax on operating profit	(461)	(348)	(392)
Add: tax on non-operating items	(190)	518	(262)
Add: other non-operating tax items	—	275	—
Tax (expense)/credit	(651)	445	(654)
Sub-total	1,928	413	1,757
Less: amounts attributable to non-controlling interests	14	5	3
Net profit⁽⁴⁾	1,914	408	1,754

(1) Excludes investment income related to investment-linked contracts.

(2) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds and investment income related to investment-linked contracts.

(3) Excludes investment management expenses related to investment-linked contracts.

(4) Operating profit after tax and net profit are amounts attributable to shareholders of AIA, excluding amounts attributable to non-controlling interests.

(5) Non-operating investment return consists of investment experience, investment income related to investment-linked contracts, corresponding changes in insurance and investment contract liabilities for investment-linked contracts and participating funds and changes in third party interests in consolidated investment funds.

Selected Balance Sheet Information

	As of 30 November		
	2007	2008	2009
	(in US\$ millions)		
Assets			
Deferred acquisition and origination costs	10,044	10,047	10,976
Financial investments.....	70,630	55,324	73,480
Assets — other than the above	7,518	6,638	6,203
Total assets	88,192	72,009	90,659
Liabilities			
Insurance and investment contract liabilities	63,666	57,056	71,035
Borrowings.....	1,461	661	688
Obligations under securities lending and repurchase agreements	5,395	2,718	284
Liabilities — other than the above	4,179	2,656	3,663
Total liabilities	74,701	63,091	75,670
Equity			
Issued share capital and shares yet to be issued, share premium and other reserves	699	1,434	1,878
Retained earnings	9,431	9,494	11,223

	As of 30 November		
	2007	2008	2009
	(in US\$ millions)		
Allocated equity	10,130	10,928	13,101
Amounts reflected in other comprehensive income	3,310	(2,020)	1,837
Total equity attributable to shareholders of AIA	13,440	8,908	14,938
Non-controlling interests	51	10	51
Total equity	13,491	8,918	14,989
Total liabilities and equity	88,192	72,009	90,659

Year Ended 30 November 2009 Compared with Year Ended 30 November 2008

Discussion of Selected Results of Operations

TWPI

The table below analyses TWPI by premium type and by product line for the periods indicated.

	Year ended 30 November 2008			
	Renewal premium	First year Premium	Weighted single premium	TWPI
	(in US\$ millions)			
TWPI includes:				
Ordinary individual life insurance.....	6,651	761	27	7,439
Investment-linked insurance products.....	1,526	831	175	2,532
Standalone A&H.....	1,077	348	1	1,426
Group.....	530	165	9	704
Other.....	43	14	45	102
Total	9,827	2,119	257	12,203
	Year ended 30 November 2009			
	Renewal premium	First year Premium	Weighted single premium	TWPI
	(in US\$ millions)			
TWPI includes:				
Ordinary individual life insurance.....	6,342	884	58	7,284
Investment-linked insurance products.....	1,741	295	33	2,069
Standalone A&H.....	1,089	261	1	1,351
Group.....	573	293	10	876
Other.....	34	11	7	52
Total	9,779	1,744	109	11,632

The 4.7% decrease in TWPI between FY 2009 and 2008 was influenced by foreign currency movements. On a constant exchange rate basis, TWPI increased 1.1% over the period led by a 5.0% increase in renewal premiums. Renewal premiums contributed 84.1% to the AIA Group's TWPI in FY 2009, up from 80.5% in FY 2008.

The trend in TWPI was also impacted by the fall in first year premiums of USD375 million, or 17.7% (10.3% on a constant exchange rate basis), which the AIA Group believes was mainly due to the impact of the global financial crisis and the AIG Events. New business activity recovered in the second half of FY 2009, with first year premiums and weighted single premiums growing at 33.4% and 93.5%, respectively, between the first and second halves of FY 2009. Most of the AIA Group's geographical markets experienced this improvement in first year premiums in the second half of FY 2009, with Hong Kong and Thailand leading with higher sales of ordinary individual life insurance.

Ordinary individual life insurance premiums decreased 2.1% to USD7,284 million in FY 2009 from USD7,439 million in FY 2008. On a constant exchange rate basis, TWPI for ordinary individual life increased 2.6%, led by strong growth in first year premiums and single premiums of 23.0% and 125.3%, respectively, in FY 2009. The growth in first year premiums was particularly evident in Hong Kong (growth of USD136 million or 142.0%), Thailand (growth of USD32 million, or 11.7% on a constant exchange rate basis), China (growth of USD24 million, or 31.1% on a constant exchange rate basis). The growth in single premiums was led by Singapore (USD121 million or 126.6% on a constant exchange rate basis), China (USD118 million or 1,050.2% on a constant exchange rate basis) and Hong Kong (USD97 million, or 2,332.0% on an actual exchange rate basis). These positive trends were muted by a decline in Korea, where renewal premiums fell by USD24 million, or 3.9% on a constant exchange rate basis, and Other Markets, decline of USD17 million or 3.2% on a constant exchange rate basis. A&H riders on ordinary individual life insurance policies are included within the ordinary individual life product line and account for approximately 20% of premium income for FY 2009, as compared with 18% in FY 2008. Overall, ordinary individual life assurance accounted for 62.6% of TWPI in FY 2009, as compared to 61.0% in FY 2008, as the AIA Group focused on providing protection based products to its customers, given the recent economic uncertainties.

Investment-linked insurance premiums decreased 18.3% to USD2,069 million from USD2,532 million in FY 2008. Despite a 13.2% decrease on a constant exchange rate basis, most Key Markets experienced increases in renewal premiums for investment-linked products. This trend was consistent with FY 2008 which also saw growth in renewal premiums. This was offset by a fall in first year premiums for investment-linked products led by Korea (decrease of USD239 million or 59.0% on a constant exchange rate basis), Hong Kong (decrease of USD183 million or 64.3%) and Singapore (decrease of USD13 million or 38.1% on a constant exchange rate basis). The AIA Group believes this reflected customers' reluctance to commit to new investment-linked savings products due to the uncertain economic outlook and equity capital market volatility. With improving economic conditions at the end of 2009, the AIA Group experienced an increase in sales of investment-linked products in the last quarter of FY 2009.

Standalone A&H insurance premiums decreased 5.3% to USD1,351 million in FY 2009 from USD1,426 million in FY 2008, but increased 6.4% on a constant exchange rate basis. The AIA Group experienced a decrease in first year premiums of 25.0%, or 15.9% on a constant exchange rate basis, mainly attributable to its Korean operations, the results of which were adversely affected in the first half of 2009 by their association with the AIG brand, prior to re-branding as AIA Life Korea in May 2009, as well as by the effects of the depreciation of the Korean Won. Despite this, the AIA Group's renewal premiums grew 1.1% (or 13.6% on a constant exchange rate basis) from USD1,077 million in FY 2008, to USD1,089 million in FY 2009, growing on a constant exchange rate basis in all reporting segments. On a constant exchange rate basis, this growth was led by Korea at USD73 million, or 15.3%, Other Markets at USD18 million or 21.3%, China at USD16 million or 14.9% and Hong Kong at USD11 million or 9.2%.

Group insurance premiums continued an upward trend from FY 2008, increasing by 24.4% to USD876 million in FY 2009 from USD704 million in FY 2008. On a constant exchange rate basis the increase was 31.9%. China and Other Markets were the main contributors to this increase, growing at 52.6% and 59.6%, respectively, between FY 2008 and 2009. The AIA Group's operations in Australia, part of the Other Markets segment, continued to experience strong growth in group products, with TWPI for this product line increasing 69.6% year-on-year. Australia represented 45.3% of total TWPI with respect to group premiums in FY 2009 as compared to 33.2% in FY 2008, due mainly to the acquisition of a number of large new corporate accounts during FY 2009.

Other product lines, which include annuities and personal lines, collectively decreased to USD52 million in FY 2009 compared to USD98 million in FY 2008 largely due to the effects of foreign exchange and a decrease in Korean annuities business during FY 2009.

Net Premiums, Fee Income and Other Revenues

	Year ended 30 November	
	2008	2009
	(in US\$ millions)	
Net premiums.....	9,416	9,275
Fee income	866	827
Other revenues.....	79	71
Total.....	10,361	10,173

Net premiums, fee income and other revenues, which are stated net of reinsurance ceded, decreased 1.8% to USD10,173 million in FY 2009 from USD10,361 million in FY 2008. The decrease was primarily due to the effect of the depreciation of most of the currencies in the Asia Pacific region, other than Renminbi, against the U.S. Dollar. On a constant exchange rate basis, net premiums, fee income and other revenues increased 4.0%, consistent with a 5.0% increase on a constant exchange rate basis in renewal premiums, which represent a substantial portion of the AIA Group's premium income.

Premiums ceded to reinsurers amounted to USD331 million in FY 2009 compared with USD392 million in FY 2008. This primarily reflects a reduction in amounts ceded to reinsurers by the Hong Kong segment as the reinsurance recapture discussed further in "— Factors Affecting Certain Geographical Markets in 2008" below took place at the end of the first quarter of FY 2008 (so the AIA Group ceded such premiums for one quarter of FY 2008), partially offset by an increase in amounts ceded to reinsurers by the Other Markets segment, reflecting the growth in the Group business product line in FY 2009.

Fee income decreased 4.5% to USD827million in FY 2009 from USD866 million in FY 2008 in line with lower sales of investment-linked products during FY 2009 whilst annual management charges increased, reflecting the growth in assets under management during FY 2009. Other revenues, which mainly comprise asset management fees on pension business, remained relatively stable during the period.

Investment Income

	Year ended 30 November	
	2008	2009
	(in US\$ millions)	
Investment income⁽¹⁾		
Interest income.....	2,900	2,870
Dividend income.....	181	122
Rental income.....	63	67
Total.....	3,144	3,059

(1) Excludes investment income related to investment-linked contracts.

Investment income, consisting of interest, dividends and rental income, excluding investment income related to investment-linked contracts, decreased marginally to USD3,059 million in FY 2009 from USD3,144 million in FY 2008. A significant proportion of the AIA Group's assets are invested in fixed income government securities and investment grade corporate bonds.

Interest income fell to USD2,870 million in FY 2009 from USD2,900 million in FY 2008 mainly due to holding a larger proportion of the investment portfolio in cash throughout FY 2009. In addition, interest income and fees derived

from securities lending decreased to USD23 million in FY 2009 from USD103 million in FY 2008 as the AIA Group withdrew from such activities during the year.

Dividend income decreased to USD122 million in FY 2009 from USD181 million in FY 2008 due to lower yields from the AIA Group's equity portfolio primarily due to a reduction in dividends in response to challenging economic conditions in FY 2009.

Net Insurance and Investment Contract Benefits

	Year ended 30 November	
	2008	2009
	(in US\$ millions)	
Net insurance and investment contract benefits⁽¹⁾		
Insurance contract benefits.....	5,402	5,375
Net change in insurance and investment contract liabilities.....	3,476	3,500
Insurance and investment contract benefits	8,878	8,875
Insurance and investment contract benefits ceded	(248)	(251)
Total.....	8,630	8,624

(1) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds and investment income related to investment-linked contracts.

Net insurance and investment contract benefits (excluding corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds, and investment income related to investment-linked contracts) reflect the cost of all maturities, surrenders, withdrawals and claims arising during the reporting period and the net movement in the associated liabilities as a result of new business, benefit payments and changes to expected future benefits payable to policyholders, excluding investment-linked contracts and participating funds.

The investment risk in respect of investments held to back investment-linked contracts is wholly borne by policyholders. This means that any increase or decrease in the value of investments held to back such contracts is matched by the same movement in insurance and investment contract benefits and there is no impact to the AIA Group's result, except as regards the asset management and other fees earned by the AIA Group which are based on the account balance of these contracts.

Because investment-linked contract benefits are based on the investment return on the invested assets underlying such contracts, including them in the presentation of net insurance and investment contract benefits would subject the AIA Group's financial results to significant fluctuations due to market volatility, such as in FY 2008, which the AIA Group believes adversely affects an investor's ability to easily compare its period to period operating results. For these reasons the AIA Group chooses to present net insurance and investment contract benefits (excluding investment-linked contracts) as this is consistent with the basis on which it measures operating profit. Net insurance and investment contract benefits, including investment-linked contracts and participating funds, would have been USD10,363 million, USD1,209 million and USD13,563 million in FY 2007, FY 2008 and FY 2009 respectively had the AIA Group not adopted this presentation.

Net insurance and investment contract benefits, excluding corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds and investment income related to investment-linked contracts, were largely stable between FY 2009 and 2008. The increase in surrender activity that the AIA Group saw in the fourth quarter of FY 2008 abated during FY 2009. For further details please see "— Significant Events Affecting 2009."

The movement in insurance and investment contract benefits (excluding corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds, and investment income related to investment-linked contracts) for FY 2009 was largely due to growth in the in-force portfolio in Hong Kong and China, offsetting declines in Korea and Malaysia, with the balance of the portfolio largely stable.

Commission and Other Acquisition Expenses

	Year ended 30 November	
	2008	2009
	(in US\$ millions)	
Commission and other acquisition expenses		
Commission and other acquisition expenses incurred.....	2,269	1,855
Deferral and amortisation of acquisition costs.....	(706)	(207)
Total	1,563	1,648

Commission and other acquisition expenses incurred decreased due to weaker sales activity in the first half of 2009, particularly in Korea, resulting in an overall decrease to USD1,855 million in FY 2009 from USD2,269 million in FY 2008.

Deferral and amortisation of acquisition costs fell to USD207 million in FY 2009 from USD706 million in FY 2008. This decrease was attributable to the beneficial effects of lower amortisation of DAC and deferred origination costs, principally in Hong Kong, Singapore and Malaysia, due to an increase in assets under management in FY 2009.

This decrease was partially offset by a revision of persistency assumptions in respect of investment-linked and variable universal life policies in Korea of USD91 million where the AIA Group experienced higher than anticipated surrenders and premium holidays in FY 2009.

Operating Expenses

	Year ended 30 November	
	2008	2009
	(in US\$ millions)	
Operating expenses		
Operating expenses excluding strategic initiative expenses.....	1,064	919
Strategic initiative expenses	25	62
Total.....	1,089	981

Operating expenses excluding strategic initiative expenses decreased 13.6% to USD919 million in FY 2009 from USD1,064 million in FY 2008 primarily due to active control of day-to-day operational expenses, reductions based on operational efficiency initiatives undertaken in FY 2008 and the beneficial effects of foreign exchange. In addition, the AIA Group's operating expenses in FY 2008 included certain period specific items, which are discussed in greater detail for each segment under "— Segmental Information" in this section.

Strategic initiative expenses, which consist of expenses relating to enhancing the AIA Group's growth initiatives, such as distribution capability and operational efficiency and other initiatives administered by the AIA Group's

Strategic Initiative Office, increased 148.0% between FY 2008 and FY 2009, and represented 6.3% of total operating expenses in FY 2009 compared with 2.3% in FY 2008.

Investment Management Expenses and Finance Costs

	Year ended 30 November	
	2008	2009
	(in US\$ millions)	
Investment management expenses and finance costs⁽¹⁾ :		
Investment management expenses	93	73
Finance costs	159	50
Total.....	252	123

(1) Excludes investment management expenses related to investment-linked contracts.

Investment management expenses and finance costs decreased significantly to USD73 million and USD50 million, respectively, in FY 2009 from USD93 million and USD159 million, respectively, in FY 2008, primarily resulting from the withdrawal from securities lending activities during FY 2009 and lower finance costs due to a reduction in interest rates and a scheduled reduction in operational borrowings, principally a term loan facility financing the group office in Hong Kong. Finance costs associated with securities lending activities decreased to USD39 million in FY 2009 from USD109 million in FY 2008.

Operating Profit

Operating profit fell 5.6% to USD1,835 million in FY 2009 compared with USD1,943 million in FY 2008, despite an improvement in operating profit in local currency terms in most of the reporting segments. This decrease was mainly due to the effects of depreciation in average local currency to U.S. Dollar exchange rates, in particular the depreciation of the Korean Won. On a constant exchange rate basis, operating profit decreased 0.1% over the period. The AIA Group's operating profit in FY 2008 was also bolstered by the net positive contribution of surrender fee income of USD64million following the AIG Events in the last quarter of FY 2008. Excluding the effect of the increase in surrender fee income, the operating margin for FY 2008 of 15.9% would have been 15.4%, representing an improvement from FY 2007 but marginally lower than the operating margin in FY 2009 of 15.8%.

In addition, the operating profit of the operations in Korea and Thailand declined to USD81 million and USD358 million, respectively, in FY 2009 from USD281 million and USD424 million, respectively, in FY 2008. Factors affecting the profitability of the Korean and Thailand operations are discussed in greater detail in "— Segmental Information" in this section.

Excluding the effects of securities lending activities from which the AIA Group withdrew in FY 2009, operating profit would have been USD1,851 million in FY 2009, compared with USD1,949 million in FY 2008.

Tax Expenses on Operating Profit

The AIA Group operates in 15 principal jurisdictions, each with its own tax regime, and the change in the tax expense (or credit) from one year to the next is affected by changes in the mix of income by jurisdiction. The tax expense on operating profit in FY 2009 was largely in line with the prior fiscal year, excluding the impact of tax changes, as the tax charge for FY 2008 reflected the benefit of a USD41 million tax credit arising from changes in tax laws in Malaysia and Korea.

Profit/(Loss) Before Tax

Profit before tax increased significantly to USD2,411 million in FY 2009 compared with a loss before tax of USD32 million in FY 2008, mainly reflecting stable operating profit and the recovery in equity markets which led to a strongly positive non-operating investment return.

Non-operating investment return improved to a net positive of USD665 million in FY 2009 from a net negative of USD2,412 million in FY 2008. The main contributor to the improvement in non-operating investment return was net fair value gains of USD568 million on Thai equity securities.

The improvement in profit before tax was also attributable to lower impairment losses in respect of available for sale debt securities of USD67 million in FY 2009, compared with USD142 million in FY 2008.

Income Tax

	Year ended 30 November	
	2008	2009
	(in US\$ millions)	
Current income tax.....	401	321
Deferred income tax		
Temporary differences.....	(571)	333
Release of withholding tax provision.....	(275)	—
Tax (credit)/expense.....	(445)	654
Of which:		
Tax (credit)/expense attributable to policyholders' returns.....	(90)	137
Tax (credit)/expense attributable to shareholders' profit.....	(355)	517
	(445)	654

The AIA Group's tax expense may be analysed in two components: the tax charged on shareholders' profits of USD517 million in 2009 compared with a tax credit of USD355 million in FY 2008, and the tax that the AIA Group bears on behalf of its participating policyholders of USD137 million in FY 2009 compared with a tax credit of USD90 million in FY 2008. The tax charged on shareholders' profits plus the tax expense attributable to policyholders' returns total to a tax expense of USD654 million in FY 2009, as compared with a tax credit of USD445 million in FY 2008.

The tax on shareholders' profits for FY 2009 reflected factors affecting the tax charge on operating profit discussed above whereas the tax credit in FY 2008 included the effects of a release of a provision for withholding tax of USD275 million. Tax attributable to policyholders' returns reflects gains and losses arising in participating funds, and so does not directly relate to net profit. The tax expense on operating profit may be reconciled to the tax expense for the year by adding the tax on non-operating items, primarily non-operating investment return and non-operating expense items, and the release of the provision for withholding tax in FY 2008.

Net Profit

Net profit increased by 329.9% to USD1,754 million in FY 2009 as compared with USD408 million in FY 2008. This increase largely reflected the after-tax effect of a significant improvement in non-operating investment return of positive USD403 million in FY 2009 compared to a loss after tax of USD1,894 million in FY 2008. Included in net profit is USD89 million of non-operating restructuring and separation costs in FY 2009, compared with USD10 million in FY 2008.

Excluding the effects of securities lending, from which the AIA Group withdrew in FY 2009, and restructuring and separation expenses, net profit would have been USD1,996 million in FY 2009, as compared with USD511million in FY 2008.

Significant Events Affecting FY 2009

During FY 2009 the AIA Group withdrew from securities lending activities. The AIA Group earned interest income and fees from securities lending activities of USD23 million, and in addition it incurred finance costs consisting of interest expense on its related obligations of USD39 million and recorded net realised losses on disposal of USD137 million, in FY 2009. During FY 2008 the AIA Group earned interest income and fees of USD103 million and incurred finance costs of USD109 million, with realised losses of USD87 million, including impairment losses of USD52 million. In FY 2007 it earned interest income and fees from securities lending of USD136 million and incurred finance costs of USD133 million. The lower interest income and finance costs in FY 2009, reflected the gradual wind down of the AIA Group's securities lending activities during the year. As of 30 November 2009, the AIA Group had ceased all securities lending activities and had repaid all obligations under securities lending agreements, whereas as of 30 November 2008, it held financial investments with a carrying value of USD1,480 million and cash of USD160 million in connection with its securities lending activities and had obligations under securities lending and repurchase agreements of USD1,963 million. The balance of USD284 million as of 30 November 2009 shown in the line item "Obligations under securities lending and repurchase agreements" is entirely in respect of the AIA Group's outstanding repurchase agreements. The cumulative effect of its securities lending activities was a loss of USD153 million in FY 2009, a loss of USD93 million in FY 2008 and a profit of USD3 million in FY 2007, giving a cumulative loss of USD243 million during the track record period. Excluding the effects of securities lending, the AIA Group's operating profit would have been USD1,851 million in FY 2009, USD1,949 million in FY 2008 and USD1,739 million in FY 2007, and its net profit would have been USD1,907 million in FY 2009, USD501 million in FY 2008 and USD1,911 million in FY 2007.

During the fourth quarter of FY 2008, the AIA Group observed a sudden increase in surrender activity following the AIG Events while the AIA Group's month-on-month persistency, measuring the proportion of customers who continue to pay their premiums declined significantly, recovering moderately to 89.3% in November 2008, compared with 93.9% at the start of FY 2008. Surrenders peaked at over USD250 million in September 2008. Persistency has since recovered during FY 2009, reaching 95.1%, above the level at the start of FY 2008, with surrenders of less than USD75 million in both October and November 2009. New business activity has also increased significantly in the second half of FY 2009.

During FY 2009, the AIA Group entered into a strategic exclusive bancassurance joint venture in the Philippines with BPI, in which Philamlife acquired a 51% interest in Ayala Life, the life insurance subsidiary of BPI, and entered into a bancassurance distribution agreement with BPI. The total consideration paid by Philamlife was USD39 million. This amount is subject to purchase price adjustment, estimated to be USD7 million, based on the adjusted net worth as at the date of acquisition. As the acquisition took place immediately before the end of the AIA Group's financial year, there was no impact on the results of operations in FY 2009.

During FY 2009, the AIA Group sold its 60% interest in PT Asuransi AIA Indonesia, its joint venture operation in Indonesia, for USD65 million, giving rise to a loss on disposal of USD29 million before tax. Its results of operations are consolidated into its financial results for only nine months of FY 2009 prior to sale. The AIA Group continues to operate in Indonesia through its wholly owned subsidiary, PT AIA Financial. Both of these transactions are discussed in "— Segmental Information — Other Markets" in this section.

Discussion of Selected Balance Sheet Information

Assets

The AIA Group's total assets grew 25.9% to USD90,659 million as of 30 November 2009 from USD72,009 million as of 30 November 2008, primarily reflecting a recovery in the market values of its financial investments, the majority of which are carried at fair value.

The table below sets forth the AIA Group's financial investments by asset class based on how they are accounted for as of the dates indicated.

As of 30 November

	2008						2009		
	Policyholder and shareholder		Investment-linked	Total	Policyholder and shareholder		Investment-linked	Total	
	Other policyholder and shareholder	Participating funds			Other policyholder and shareholder	Participating funds			
	(in US\$ millions)								
Financial investments includes:									
Debt securities									
Available for sale ..	29,934	—	—	29,934	37,722	—	—	37,722	
At fair value through profit or loss.....	852	10,070	1,467	12,389	944	11,809	1,726	14,479	
Total debt securities	30,786	10,070	1,467	42,323	38,666	11,809	1,726	52,201	
Equity securities									
Available for sale ..	87	—	—	87	62	—	—	62	
At fair value through profit or loss.....	1,855	1,123	5,682	8,660	2,827	2,209	11,080	16,116	
Total equity securities	1,942	1,123	5,682	8,747	2,889	2,209	11,080	16,178	
Loans and receivables.....	2,906	986	110	4,002	3,598	942	108	4,648	
Derivative financial instruments	165	87	—	252	213	240	—	453	
Total financial investments....	35,799	12,266	7,259	55,324	45,366	15,200	12,914	73,480	

All debt and equity securities are carried at fair value and, consequently, the values reported in the AIA Group's financial information reflect current market values as of the end of each reporting period. The carrying value of its financial investments increased to USD73,480 million as of 30 November 2009 compared with USD55,324 million as of 30 November 2008, driven by a recovery in equity markets during the second half of 2009 and as credit spreads narrowed and risk free interest rates fell and as the inflow of new funds more than offset outflows during the year.

Financial investments held to back other policyholder and shareholder liabilities (shown in the column "Other policyholder and shareholder"), which consist mainly of fixed income debt securities, increased to USD45,366

million as of 30 November 2009 compared with USD35,799 million as of 30 November 2008. Despite disposals made during FY 2009, including the sale of USD1,840 million of debt securities previously held as collateral in connection with the AIA Group's securities lending activities, impairments of USD67 million and net realised losses of USD162 million and the effects of foreign exchange, the fair value of other policyholder and shareholder debt securities increased 25.6% to USD38,666 million reflecting a recovery in the market values of these securities and a net increase in invested funds. The recovery in the market value of available for sale financial assets is reflected in the fair value reserve which increased to USD1,528 million as of 30 November 2009 from a net negative position of USD1,565 million as of 30 November 2008.

Financial investments held in respect of participating funds (shown in the column "Participating funds") increased to USD15,200 million as of 30 November 2009 from USD12,266 million as of 30 November 2008.

During FY 2009, as equity markets improved, investment-linked assets under management grew USD5,655 million, net of new funds invested. The AIA Group's investment-linked contract holders benefit from changes in the market value of financial investments backing investment-linked contracts (shown in the column "Investment-linked") and therefore these changes do not directly affect net profit, except for asset management fees earned on account balances.

The AIA Group held debt securities with a fair value of USD52,201 million as of 30 November 2009 compared with USD42,323 million as of 30 November 2008, despite disposals made during FY 2009, including USD1,840 million of debt securities previously held as collateral under the AIA Group's securities lending programme. Government bonds and bonds issued by government agencies comprised a substantial proportion of the AIA Group's fixed income debt portfolio, representing 49.6% of its debt securities as of 30 November 2009 as compared with 53.0% as of 30 November 2008. Investment-grade corporate bonds and investment-grade structured securities accounted for 47.1% of debt securities as of 30 November 2009, as compared with 44.0% as of 30 November 2008.

The AIA Group's equity securities had a fair value of USD16,178 million as of 30 November 2009 compared with USD8,747 million as of 30 November 2008 mainly as a result of a recovery in asset prices and a net inflow of new funds. Equity securities held in respect of investment-linked contracts accounted for a significant proportion of its overall holdings of equity securities – 68.5% as of 30 November 2009 and 65.0% as of 30 November 2008. The AIA Group's investment-linked contract holders receive the benefit of positive movements in the market value of the securities held to back investment-linked contracts. Of the increase in the carrying value of the AIA Group's equity securities between FY 2008 and FY 2009 of USD7,431 million, USD5,398 million is attributable to investments held to back investment-linked contracts. This amount is credited to the value of the policies held by the AIA Group's investment-linked contract holders.

The AIA Group's loans and receivables outstanding were USD4,648 million as of 30 November 2009 compared with USD4,002 million as of 30 November 2008. This increase was mainly attributable to an increase in policy loans of USD207 million and an increase in term deposits of USD236 million between FY 2009 and FY 2008.

Within the AIA Group's assets — other than the above, cash and cash equivalents decreased to USD3,405 million as at 30 November 2009, compared with USD4,164 million as at 30 November 2008, reflecting the gradual re-risking of the AIA Group's portfolio at the end of FY 2009.

Liabilities

	Year ended 30 November	
	2008	2009
	(in US\$ millions)	
Insurance and investment contract liabilities	57,056	71,035
Borrowings	661	688
Obligations under securities lending and repurchase agreements	2,718	284
Liabilities — other than the above	2,656	3,663

	Year ended 30 November	
	2008	2009
	(in US\$ millions)	
Total liabilities	63,091	75,670

Total liabilities increased 19.9% to USD75,670 million as of 30 November 2009 compared with USD63,091 million as of 30 November 2008 mainly due to higher insurance and investment contract liabilities. The increased insurance and investment contract liabilities resulted from growth in the in-force portfolio and investment returns accrued on participating funds as of 30 November 2009 which increased from USD12,266 million as of 30 November 2008 to USD15,200 million as of 30 November 2009. The increase in investment contract liabilities comprises the investment return on matching assets, net deposits or withdrawals and fees and expenses charged against account balances.

The AIA Group's borrowings, which comprise mainly bank overdrafts and a term loan facility financing its group office building in Hong Kong, remained largely unchanged at USD688 million in FY 2009 compared with USD661 million in FY 2008. The AIA Group's capital base is comprised solely of shareholders equity and it had no structural borrowings, hybrid capital, loan notes or commercial paper in issue as of 30 November 2009. The marginal increase in bank borrowings was more than offset by the significant decrease in the AIA Group's obligations under its securities lending and repurchase agreements, which fell to USD284 million in FY 2009 compared with USD2,718 million in FY 2008, as the AIA Group wound down and withdrew from its securities lending programme in November 2009.

Liabilities — other than the above increased to USD3,663 million compared with USD2,656 million in FY 2008 mainly reflecting an increase in deferred tax liabilities of USD540 million during FY 2009.

Equity

Total equity attributable to shareholders of AIA Group increased 67.7% to USD14,938 million as of 30 November 2009 compared to USD8,908 million as of 30 November 2008. This mainly reflected an increase in retained earnings, recovery in the fair value of the AIA Group's available for sale financial investments and foreign exchange movements, which together contributed to an increase in other comprehensive income from negative USD2,020 million as of 30 November 2008 to positive USD1,837 million as of 30 November 2009.

The AIA Group's equity reflects a capital contribution of USD438 million from AIG during FY 2009, primarily in relation to separation activities linked to the withdrawal from the securities lending programme, reimbursement of other separation costs, and consideration for the sale of its investment management operations to AIG and the disposal of other entities to third parties.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

Discussion of Selected Results of Operations

TWPI

The table below analyses TWPI by premium type and by product line for the periods indicated.

	Year ended 30 November 2007			
	Renewal premium	First year premium	Weighted single premium	TWPI
	(in US\$ millions)			
TWPI includes:				
Ordinary individual life insurance	6,397	796	23	7,216
Investment-linked insurance products.....	1,130	814	279	2,223
Standalone A&H	906	397	1	1,304
Group.....	398	97	7	502
Other	43	12	58	113
Total.....	8,874	2,116	368	11,358

	Year ended 30 November 2008			
	Renewal premium	First year premium	Weighted single premium	TWPI
	(in US\$ millions)			
TWPI includes:				
Ordinary individual life insurance	6,651	761	27	7,439
Investment-linked insurance products.....	1,526	831	175	2,532
Standalone A&H	1,077	348	1	1,426
Group.....	530	165	9	704
Other	43	14	45	102
Total.....	9,827	2,119	257	12,203

TWPI increased 7.4 per cent. to USD12,203 million in FY 2008 from USD11,358 million in FY 2007, increasing 6.7 per cent. on a constant exchange rate basis.

A significant portion of the AIA Group's business is on a regular premium basis, representing 80.5 per cent. of TWPI in FY 2008, compared with 78.1 per cent. of TWPI in FY 2007. The AIA Group experienced an increase in TWPI across its major product lines in FY 2008 compared with FY 2007, with renewal premiums providing the biggest contribution to the increase.

Ordinary individual life insurance premiums increased 3.1 per cent. to USD7,439 million in FY 2008 from USD7,216 million in FY 2007. On a constant exchange rate basis, the increase was 1.1 per cent. A&H riders on ordinary life insurance policies are included within the ordinary individual life insurance product line and account for approximately 18 per cent. of premium income for FY 2008. The AIA Group's operating units in Thailand, China and Singapore recorded the largest increases in ordinary individual life insurance premiums at 8.1 per cent., 13.1 per cent. and 6.7 per cent., respectively. Renewal premiums for ordinary individual life insurance products had the largest impact on the increase in TWPI. The AIA Group believes the primary reason for this increase is that household budgets came under pressure during the difficult and volatile economic conditions that prevailed during the second half of FY 2008, resulting in increased demand for protection-based insurance products. Whereas first

year premiums for ordinary individual life insurance overall decreased 4.3 per cent., the AIA Group's operating unit in Hong Kong recorded a growth of 68.5 per cent., principally due to the launch of "Executive Life", a new suite of protection products. In addition, in the second half of FY 2008, the AIA Group's operating unit in Singapore experienced a shift back to demand for traditional ordinary life insurance products, primarily due to the economic slowdown and the resulting decline in equity market prices, as well as investment restrictions introduced by the Central Provident Fund discussed below.

Investment-linked insurance premiums increased 13.9 per cent. to USD2,532 million in FY 2008 from USD2,223 million in FY 2007. On a constant exchange rate basis, the increase was 13.2 per cent. The reporting segments driving this growth were the AIA Group's operations in Korea and Other Markets at 76.1 per cent. and 38.7 per cent., respectively. Its operating unit in Korea experienced significant demand for investment linked products, particularly with respect to variable universal life products. The increase in its operations in Other Markets was principally due to the expansion of the bancassurance distribution channel in Indonesia. Renewal premiums for investment-linked insurance products grew 35.0 per cent., while first year premiums and weighted single premiums increased 2.1 per cent. and decreased 37.3 per cent. respectively. The AIA Group believes that the increase in renewal premiums for investment-linked insurance products was due to customers with regular premium paying policies choosing to maintain their payments of regular premiums as markets declined, following a strategy of dollar cost averaging. The AIA Group believes that the decline in weighted single premiums, particularly in its operating unit in Hong Kong, reflected customers' reluctance to commit to new investment-linked savings products during times of uncertainty, such as the AIG Events, or market volatility.. Sales of single premium investment-linked products exceeded USD1,000 million for the first time in FY 2007 in the AIA Group's operations in Singapore, as policyholders re-invested savings from their Central Provident Fund Ordinary Accounts in search of higher returns. However, in April 2008, investment restrictions introduced by the Central Provident Fund on the use of Central Provident Fund Ordinary Accounts resulted in substantially lower weighted single premiums for investment-linked products for the remainder of FY 2008.

Standalone A&H insurance premiums increased 9.4 per cent. to USD1,426 million in FY 2008 from USD1,304 million in FY 2007. On a constant exchange rate basis, the increase was 14.1 per cent. The increase in standalone A&H insurance premiums was primarily driven by renewal premiums, led by the AIA Group's operating units in Korea, Other Markets and China at 18.0 per cent., 46.0 per cent. and 30.7 per cent., respectively. The AIA Group's operations in Korea were the largest contributor to this increase, as it was the largest market for its standalone A&H insurance products, representing 52.9 per cent. of the AIA Group's standalone A&H insurance business in FY 2008. The growth of standalone A&H renewal premiums in the AIA Group's Korean operations was 33.8 per cent. on a constant exchange rate basis, which more than offset the impact of the depreciation of the Korean Won against the U.S. Dollar in the second half of 2008. The increase in the AIA Group's operations in Other Markets was driven by growth in its operations in Australia, primarily resulting from higher sales achieved through greater focus on the IFA channel. In its operations in China, the increase was driven primarily by stable persistency and growth in sales of critical illness insurance products. Renewal premiums for standalone A&H insurance products increased 18.9 per cent. First year premiums for standalone A&H insurance products decreased 12.3 per cent., with the largest decrease in premiums attributable to the AIA Group's operating unit in Korea, exacerbated by the depreciation of the Korean Won against the U.S. Dollar offsetting growth in other geographical markets.

Group premiums were the AIA Group's fastest growing product line in FY 2008, increasing 40.4 per cent. to USD704 million from USD502 million in FY 2007. On a constant exchange rate basis, the increase was 35.5 per cent. The AIA Group's operating units in Other Markets, Singapore, Hong Kong and China had the highest growth with increases of 50.2 per cent., 33.4 per cent., 27.1 per cent. and 136.2 per cent., respectively, driven generally by successful acquisition of large corporate customers. The AIA Group's operations in Australia, which are aggregated as part of its Other Markets segment, represented 33.2 per cent. of overall group product business and grew 57.8 per cent. The increase occurred across all premium types with renewal premiums growing at 33.1 per cent., first year premiums at 71.4 per cent. and weighted single premiums at 28.0 per cent.

Other product lines, which consist of annuities and personal lines, collectively decreased 9.7 per cent. to USD102 million in FY 2008 from USD113 million in FY 2007. The decrease was primarily due to a decline in single premium annuities in Korean operations arising from the decline in the global capital markets in the fourth quarter of FY 2008 and the AIG Events.

Net Premiums, Fee Income and Other Revenues

	Year ended 30 November	
	2007	2008
	(in US\$ millions)	
Net premiums	8,003	9,416
Fee income	737	866
Other revenues	77	79
Total	8,817	10,361

Net premiums, which are premiums net of reinsurance ceded, increased 17.7 per cent. to USD9,416 million in FY 2008 from USD8,003 million in FY 2007. The increase in net premiums was primarily due to an increase in renewal premiums in all the AIA Group's major product lines and the continued expansion of its policyholder base. Moreover, in FY 2008, the AIA Group recaptured a portfolio of business written by the AIA group in Hong Kong which had been previously reinsured to another company in the AIG Group, as discussed further in "— Factors Affecting Certain of AIA's Geographical Markets in 2008" below.

Premiums ceded to reinsurers amounted to USD392 million in FY 2008 compared with USD833 million in FY 2007.

Fee income from investment-linked products increased 17.5 per cent. to USD866 million in FY 2008 from USD737 million in FY 2007, primarily due to growth in investment-linked insurance products and higher average fund values. Other revenues, largely consisting of asset management fees on pensions business, remained stable during this period.

Investment Income

	Year ended 30 November	
	2007	2008
	(in US\$ millions)	
Investment income ⁽¹⁾		
Interest income	2,507	2,900
Dividend income	174	181
Rental income	25	63
Total	2,706	3,144

(1) Excludes investment income related to investment-linked contracts.

Investment income, excluding investment income from investment-linked contracts, increased 16.2 per cent. to USD3,144 million in FY 2008 from USD2,706 million in FY 2007, with Hong Kong, Thailand and Singapore recording increases of 26.4 per cent., 18.0 per cent. and 14.5 per cent., respectively. This increase mainly reflects the inflow of new funds, as well as stable yields from the allocation of shareholders' assets to fixed-income debt securities.

Net Insurance and Investment Contract Benefits

	Year ended 30 November	
	2007	2008
	(in US\$ millions)	
Net insurance and investment contract benefits⁽¹⁾		
Insurance contract benefits	4,555	5,402
Net change in insurance and investment contract liabilities	3,684	3,476
Insurance and investment contract benefits	8,239	8,878
Insurance and investment contract benefits ceded	(653)	(248)
Total	7,586	8,630

(1) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds and investment income related to investment-linked contracts.

Insurance and investment contract benefits (excluding corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds, and investment income related to investment-linked contracts) increased 7.8 per cent. to USD8,878 million in FY 2008 from USD8,239 million in FY 2007, with Thailand, China and Singapore recording increases of 8.9 per cent., 25.6 per cent. and 8.2 per cent., respectively. The increase in insurance and investment contract benefits (excluding corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds, and investment income related to investment-linked contracts) was largely due to the reinsurance recapture in Hong Kong described below in "— Factors Affecting Certain of AIA's Geographical Markets in FY 2008," growing in-force portfolios across all the AIA Group's geographical markets and higher interest and dividends credited to policyholders in FY 2008. However, there was an increase in policy surrenders in the fourth quarter of FY 2008. Total surrenders in FY 2008 amounted to USD1,283 million, of which USD663 million arose in the fourth quarter, representing an approximate threefold increase in policy surrenders in that quarter compared with previous quarters. The AIA Group believes this reflected local customer concerns relating to the general economic downturn and the AIG Events in the fourth quarter of 2008 in certain geographical markets, as demonstrated by its persistency ratios. The persistency ratio declined from 93.9 per cent. at the start of FY 2008 before the AIG Events, to end the year at 89.3 per cent. The AIA Group believes the impact on its business was limited because, by the end of FY 2009, the ratio had improved to 95.1 per cent., above the levels the AIA Group experienced at the beginning of 2008. Claims also increased approximately 31.9 per cent. in FY 2008, mainly attributable to the reinsurance recapture in Hong Kong and growth of the in-force book in Australia relating to the AIA Group's insurance product line.

Insurance and investment contract liabilities ceded (or reinsured) decreased 62.0 per cent. to a recovery of USD248 million in FY 2008 from a recovery of USD653 million in FY 2007, primarily due to the reinsurance recapture described below in "— Factors Affecting Certain Geographical Markets in FY 2008".

Commission and Other Acquisition Expenses

	Year ended 30 November	
	2007	2008
	(in US\$ millions)	
Commission and other acquisition expenses		
Commission and other acquisition expenses incurred	2,282	2,269
Deferral and amortisation of acquisition costs	(1,335)	(706)
Total	947	1,563

Year ended 30 November	
2007	2008
(in US\$ millions)	

Commission and other acquisition expenses incurred decreased 0.6 per cent. to USD2,269 million in FY 2008 from USD2,282 million in FY 2007, in line with the decrease in first year and single premium sales.

The deferral and amortisation of acquisition costs decreased 47.1 per cent. to USD706 million in FY 2008 from USD1,335 million in FY 2007. The decrease reflects a higher charge for amortisation of acquisition costs, increasing 56.5 per cent. to USD1,387 million in FY 2008 from USD886 million in FY 2007. The higher charge was mainly due to lower assets under management, principally in Hong Kong and Singapore, as a result of the adverse market conditions prevailing in the second half of FY 2008, resulting in accelerated amortisation of acquisition costs.

Operating Expenses

	Year ended 30 November	
	2007	2008
	(in US\$ millions)	
Operating expenses		
Operating expenses excluding strategic initiative expenses	962	1,064
Strategic initiative expenses.....	—	25
Total	962	1,089

The AIA Group's operating expenses excluding strategic initiative expenses increased 10.6 per cent. to USD1,064 million in FY 2008 from USD962 million in FY 2007 which was principally driven by the reinsurance recapture described above in "— Investment Income" and higher employee benefit expenses (as headcount increased approximately 3 per cent. mainly in growing businesses such as Australia, Vietnam, Thailand and China). Costs of strategic initiatives in FY 2008 include costs associated with expansion of distribution channels, optimisation of backoffice support functions and increasing agency and customer services infrastructure in China to 127 centres in FY 2008 from 104 centres in FY 2007.

Investment Management Expenses and Finance Costs

	Year ended 30 November	
	2007	2008
	(in US\$ millions)	
Investment management expenses and finance costs⁽¹⁾ :		
Investment management expenses.....	83	93
Finance costs	203	159
Total	286	252

(1) Excludes investment management expenses related to investment-linked contracts.

The AIA Group's investment management expenses and finance costs decreased 11.9 per cent. to USD252 million in FY 2008 from USD286 million in FY 2007. This decrease was principally the result of lower financing costs relating to securities lending and repurchase agreements, as the AIA Group continued to reduce its participation in securities lending and repurchase agreements. The AIA Group's investment management expenses were higher in FY 2008

compared to FY 2007, partly due to a payment of USD15 million under a profit share arrangement which has subsequently been terminated.

Operating Profit

As a result of the foregoing, operating profit increased 11.5 per cent. to USD1,943 million in FY 2008 from USD1,742 million in FY 2007. As discussed above, the increase in operating profit was primarily due to growth in renewal premiums and increased investment income, which collectively increased at a faster rate than the AIA Group's expense base and the impact of the increased level of surrenders in the fourth quarter of FY 2008, as well as the beneficial effect of the reinsurance recapture in Hong Kong. Excluding the effects of securities lending, from which the AIA Group withdrew in FY 2009, the AIA Group's operating profit would have been USD1,949 million in FY 2008, compared with USD1,739 million in FY 2007.

Tax Expense on Operating Profit

The AIA Group operates in 15 principal jurisdictions, each with its own tax regime, and the change in the tax expense (or credit) from one year to the next is affected by changes in the mix of income by jurisdiction. The impact of the change in the mix of income by jurisdiction together with a tax credit of USD41 million relating to a change of tax law in Malaysia, a reduction in the corporate tax rate in Korea, which will fall to 22 per cent. from 2012, which reduced deferred tax liabilities, and the tax savings from consolidated tax filing in China reduced its weighted average corporate tax rate on operating profit to approximately 18 per cent. in FY 2008 from approximately 26 per cent. in FY 2007.

Profit/(Loss) Before Tax

Profit before tax fell 101.2 per cent. to a loss of USD32 million in FY 2008 compared to a profit before tax of USD2,579 million in FY 2007. This decrease was primarily driven by adverse non-operating investment return arising from a decrease in the market value of the AIA Group's investment portfolio in FY 2008 of USD2,412 million compared to a gain of USD837 million in FY 2007. This loss in FY 2008 was partially offset by a USD447 million gain on settlement of the reinsurance recapture in Hong Kong. For more information, please see "- Factors Affecting Certain of the Geographical Markets in FY 2008" in this section.

Income Tax

	Year ended 30 November	
	2007	2008
Current income tax.....	464	401
Deferred income tax.....		
Temporary differences	187	(571)
Release of withholding tax provision	—	(275)
Tax expense/(credit).....	<u>651</u>	<u>(445)</u>
Of which:		
Tax expense/(credit) attributable to policyholders returns.....	70	(90)
Tax expense/(credit) attributable to shareholders' profits.....	<u>581</u>	<u>(355)</u>
	<u>651</u>	<u>(445)</u>

Current income tax decreased 13.6 per cent. to USD401 million in FY 2008 from USD464 million in FY 2007. The amount of current taxes paid on the AIA Group's overseas operations was primarily attributable to its operations in Thailand and Korea, where the local corporate tax rates are among the highest in the region and local tax rules for life insurance companies accelerate the recognition of profits generating current taxes.

Excluding the release of the withholding tax provision, the AIA Group had a deferred income tax credit of USD571 million in FY 2008 compared with a deferred income tax charge of USD187 million in FY 2007, reflecting a decline in the market value of its investments and the impact of the items set out above affecting its weighted average corporate tax rate.

A USD275 million withholding tax provision was released in FY 2008 as a result of the clarification of a tax treaty.

Net Profit

Net profit decreased 78.7 per cent. to USD408 million in FY 2008 from USD1,914 million in FY 2007. The decline was primarily due to a negative non-operating investment return of USD2,412 million caused by declining market values, of which USD87 million was attributable to the AIA Group's securities lending activities, from which it withdrew in FY 2009, partially offset by the increase in operating profit after tax, a USD447 million gain arising on the reinsurance recapture in Hong Kong and the release of the provision for withholding tax of USD275 million discussed above. Excluding the effects of its securities lending activities, from which it withdrew in FY 2009, the AIA Group's net profit would have been USD501 million in FY 2008, compared with USD1,911 million in FY 2007.

Significant Events During Fourth Quarter FY 2008

During the fourth quarter of FY 2008, following the AIG Events, credit spreads widened and equity capital markets declined significantly. As a direct consequence of these events, the AIA Group experienced a sharp increase in surrenders of its products, in particular ordinary life insurance products, in certain of its Key Markets, such as Hong Kong, Singapore, Korea and Thailand.

In light of the AIA Group's customers' concerns about its financial strength as a result of the AIG Events, the AIA Group took remedial action to rebuild customer confidence in its viability and financial strength and the financial security offered by its products. Despite these actions, new business production decreased across all product lines, in particular the investment-linked business in Hong Kong and Singapore, and the AIA Group experienced a significant increase in surrenders. After its peak in September 2008, surrender activity decreased significantly as customer concerns were allayed. This temporary increase in surrender activity had an adverse effect on the AIA Group's persistency, which declined sharply from 93.9 per cent. at the start of FY 2008, following the AIG Events of September 2008, to 89.3 per cent. at the end of FY 2008, before recovering during FY 2009, to end that year at 95.1 per cent.

The AIG Events had a particularly significant impact on the AIA Group's results of operations in FY 2008, and in particular:

- decline in new business production of single premium investment-linked products, especially in Hong Kong and Singapore.

New business activities improved in FY 2009, particularly in the second half of the year, as demonstrated by growth in first year premiums and single premiums products in most of the AIA Group's geographical markets. Trends in each of the geographical markets in FY 2009 are discussed in greater detail in " – Segmental Information" in this section.

- A short term increase in surrender fee income as such income more than offset the accelerated amortisation of DAC on the surrendered policies. In particular, annuity surrenders in Korea, which operated under the AIG brand during that period, were approximately USD1,023 million in FY 2008, compared with USD250 million in FY 2007.

Surrender trends have improved in FY 2009 with the persistency ratio of the AIA Group's overall in-force policies increasing to 93.4 per cent. in the second half of FY 2009 compared with 91.4 per cent. in the second half of FY 2008 (excluding Philam which joined the AIA Group in November 2009).

- The AIA Group accelerated a planned reorganisation and retrenchment programme resulting in a restructuring cost of USD10 million being recognised in FY 2008, in order to reduce the future run rate of operating expenses.

This reduced the AIA Group's headcount by approximately 200 and contributed to an improvement in its expense ratio to 8.4 per cent. in FY 2009 from 8.9 per cent. in FY 2008, despite a 148.0 per cent. increase in spending on strategic initiatives during the year.

Factors Affecting Certain of AIA's Geographical Markets in FY 2008

In Hong Kong the AIA Group recaptured a portfolio of reinsurance business which had previously been reinsured to another company in the AIG Group. The recapture had no impact on TWPI since this is stated before the effects of ceded reinsurance but had a material impact on the AIA Group's results of operations, contributing approximately USD90 million to operating profit in FY 2008 compared with FY 2007. This is because the recapture took place at the end of the first quarter of FY 2008, and consequently results of operations in FY 2008 reflected one quarter in which the reinsurance was in place and three quarters after it had ceased. In addition the AIA Group recognised a gain of USD447 million arising on the recapture, which is not reflected in operating profit because of its one-time nature. The gain arose because the fair value of financial assets received on recapture exceeded the insurance and investment contract liabilities, deferred acquisition and origination costs and the recapture fee of USD190 million.

In Singapore the AIA Group experienced strong growth in investment-linked products in FY 2007 and the first half of FY 2008. In the second half of FY 2008, Singapore experienced a shift back to demand for traditional ordinary life insurance products, primarily due to the economic slowdown and the resulting decline in equity market prices, as well as the changes to the regulations relating to the Central Provident Fund. Sales of single premium investment-linked products exceeded USD1,000 million for the first time in FY 2007 as policyholders reinvested savings from their Central Provident Fund in search of higher returns. In April 2008, a change in Central Provident Fund regulations introduced restrictions on the use of Central Provident Fund Ordinary Accounts, thereby resulting in substantially lower sales of single premium investment-linked products for the remainder of FY 2008. New business activities improved during FY 2009 as demonstrated by growth in first year premiums and single premium products described in " - Segmental Information – Singapore – Year Ended 30 November 2009 Compared with Year Ended 30 November 2008" in this section.

In China the AIA Group's operating expenses increased 35.4 per cent. to USD172 million in FY 2008 from USD127 million in FY 2007 due to increased headcount from an expansion of its operations and an increase in its agency and customer services infrastructure to 127 centres in FY 2008 from 104 centres in FY 2007. This contributed to the growth in TWPI from the AIA Group's branch network in China during FY 2009 is discussed further in " – Segmental Information – China – Year Ended 30 November 2009 Compared with Year Ended 30 November 2008" in this section.

Discussion of Selected Balance Sheet Information

Assets

The AIA Group's total assets as of 30 November 2008 amounted to USD72,009 million, compared with USD88,192 million as of 30 November 2007. This decrease primarily reflected the decline in market value of its financial investments, the majority of which were carried at fair value.

The table below sets forth the AIA Group's financial investments by asset class and type of business as of dates indicated.

As of 30 November

	2007						2008					
	Policyholder and shareholder		Investment-linked	Total	Policyholder and shareholder		Investment-linked	Total				
	Other policyholder and shareholder	Participating funds			Other policyholder and shareholder	Participating funds						
	(in US\$ millions)											
Financial investments includes:												
Debt securities												
Available for sale	30,955	—	—	30,955	29,934	—	—	29,934				
At fair value through profit or loss.....	1,148	10,813	1,488	13,449	852	10,070	1,467	12,389				
Total debt securities.	32,103	10,813	1,488	44,404	30,786	10,070	1,467	42,323				
Equity securities												
Available for sale	2,520	—	—	2,520	87	—	—	87				
At fair value through profit or loss.....	4,258	2,321	11,040	17,619	1,855	1,123	5,682	8,660				
Total equity securities	6,778	2,321	11,040	20,139	1,942	1,123	5,682	8,747				
Loans and receivables	4,431	1,136	98	5,665	2,906	986	110	4,002				
Derivative financial instruments	175	247	—	422	165	87	—	252				
Total financial investments.....	43,487	14,517	12,626	70,630	35,799	12,266	7,259	55,324				

All debt and equity securities are carried at fair value and, consequently, the values reported in the AIA Group's financial information reflect current market values as of the end of each reporting period. Despite net sales and purchases of debt and equity securities of USD6,045 million in FY 2008 and receipt of the investment portfolio of USD2,967 million arising on the reinsurance recapture in FY 2008, the total carrying value of the AIA Group's financial investments decreased to USD55,324 million as of 30 November 2008 compared to USD70,630 million as of 30 November 2007.

Other policyholder and shareholder investments comprise mainly available for sale debt securities. Of the USD1,317 million reduction in the value of these debt securities in FY 2008, USD142 million related to impairments, and a further USD90 million related to other gains and losses realised during the year, with the balance consisting of fair value movements and disposals made during the year.

Financial investments backing the AIA Group's insurance contract liabilities in participating funds are shown under the column "Participating funds" in the table above. The decrease in financial investments in participating funds to USD12,266 million as of 30 November 2008 from USD14,517 million as of 30 November 2007 mainly reflected the general decline in asset prices that occurred towards the end of FY 2008.

Financial investments backing investment-linked contract liabilities are shown under the column "Investment-linked" in the table above. The investment risk in respect of investment-linked contract assets is generally wholly borne by the AIA Group's customers, and does not affect the profit for the year attributable to AIA's shareholders, except for asset management fees earned on account balances. The decrease in financial investments in respect of investment-linked contracts as of 30 November 2008 compared with 30 November 2007 was mainly due to the general decline in asset prices that occurred towards the end of FY 2008, which was partially offset by net new premiums paid by policyholders of USD1,183 million.

The AIA Group's debt securities had a fair value of USD42,323 million as of 30 November 2008, compared with USD44,404 million as of 30 November 2007. This decrease was primarily due to declines in market values as a result of increased credit spreads under adverse market conditions and disposals made during the year. Government bonds or bonds issued by governmental agencies accounted for 53.0 per cent. of the AIA Group's debt securities as of 30 November 2008, compared with 52.1 per cent. as of 30 November 2007. In addition, investment-grade corporate bonds and structured securities accounted for 44.0 per cent. of its debt securities as of 30 November 2008, compared with 44.4 per cent. as of 30 November 2007.

The AIA Group's available for sale equity securities had a fair value of USD87 million as of 30 November 2008, compared with USD2,520 million as of 30 November 2007. The AIA Group's available for sale equity securities consist solely of shares in AIG. The decline in fair value primarily reflects the significant decline in AIG's share price during FY 2008.

The AIA Group's equity securities at fair value through profit or loss had a fair value of USD8,660 million as of 30 November 2008, compared with USD17,619 million as of 30 November 2007. This decrease was principally a result of declines in prices in the global and major Asian equity markets during the latter part of FY 2008. The majority of its equity securities at fair value through profit or loss are held to back its investment-linked contract liabilities, the investment risk for which is wholly borne by policyholders.

The AIA Group's loans and receivables outstanding were USD4,002 million as of 30 November 2008, compared with USD5,665 million as of 30 November 2007. This decrease was primarily due to repayments of inter-company loans of USD1,560 million from other subsidiaries of AIG.

Within the AIA Group's Assets – other than the above,, cash and cash equivalents increased to USD4,164 million as of 30 November 2008 from USD2,583 million as of 30 November 2007, reflecting de-risking of its investment portfolio during FY 2008, in response to adverse conditions in both debt and equity markets in the fourth quarter of 2008.

Liabilities

	Year ended 30 November	
	2007	2008
	(in US\$ millions)	
Insurance and investment contract liabilities.....	63,666	57,056
Borrowings.....	1,461	661
Obligations under securities lending and repurchase agreements	5,395	2,718
Liabilities — other than the above	4,179	2,656

	Year ended 30 November	
	2007	2008
	(in US\$ millions)	
Total liabilities	74,701	63,091

The AIA Group's total liabilities as of 30 November 2008 were USD63,091 million, compared with USD74,701 million as of 30 November 2007. This decrease primarily reflected lower insurance and investment contract liabilities, and lower borrowings and obligations under securities lending, and a reduction in other liabilities. The decrease in insurance and investment contract liabilities was principally due to the movement in investment-linked contract liabilities comprising the investment return on the matching assets, net deposits or withdrawals, fees charged against account balances and the effects of foreign exchange translation. The decrease in borrowings was mainly due to the repayment of loans to subsidiaries of AIG as long-term notes matured. The decrease in obligations under securities lending and repurchase agreements primarily reflected lower securities lending to related parties and third parties, and lower obligations under repurchase agreements. The decrease in liabilities other than the above was principally due to a decrease in deferred tax liabilities.

Equity

The AIA Group's total equity attributable to shareholders of AIA, was USD8,908 million as of 30 November 2008, compared with USD13,440 million as of 30 November 2007. This decrease is primarily related to the decrease in the fair value and foreign currency translation reserves, offsetting an increase in issued share capital and shares yet to be issued and other reserves. Issued share capital, shares yet to be issued, share premium, and other reserves increased to USD1,434 million in FY 2008 from USD699 million in FY 2007, primarily due to a capital injection from the AIG Group of USD731 million as well as capitalisation of dividends and a capital contribution in connection with share based compensation plans. The decrease in the fair value reserve of USD4,534 million was primarily due to unrealised movements in the fair value of available for sale financial investments, particularly its holdings of AIG shares. The decrease in the foreign currency translation reserve of USD796 million was due to a strengthening of the U.S. Dollar in FY 2008. Retained earnings increased by USD63 million for FY 2008, consisting of net profit attributable to shareholders of AIA Group, of USD408 million, less dividends paid of USD346 million.

SEGMENTAL INFORMATION

This section provides performance highlights of each of the AIA Group's reporting segments. The reporting segments are categorised as follows: (i) each Key Market; (ii) combined results for Other Markets; and (iii) Corporate and Other reporting segment. The Key Markets consist of: Hong Kong (including Macau); Thailand; Singapore (including Brunei); Korea; Malaysia; and China. The Other Markets segment consists of the combined results of Australia, the Philippines, Indonesia, Vietnam, New Zealand, Taiwan and the AIA Group's interest in its joint venture in India. The Corporate and Other segment includes the AIA Group's corporate functions, shared services, and elimination of intragroup transactions.

Hong Kong

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI	2,845	2,916	2,861
Investment income ⁽¹⁾	607	767	779
Operating expenses	133	183	163
Operating profit	408	590	698

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
Operating profit after tax ⁽²⁾	368	568	653
Allocated segment equity	2,646	3,573	4,164
Net capital in/(out) flow ⁽³⁾	(7)	684	(30)
Ratios:			
Expense ratio	4.7%	6.3%	5.7%
Operating margin.....	14.3%	20.2%	24.4%
Operating return on allocated equity	15.5%	18.3%	16.9%

(1) Excludes investment income related to investment-linked contracts.

(2) Operating profit after tax is the amount attributable to shareholders of AIA, excluding the amount attributable to non-controlling interests.

(3) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI includes:			
Renewal premium	2,274	2,455	2,487
First year premium	482	414	357
Weighted single premium (10% of single premium)	89	47	17
Total	<u>2,845</u>	<u>2,916</u>	<u>2,861</u>

Year Ended 30 November 2009 Compared with Year Ended 30 November 2008

Hong Kong is the AIA Group's largest geographical market based on TWPI, generating 24.6 per cent. of total TWPI in FY2009 and more than USD2,400 million of renewal premiums in both FY2009 and FY2008. Ordinary individual life insurance and investment-linked products represented 52.5 per cent. and 37.6 per cent., respectively, of total TWPI generated in Hong Kong during FY2009 as compared with 47.0 per cent. and 43.3 per cent., respectively, in FY2008.

Between FY2008 and 2009 renewal premiums increased as persistency remained largely stable, while first year premiums and weighted single premiums decreased, largely driven by a fall in demand for investment-linked products in the first half of FY2009 as customers responded to the volatility in global equity and debt markets. Demand for investment-linked products improved significantly in the second half of FY2009, with growth in first year premiums and weighted single premiums of 68.9 per cent. and 149.9 per cent., respectively, compared with the first half of FY2009. First year premiums in respect of ordinary individual life insurance also increased by 138.3 per cent. in the second half of FY2009 compared with the first half of the year following the launch of an enhanced regular savings product with critical illness benefits. Ordinary individual life remains the AIA Group's most significant product line, with TWPI increasing to USD1,503 million in FY2009, as compared with USD1,370 million in FY2008, an increase of 9.7 per cent., accounting for 52.5 per cent. of total TWPI in FY2009, as compared with 47.0 per cent. in FY2008.

Investment income grew 1.6 per cent. to USD779 million in FY 2009 from USD767 million in FY 2008 due to an increase in the average size of the investment portfolio following the recapture of an intragroup reinsurance arrangement in March 2008 and positive results of operations in FY 2009. For more information regarding the recapture see “— Segmental Information — Hong Kong — Year Ended 30 November 2008 Compared with Year Ended 30 November 2007” in this section.

Operating expenses decreased 10.9 per cent. to USD163 million in FY 2009 compared with USD183 million in FY 2008 due to the inclusion of certain non-recurring items in FY 2008. The reduction in operating expenses had a positive impact on the expense ratio which improved to 5.7 per cent. in FY 2009 compared with 6.3 per cent. in FY 2008.

Operating profit grew by 18.3 per cent. and operating profit after tax grew by 15.0 per cent. to USD698 million and USD653 million, respectively, in FY 2009 from USD590 million and USD568 million, respectively, in FY 2008, mainly due to the full year beneficial impact of the reinsurance recapture in FY 2009, lower DAC amortisation as assets under management increased reflecting the strong recovery in investment performance in FY 2009, higher policy surrenders in the first quarter of FY 2009 and reduced finance costs. Investment management expenses and finance costs in FY 2009 of USD52 million decreased 63.1 per cent. from the USD141 million incurred in FY 2008 as the AIA Group wound down and withdrew from securities lending activities during the year.

Operating margin improved to 24.4 per cent. in FY 2009 from 20.2 per cent. in 2008, in line with the increase in operating profit.

Operating return on allocated equity decreased to 16.9 per cent. in FY 2009 from 18.3 per cent. in FY 2008, despite the increase in operating profit after tax, due to the retention of surplus capital in the principal insurance business in Hong Kong. Allocated segment equity is stated after the effects of a dividend remittance to the AIA Group of USD20 million from the pensions trustee business during FY 2009, and a further USD10 million from the other operations in Hong Kong.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

TWPI increased 2.5 per cent. to USD2,916 million in FY 2008 from USD2,845 million in FY 2007. This increase was primarily driven by growth in renewal premiums as a result of stable persistency, partially offset by lower first year and weighted single premiums. In the first half of FY 2008, the AIA Group experienced growth in first year and weighted single premiums. However, in the second half of FY 2008, its first year and weighted single premiums fell significantly due to lower demand which the AIA Group believes resulted from the economic downturn and the AIG Events. The AIA Group introduced a new suite of protection products called “Executive Life” in FY 2008, which had a partial mitigating effect, as it increased sales of its ordinary individual life insurance products. As a result, TWPI for ordinary life products increased to USD1,370 million in FY 2008, from USD1,348 million in FY 2007, with first year premiums increasing by 66.7 per cent., from USD57 million in FY 2007 to USD95 million in FY 2008.

The AIA Group also recaptured a portfolio of reinsurance business which had previously been reinsured to another company in the AIG Group. The recapture had no impact on TWPI since this is stated before the effects of ceded reinsurance but had a material impact on the AIA Group's results of operations, contributing an estimated USD90 million to operating profit in FY 2008 compared with FY 2007. This is because the recapture took place at the end of the first quarter of FY 2008, and so the results of operations of FY 2008 reflected one quarter in which the reinsurance was in place and three quarters after it had ceased. In addition the AIA Group recognised a gain of USD447 million arising on the recapture, which is not reflected in operating profit before and after tax because of its one time nature. The gain arose because the fair value of financial assets received on recapture exceeded the insurance and investment contract liabilities, deferred acquisition and origination costs and the recapture fee of USD190 million.

Investment income (excluding investment income from investment-linked contracts) increased 26.4 per cent. to USD767 million in FY 2008 from USD607 million in FY 2007, with the substantial majority of this increase attributable to the reinsurance recapture. As part of this recapture, the AIA Group received a USD2,967 million portfolio of financial investments in FY 2008 which was previously held to match the liabilities ceded by the AIA Group on which investment returns were earned for the last three quarters in FY 2008.

Operating expenses increased 37.6 per cent. to USD183 million in FY 2008 from USD133 million in FY 2007, with a portion of this increase attributable to the reinsurance recapture, related to the operating expenses on the ceded business. Operating expenses were also impacted by strategic initiative expenses to broaden the AIA Group's distribution channels and build wealth management capabilities. The AIA Group's expense ratio increased to 6.3 per cent. in FY 2008 from 4.7 per cent. in FY 2007.

Operating profit increased 44.6 per cent. to USD590 million in FY 2008 from USD408 million in FY 2007. This increase was primarily due to the reinsurance recapture, which contributed approximately USD90 million to operating profit in FY 2008 as a result of more business being retained by the AIA Group, higher investment income and fees on surrenders following the AIG Events. Surrender fees more than offset the acceleration of DAC amortisation relating to surrenders. Surrenders during the fourth quarter of FY 2008 were approximately 1.4 times that experienced in the entire FY 2007, particularly in respect of ordinary life products. The growth in operating profit was greater than the growth in TWPI, and the AIA Group's operating margin increased to 20.2 per cent. in FY 2008 from 14.3 per cent. in FY 2007.

Operating return on allocated equity increased to 18.3 per cent. in FY 2008 from 15.5 per cent. in FY 2007. The increase in operating profit after tax in FY 2008 was partially offset by the impact of a net capital contribution into the AIA Group's Hong Kong operations of USD684 million.

Thailand

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI	2,164	2,351	2,373
Investment income ⁽¹⁾	557	657	640
Operating expenses	114	132	135
Operating profit	401	424	358
Operating profit after tax ⁽²⁾	275	303	251
Allocated segment equity	2,736	2,448	2,919
Net capital in/(out) flow ⁽³⁾	(61)	(74)	(175)
Ratios:			
Expense ratio	5.3%	5.6%	5.7%
Operating margin.....	18.5%	18.0%	15.1%
Operating return on allocated equity	11.0%	11.7%	9.4%

(1) Excludes investment income related to investment-linked contracts.

(2) Operating profit after tax is the amount attributable to shareholders of AIA, excluding the amount attributable to non-controlling interests.

(3) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI includes:			
Renewal premium	1,853	2,009	2,024
First year premium	301	326	337
Weighted single premium (10% of single premium)	10	16	12
Total	<u>2,164</u>	<u>2,351</u>	<u>2,373</u>

Year Ended 30 November 2009 Compared with Year Ended 30 November 2008

Thailand is the AIA Group's second largest market based on TWPI and represented 20.4 per cent. of total TWPI in FY 2009. TWPI in Thailand is substantially generated by ordinary individual life insurance products, including accident and health insurance policy riders.

TWPI increased 0.9 per cent., or 4.1 per cent. on a constant exchange rate basis, to USD2,373 million in FY 2009 from USD2,351 million in FY 2008 largely due to growth in renewal and first year premiums. Renewal premiums increased across all product lines mainly as a result of stable persistency in FY 2009, while first year premiums were up 3.4 per cent., or 6.7 per cent. on a constant exchange rate basis, as a result of continuing demand for ordinary individual life insurance products. First year premiums in respect of ordinary individual life insurance products grew 40.1 per cent., or 34.4 per cent. on a constant exchange rate basis, in the second half of FY 2009 as compared with the first half of FY 2009. The AIA Group believes this was due to the general improvement in the Thai economy and higher productivity of the agency distribution channel.

Investment income decreased 2.6 per cent. to USD640 million in FY 2009 as compared with USD657 million in FY 2008 partly due to the effects of foreign exchange rates; on a constant exchange rate basis, investment income increased 1.1 per cent. year-on-year. Investment income was adversely affected by lower dividends on equity investments in FY 2009.

Operating expenses increased marginally to USD135 million in FY 2009 from USD132 million. As a result, the expense ratio remained largely stable at 5.7 per cent. in FY 2009 compared with 5.6 per cent. in FY 2008.

Operating profit and operating profit after tax decreased to USD358 million and USD251 million, respectively, in FY 2009 from USD424 million and USD303 million, respectively, in FY 2008, primarily reflecting the effects of depreciation of the Thai Baht during FY 2009. In addition, operating profit in FY 2008 benefited from USD12 million of surrender gains following the AIG Events in the last quarter of 2008, whereas there were incurred losses on surrenders of USD14 million in the first quarter of FY 2009.

Operating margin decreased to 15.1 per cent. in FY 2009 from 18.0 per cent. in FY 2008 reflecting the decrease in operating profit. Operating return on allocated equity decreased to 9.4 per cent. in FY 2009 from 11.7 per cent. in FY 2008 reflecting the deterioration in operating margin and higher allocated segment equity. Allocated segment equity increased to USD2,919 million as of 30 November 2009 from USD2,448 million as of 30 November 2008 reflecting contribution from positive results of operations and a significant improvement in non-operating investment return from a loss after tax of USD445 million in FY 2008 to a gain after tax of USD403 million. The improvement in non-operating investment return was mainly attributable to the recovery in market values of Thai equity securities, the carrying value of which increased from USD781 million at 30 November 2008, to USD1,323 million at 30 November 2009. Allocated segment equity reflected capital repatriation of USD180 million of allocated equity from the AIA Group's Thai operations during the year.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

The AIA Group's core operations in Thailand were not significantly affected by the global economic slowdown and political demonstrations in Thailand in FY 2008. TWPI increased 8.6 per cent. to USD2,351 million in FY 2008 from USD2,164 million in FY 2007. On a constant exchange rate basis, the growth was 4.5 per cent. The increase was generated across renewal premium, first year premium and weighted single premium products, particularly ordinary individual life insurance. Renewal premiums increased across all product lines with an overall increase of 8.4 per cent. to USD2,009 million in FY 2008 from USD1,853 million in FY 2007. First year premiums increased 8.3 per cent. to USD326 million in FY 2008 from USD301 million in FY 2007 primarily due to growth in the bancassurance and agency distribution channels. Single premiums grew 60.0 per cent. to USD16 million in FY 2008 from USD10 million in FY 2007, primarily due to the launch of limited offer endowment products.

Investment income (excluding investment income from investment-linked contracts) increased 18.0 per cent. to USD657 million in FY 2008 from USD557 million in FY 2007, principally due to higher average invested assets and steady investment returns.

Operating expenses increased 15.8 per cent. to USD132 million in FY 2008 from USD114 million in FY 2007, primarily due to an appreciation in the Thai Baht against the U.S. Dollar and to a lesser extent due to strategic initiatives. The expense ratio increased to 5.6 per cent. in FY 2008 from 5.2 per cent. in FY 2007.

Operating profit increased 5.7 per cent. to USD424 million in FY 2008 from USD401 million in FY 2007. This increase was principally the result of growth in premiums, an associated increase in investment income and an increase in surrender fees following the AIG Events which more than offset the resulting acceleration of DAC amortisation. Surrenders during the fourth quarter of FY 2008 were significantly higher than that experienced in the entire FY 2007, particularly in respect of ordinary life products. Despite an increase in operating profit, operating margin decreased to 18.0 per cent. in FY 2008 from 18.5 per cent. in FY 2007 as operating expenses rose faster than TWPI.

Operating return on allocated equity increased marginally to 11.7 per cent. in FY 2008 from 11.0 per cent. in FY 2007 reflecting stable growth in operating profit after tax and TWPI in FY 2008.

Singapore

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI	1,514	1,641	1,524
Investment income ⁽¹⁾	538	616	609
Operating expenses	95	129	91
Operating profit	348	333	356
Operating profit after tax ⁽²⁾	280	233	264
Allocated segment equity	1,076	978	1,526
Net capital in/(out) flow ⁽³⁾	(319)	(45)	220
Ratios:			
Expense ratio	6.3%	7.9%	6.0%
Operating margin.....	23.0%	20.3%	23.4%
Operating return on allocated equity	25.9%	22.7%	21.1%

- (1) Excludes investment income related to investment-linked contracts.
- (2) Operating profit after tax is the amount attributable to shareholders of AIA, excluding the amount attributable to non-controlling interests.
- (3) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI includes:			
Renewal premium	1,280	1,407	1,373
First year premium	115	139	111
Weighted single premium (10% of single premium)	119	95	40
Total	<u>1,514</u>	<u>1,641</u>	<u>1,524</u>

Year Ended 30 November 2009 Compared with Year Ended 30 November 2008

Singapore accounted for 13.1 per cent. of TWPI in FY 2009 as compared with 13.4 per cent. in FY 2008. TWPI decreased 7.1 per cent., or 4.0 per cent. on a constant exchange rate basis, to USD1,524 million in FY 2009 from USD1,641 million in FY 2008 largely as a result of a fall in demand for investment-linked products. TWPI for investment-linked products fell 26.4 per cent., or 23.8 per cent. on a constant exchange rate basis, as sales in the first half of FY 2008 were boosted by strong growth prior to the introduction of reduced investment options on Central Provident Fund ordinary accounts in April 2008. Sales of investment-linked products improved in the second half of FY 2009 as various sales promotions and launched wealth management products to target high net worth individuals were introduced. These initiatives resulted in growth in first year premiums and weighted single premiums of 29.9 per cent. and 183.2 per cent., respectively, between the first and second halves of 2009. TWPI in respect of ordinary individual life products remained stable at USD1,119 million in FY 2009, as compared with USD1,169 million in FY 2008, a decline of 4.3 per cent., or 1.2 per cent. on a constant exchange rate basis, accounting for 73.4 per cent. of total TWPI in FY 2009, as compared with 71.2 per cent. in FY 2008.

Investment income decreased 1.1 per cent. to USD609 million in FY 2009 from USD616 million in FY 2008 mainly as a result of the depreciation of the average exchange rate of the Singaporean Dollar against the U.S. Dollar, lower dividend income and because cash balances were used to repay obligations under repurchase agreements, foregoing investment income in order to reduce finance costs. On a constant exchange rate basis, investment income increased 2.4 per cent. during the year.

Operating expenses fell 29.5 per cent. to USD91 million in FY 2009 from USD129 million in FY 2008 as savings in salaries and related expenses were achieved through greater operational efficiency, such as the transfer of certain support functions to a shared service centre in Malaysia. Moreover, operating expenses in FY 2008 included non-recurring items and, as a result, operating expenses in FY 2009 fell to a level more comparable to FY 2007. This resulted in an improvement in expense ratio to 6.0 per cent. in FY 2009 from 7.9 per cent. in FY 2008, despite the decrease in TWPI.

Operating profit and operating profit after tax increased to USD356 million and USD264 million, respectively, in FY 2009, from USD333 million and USD233 million, respectively, in FY 2008, mainly attributable to the improvement in expense ratio and a decrease in commission and other acquisition expenses during FY 2009, whereas FY 2008 was adversely affected by accelerated DAC amortisation of USD38 million arising from higher than expected surrenders in the aftermath of the AIG Events in the fourth quarter of 2008.

The increase in operating profit led to an improvement in the operating margin to 23.4 per cent. in FY 2009 from 20.3 per cent. in 2008. Despite this increase, operating return on allocated equity fell to 21.1 per cent. in FY 2009 compared to 22.7 per cent. in FY 2008 reflecting an increase in allocated segment equity from the retention of earnings and a capital injection of USD220 million to increase the regulatory capital position of the Singapore operations.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

In FY 2007 and the first half of FY 2008, the AIA Group's operations in Singapore experienced strong growth in investment-linked products. Sales of single premium investment-linked products exceeded USD1,000 million for the first time in FY 2007 as policyholders reinvested savings from their Central Provident Fund Ordinary Accounts in search of higher returns. In April 2008, investment restrictions introduced by the Central Provident Fund on the use of Central Provident Fund Ordinary Accounts resulted in substantially lower sales of single premium investment-linked products for the remainder of FY 2008. In the second half of FY 2008, the AIA Group's operations in Singapore experienced a shift back to demand for traditional ordinary life insurance products, primarily due to the economic slowdown and the resulting decline in equity market values, as well as the investment restrictions introduced by the Central Provident Fund. As a result, TWPI for ordinary individual life increased to USD1,169 million in FY 2008, from USD1,096 million in FY 2007, accounting for 71.2 per cent. of TWPI in FY 2008, as compared with 72.4 per cent. in FY 2007.

Overall, TWPI increased 8.4 per cent. to USD1,641 million in FY 2008 from USD1,514 million in FY 2007. On a constant exchange rate basis, the growth was 1.1 per cent. The increase was primarily due to a rise in renewal premiums as a result of stable persistency and growth in first year premiums in all major lines of business, particularly following the launch of the "Smart Growth" and "Achiever" ordinary life insurance products. This growth was partially offset by lower sales of weighted single premium investment-linked products.

Investment income (excluding investment income from investment-linked contracts) increased 14.5 per cent. to USD616 million in FY 2008 from USD538 million in FY 2007, mainly due to inflow of new funds, as well as stable yields from the allocation of shareholders' assets to debt securities.

The AIA Group's operating expenses increased 35.8 per cent. to USD129 million in FY 2008 from USD95 million in FY 2007, primarily due to increased expenses of approximately USD9 million relating to several strategic initiatives to grow the agency distribution channel, build new distribution channels and improve wealth management capabilities and operational efficiency, a provision, and the effects of the appreciation of the Singapore dollar against the U.S. Dollar. The AIA Group's expense ratio increased to 7.9 per cent. in FY 2008 from 6.3 per cent. in FY 2007.

The AIA Group's operating profit decreased 4.3 per cent. to USD333 million in FY 2008 from USD348 million in FY 2007, primarily due to an acceleration of DAC amortisation, lower assets under management and an increase in operating expenses. These factors more than offset the fee income arising on surrenders, which were higher in the fourth quarter of FY 2008 compared to that recorded in FY 2007 following the AIG Events, particularly in respect of ordinary life products. This led to a decrease in operating margin to 20.3 per cent. in FY 2008 from 23.0 per cent. in FY 2007, and a decrease in operating profit after tax.

Operating return on allocated equity declined to 22.7 per cent. in FY 2008 from 25.9 per cent. in FY 2007 reflecting lower operating profit after tax and allocated segment equity.

Malaysia

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI.....	667	727	707
Investment income ⁽¹⁾	200	230	223
Operating expenses	52	64	58
Operating profit	123	123	150
Operating profit after tax	85	112	106
Allocated segment equity	379	437	504

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
Net capital in/(out) flow ⁽²⁾	(51)	(28)	(54)
Ratios:			
Expense ratio	7.8%	8.8%	8.2%
Operating margin.....	18.4%	16.9%	21.2%
Operating return on allocated equity	24.3%	27.5%	22.5%

(1) Excludes investment income related to investment-linked contracts.

(2) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI includes:			
Renewal premium	578	627	611
First year premium.....	78	91	93
Weighted single premium (10% of single premium)	11	9	3
Total	667	727	707

Year Ended 30 November 2009 Compared with Year Ended 30 November 2008

Operations in Malaysia generated operating profit growth of 22.0 per cent. between FY 2008 and FY 2009, despite a decrease in TWPI of 2.8 per cent. to USD707 million in FY 2009 from USD727 million in FY 2008. The decrease in TWPI was due to the depreciation of the Malaysian Ringgit to U.S. Dollar average exchange rate in FY 2009; on a constant exchange rate basis, TWPI increased 3.5 per cent. year-on-year. The depreciation also affected renewal premiums and first year premiums. Renewal premiums declined 2.6 per cent. but increased 3.8 per cent. across all product lines on a constant exchange rate basis over FY 2008, while first year premiums increased 2.2 per cent., or 7.7 per cent. on a constant exchange rate basis, led by sales of ordinary individual life insurance products, which accounted for 68.5 per cent. of total TWPI in FY 2009.

Investment income decreased 3.0 per cent. to USD223 million in FY 2009 from USD230 million in FY 2008, despite a larger average balance of assets under management due to depreciation of the average rate of Malaysia Ringgit against the U.S. Dollar. On a constant exchange rate basis, investment income grew 3.7 per cent. between FY 2008 and 2009.

Operating expenses decreased 9.4 per cent. to USD58 million in FY 2009 compared with USD64 million in FY 2008 primarily because operating expenses in FY 2008 included certain nonrecurring expenses associated with converting the Malaysian operations from a branch to a subsidiary and the establishment of the international Takaful operations, but also reflecting the beneficial effects of foreign exchange. There was a corresponding improvement in the expense ratio to 8.2 per cent. in FY 2009 as compared with 8.8 per cent. in FY 2008.

Operating profit increased 22.0 per cent. to USD150 million in FY 2009 compared with USD123 million in FY 2008 as a result of lower claims and policyholder dividends in FY 2009 following the maturity of an endowment product in FY 2008 and lower DAC amortisation during FY 2009 as investment performance recovered from the significant

market declines of 2008. This contributed to a more favourable operating margin of 21.2 per cent. in FY 2009 as compared with 16.9 per cent. in FY 2008.

Operating profit after tax decreased 5.4 per cent. between FY 2008 and FY 2009, despite an increase in operating profit, because the effective tax rate applicable on operating profit in FY 2008 was lower than average due to a tax credit received in that year.

Operating return on allocated equity decreased to 22.5 per cent. in FY 2009 from 27.5 per cent. in FY 2008 reflecting lower operating profit after tax and higher allocated segment equity. Allocated segment equity has been stated after the effects of a dividend remittance of USD69 million to the AIA Group during the year.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

Despite the regional economic slowdown in Asia, the AIA Group's operating unit in Malaysia continued to experience growth in TWPI in FY 2008. TWPI increased 9.0 per cent. to USD727 million in FY 2008 from USD667 million in FY 2007. On a constant exchange rate basis, the increase was 4.6 per cent. The increase was primarily due to growth in renewal premiums as a result of stable persistency levels and an increase in first year premiums across all product lines, particularly ordinary individual life insurance. Single premiums declined in FY 2008 as a result of lower demand for investment-linked products due to declining equity market values. Overall, the product mix remained stable, with ordinary individual life and investment-linked products accounting for 68.0 per cent. and 17.4 per cent. of total TWPI in FY 2008, respectively as compared to 68.0 per cent. and 17.4 per cent., respectively, in FY 2007.

Investment income (excluding investment income from investment-linked contracts) increased 15.0 per cent. to USD230 million in FY 2008 from USD200 million in FY 2007, principally due to the inflow of new funds and steady investment returns.

Operating expenses increased 23.1 per cent. to USD64 million in FY 2008 from USD52 million in FY 2007, partly due to the appreciation of the Malaysian Ringgit against the U.S. Dollar and expenses relating to strategic initiatives, such as converting the AIA Group's branch to a wholly-owned subsidiary and costs associated with setting up its Takaful operations. The expense ratio increased to 8.8 per cent. in FY 2008 from 7.8 per cent. in FY 2007 as growth in operating expenses outpaced growth in TWPI due to certain non-recurring expenses.

Operating profit remained unchanged at USD123 million in FY 2008 and FY 2007. There was no material impact from policy surrenders in FY 2008 observed in Malaysia. However, operating margin decreased to 16.9 per cent. in FY 2008 from 18.4 per cent. in FY 2007 mainly as TWPI increased while operating profit was unchanged.

Operating profit after tax in FY 2008 increased more than the corresponding increase in operating profit mainly due to the recognition of a tax credit of USD41 million relating to a beneficial change in tax regulation in Malaysia. Operating return on allocated equity increased to 27.5 per cent. in FY 2008 from 24.3 per cent. in FY 2007 as the effect of the increase in operating profit after tax was offset by an increase in allocated segment equity due to lower net capital outflows during FY 2008. Net capital outflows were lower in FY 2008 as the AIA Group decided to retain more capital in Malaysia to fund future growth when it converted its branch to a wholly-owned subsidiary.

China

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI.....	806	934	1,018
Investment income ⁽¹⁾	147	184	201
Operating expenses.....	127	172	181

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
Operating profit	122	85	89
Operating profit after tax ⁽²⁾	111	88	68
Allocated segment equity	494	554	660
Net capital in/(out) flow ⁽³⁾	—	7	16

Ratios:

Expense ratio	15.8%	18.4%	17.8%
Operating margin.....	15.1%	9.1%	8.7%
Operating return on allocated equity	26.9%	16.8%	11.2%

(1) Excludes investment income related to investment-linked contracts.

(2) Operating profit after tax is the amount attributable to shareholders of AIA, excluding the amount attributable to non-controlling interests.

(3) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI includes:			
Renewal premium.....	607	755	835
First year premium.....	161	160	166
Weighted single premium (10% of single premium)	38	19	17
Total	806	934	1,018

Year Ended 30 November 2009 Compared with Year Ended 30 November 2008

Operations in China generated TWPI of USD1,018 million in FY 2009 as compared to USD934 million in FY 2008, reflecting the continued efforts to expand distribution capabilities across the branch network. Between FY 2008 and 2009, TWPI increased across all major product lines contributing to an overall growth in TWPI of 9.0 per cent., or 6.6 per cent. on a constant exchange rate basis.

Renewal premiums increased 10.6 per cent. year-on-year (8.3 per cent. on a constant exchange rate basis), as a result of growth in ordinary individual life insurance, standalone A&H and group insurance products. First year premiums grew 3.8 per cent. between FY 2008 and FY 2009 largely due to improved productivity of the tied agency force. Growth in first year premiums was particularly significant in the second half of FY 2009 as premiums for ordinary individual life insurance increased 46.6 per cent. as compared with the first half of FY 2009. TWPI in respect of ordinary individual life products grew 4.9 per cent. to USD745 million in FY 2009, from USD710 million in FY 2008, or 2.8 per cent. on a constant exchange rate basis, accounting for 73.3 per cent. of total TWPI in FY 2009, compared with 76.0 per cent. in FY 2008.

Investment income increased 9.2 per cent. to USD201 million in FY 2009 from USD184 million in FY 2008 mainly due to a larger average balance of assets under management from net inflow of new funds, of which a larger proportion was invested in financial investments in FY 2009 compared with FY 2008, and higher returns on the

portfolio of debt securities with a variable rate of interest. AIA China reduced its holding of cash balances to an average of USD127 million in FY 2009 from USD255 million as of 30 November 2008.

Operating expenses increased by 5.2 per cent. to USD181 million in FY 2009 from USD172 million in FY 2008 as AIA China continued to enhance its agency and customer services network and develop its bancassurance and IFA distribution capabilities during the year and reflecting the strengthening of the Renminbi against the U.S. Dollar during FY 2009. Despite higher operating expenses, the expense ratio reduced to 17.8 per cent. in FY 2009 compared with 18.4 per cent. in FY 2008 as growth in TWPI outpaced growth in operating expenses.

Operating profit increased to USD89 million in FY 2009 compared with USD85 million in FY 2008 reflecting higher investment income, whereas operating profit after tax decreased to USD68 million in FY 2009 from USD88 million in FY 2008 as the effective tax rate in FY 2008 reflected the receipt of a one-time tax benefit from filing a consolidated tax return. The effective tax rate on operating profit in FY 2009 of approximately 24 per cent. is more closely aligned to the headline corporate income tax rate of 25 per cent.

Operating margin for FY 2009 was 8.7 per cent. compared with 9.1 per cent. in FY 2008 as TWPI grew at a faster rate than operating profit. Operating return on allocated equity fell to 11.2 per cent. in FY 2009 compared to 16.8 per cent. in FY 2008 influenced by lower operating profit after tax and an increase in allocated equity reflecting retention of earnings from growth of the branch network and an increase in allocated equity of USD16 million, including a capital injection of USD6 million into a real estate development project in the Guangdong province.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

In FY 2008 the AIA Group focused on expanding its distribution capabilities across its Chinese branch operations, while its operations were largely unaffected by the economic slowdown. TWPI increased 15.9 per cent. to USD934 million in FY 2008 from USD806 million in FY 2007. On a constant exchange rate basis, the growth was 6.0 per cent. The increase was primarily due to growth in renewal premiums across all major product lines and a significant increase in group insurance products across all premium categories, offset by a decrease in single premiums. Renewal premiums grew on stable persistency, while group insurance premiums increased on new corporate client acquisitions. The decrease in single premiums reflected lower customer demand for investment-linked products in the second half of FY 2008, which was due in large part to the significant decline in Asian and global equity market values.

Investment income (excluding investment income from investment-linked contracts) increased 25.2 per cent. to USD184 million in FY 2008 from USD147 million in FY 2007, mainly due to the inflow of new funds and steady investment returns.

Operating expenses increased 35.4 per cent. to USD172 million in FY 2008 from USD127 million in FY 2007 mainly due to higher employee expenses as a result of an increase in headcount combined with an increase in salaries, investments in initiatives to expand the AIA Group's business in China and the appreciation of the Renminbi against the U.S. dollar, but was offset by a refund of USD7 million of business tax which related to commission expenses. Specifically, the AIA Group expanded its agency and customer services infrastructure by increasing new sales and services centres to 127 centres in FY 2008 from 104 centres in FY 2007. The expense ratio increased to 18.4 per cent. in FY 2008 from 15.8 per cent. in FY 2007.

Operating profit decreased 30.3 per cent. to USD85 million in FY 2008 from USD122 million in FY 2007, principally as a result of the increase in expenses discussed above. There was no material impact from policy surrenders in FY 2008 in China. Operating margin decreased to 9.1 per cent. in FY 2008 from 15.1 per cent. in FY 2007 largely for the same reasons that led to the decrease in operating profit in FY 2008.

Operating profit after tax in FY 2008 decreased less than the corresponding reduction in operating profit mainly due to tax savings of USD14 million from the consolidated tax filing of the China branches.

The operating return on allocated equity decreased to 16.8 per cent. in FY 2008 from 26.9 per cent. in FY 2007 reflecting the decrease in operating profit and the effect of a capital injection made by the AIA Group relating to a real estate development project in the Guangdong province.

Korea

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI	2,178	2,268	1,759
Investment income ⁽¹⁾	233	248	217
Operating expenses	136	132	101
Operating profit	269	281	81
Operating profit after tax ⁽²⁾	192	218	65
Allocated segment equity	947	1,216	1,227
Net capital in/(out) flow ⁽³⁾	60	105	11
Ratios:			
Expense ratio	6.2%	5.8%	5.7%
Operating margin.....	12.4%	12.4%	4.6%
Operating return on allocated equity	23.8%	20.2%	5.3%

(1) Excludes investment income related to investment-linked contracts.

(2) Operating profit after tax in the amount that is attributable to shareholders of AIA, excluding the amount attributable to non-controlling interests.

(3) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI includes:			
Renewal premium	1,421	1,559	1,429
First year premium	683	664	322
Weighted single premium (10% of single premium)	74	45	8
Total	2,178	2,269	1,759

Year Ended 30 November 2009 Compared with Year Ended 30 November 2008

Performance of operations in Korea in FY 2009 was affected by ongoing uncertainty in the Korean economy and the AIG Events, which had a more pronounced and longer lasting impact than on other operations due to the previous branding of the Korean operations as AIG Life Korea. The impact on results of operations in Korea was exacerbated by further depreciation of the Korean Won against the U.S. Dollar during FY 2009, as the average Korean Won to U.S. Dollar exchange rate deteriorated 22.9 per cent. to 1,287.00 in FY 2009 from 1,047.12 in FY 2008.

TWPI decreased 22.4 per cent. to USD1,759 million in FY 2009 compared to USD2,268 million in FY 2008, although on a constant exchange rate basis the decrease was 4.7 per cent.. The 8.3 per cent. decrease in renewal premiums between FY 2008 and 2009 was largely attributable to adverse foreign exchange movements; on a constant exchange rate basis renewal premiums increased 11.9 per cent. during FY 2009. This increase was driven by a 60.7 per cent. growth on a constant exchange rate basis in renewal premiums for investment-linked products in FY 2009.

First year premiums decreased 51.5 per cent., or 39.5 per cent. on a constant exchange rate basis, to USD322 million in FY 2009 compared with USD664 million in FY 2008, mainly as a result of weaker sales in the first half of 2009. First year premiums were greater in the second half of FY 2009 as the AIA Group rebranded the Korean operations

to AIA Life Korea, led by a 40.2 per cent. increase in sales of ordinary individual life insurance in the second half of FY 2009 as compared with the first half.

Investment income fell 12.5 per cent. to USD217 million in FY 2009 from USD248 million in FY 2008 due to the depreciation of the Korean Won against the U.S. Dollar as well as the carry-over effect of lower assets under management during FY 2009 following high policy surrenders in the last quarter of FY 2008 and the first quarter of 2009. On a constant exchange rate basis, investment income increased 7.4 per cent. year-on-year.

Operating expenses decreased 23.5 per cent. to USD101 million in FY 2009 from USD132 million in FY 2008 mainly as a result of the depreciation of the Korean Won against the U.S. Dollar and active cost control measures during the year. On a constant exchange rate basis, the decrease in operating expenses was 5.6 per cent. Expense ratio remained largely stable at 5.7 per cent. in FY 2009 compared with 5.8 per cent. in FY 2008 as both operating expenses and TWPI were affected by the depreciation in the Korean Won.

Operating profit and operating profit after tax decreased to USD81 million and USD65 million, respectively, in FY 2009, from USD281 million and USD218 million, respectively, in FY 2008 due to the effects of depreciation of the Korean Won and the impact of increased DAC amortisation in respect of investment-linked and variable universal life products of USD91 million in FY 2009. This increase in DAC amortisation resulted from a revision to persistency assumptions in respect of investment-linked and variable universal life policies as higher than anticipated surrenders and premium holidays were experienced during FY 2009.

A further factor contributing to the reduction in operating profit was an increase in claims in FY 2009 estimated at USD40 million, particularly in respect of cancer products, where claims increased significantly due to enhanced awareness of and access to health screening. Steps have since been taken to limit the exposure to products with long term guaranteed rates that offer protection against cancer and to update insurance contract liabilities to reflect the increase in historical claims experience. In addition, operating profit in FY 2008 benefited from approximately USD40 million of surrender gains following the AIG Events in the last quarter of 2008.

Both operating margin and operating return on allocated equity were adversely affected by the deterioration in operating profit and decreased to 4.6 per cent. and 5.3 per cent., respectively, in FY 2009 from 12.4 per cent. and 20.2 per cent., respectively, in FY 2008.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

The AIA Group's business in Korea experienced growth in the first half of FY 2008, but was adversely affected by the financial market downturn and the AIG Events in the second half of FY 2008. The depreciation of the Korean Won against the U.S. Dollar of 12.7 per cent. in FY 2008 also had an adverse impact on the results of the AIA Group's business in Korea.

TWPI increased 4.1 per cent. to USD2,268 million in FY 2008 from USD2,178 million in FY 2007. On a constant exchange rate basis, the increase was 17.3 per cent. This increase was primarily due to a growth in renewal premiums of 9.7 per cent. (24.2 per cent. on a constant exchange rate basis), partially offset by a 2.8 per cent. decrease in first year premiums, although on a constant exchange rate basis first year premiums increased 8.5 per cent. In the first half of FY 2008, the AIA Group experienced growth in first year and single premiums, particularly with respect to variable universal life products. In the second half of FY 2008, the AIA Group's sales of investment-linked products fell significantly, which was mainly attributable to the significant decline in values in the Asian and global equity markets and the AIG Events. In Korea, response to the AIG Events was particularly marked as the local operations were branded AIG Korea, which, in particular, affected the bancassurance distribution channel adversely because a number of non-exclusive bank partners ceased to offer AIA Group products.

Korea was a significant geographical market with respect to the AIA Group's standalone A&H insurance product line in FY 2008. During FY 2008, first year premiums for standalone A&H insurance products decreased 27.7 per cent. (19.2 per cent. on a constant exchange rate basis), due to declining demand for one of its critical illness insurance products, reflecting increased competition and new restrictions relating to sales of insurance products through the direct marketing channel, and the depreciation of the Korean Won against the U.S. Dollar.

Investment income (excluding investment income from investment-linked contracts) increased 6.4 per cent. to USD248 million in FY 2008 from USD233 million in FY 2007, mainly due to the inflow of new funds and steady investment returns from a conservative investment portfolio allocation.

Operating expenses decreased 2.9 per cent. to USD132 million in FY 2008 from USD136 million in FY 2007, primarily due to the depreciation of the Korean Won against the U.S. Dollar in FY 2008. The expense ratio decreased to 5.8 per cent. in FY 2008 from 6.2 per cent. in FY 2007, partially reflecting greater operational efficiencies.

Operating profit increased 4.5 per cent. to USD281 million in FY 2008 from USD269 million in FY 2007, primarily as a result of an increase in surrender fees following the AIG Events, which more than offset the resulting acceleration of DAC amortisation relating to such surrendered policies. Surrenders increased significantly in September 2008, particularly in respect of investment-linked and annuity products and products sold through the bancassurance distribution channel, and continued to run at approximately 10 per cent. above the previous year for the remainder of 2008.

The AIA Group's operating margin remained at approximately 12.4 per cent. in FY 2008 and FY 2007.

The increase in the AIA Group's operating profit after tax for FY 2008 compared with FY 2007 was greater than the corresponding increase in operating profit, partly due to a lower deferred tax charge in respect of FY 2008, as a reduction in corporate tax rates to 22 per cent. from 2012 has been announced (compared to 24 per cent. in FY 2008). However, operating return on allocated equity decreased to 20.2 per cent. in FY 2008 from 23.8 per cent. in FY 2007, despite the increase in operating profit after tax, primarily due to the effects of a depreciation of the Korean Won against the U.S. Dollar and a capital contribution from the AIA Group to support local solvency following significant annuity surrenders.

The AIA Group experienced annuity surrenders of approximately USD1,023 million in FY 2008, compared with USD250 million in FY 2007. These surrender cash outflows were reflected in the statement of financial position as a decrease in assets, offset by a decrease in liabilities. The annuities that were surrendered were denominated in both Korean Won and U.S. Dollars. Given the adverse market conditions at the time, the AIA Group chose to maintain its investment in a portfolio of U.S. Dollar denominated assets originally held to back the annuity business thereby creating a temporary currency mismatch of assets and liabilities. Subsequent to the AIG Events, it sought to reduce the number of surrenders by various initiatives, such as setting up a call centre based conservation team. As a result, monthly surrenders for October 2008 and November 2008 of USD158 million and USD79 million, respectively, were significantly reduced from the peak in September 2008 of USD526 million.

Other Markets

Other Markets includes the results of the AIA Group's operations in Australia, the Philippines, Indonesia, Vietnam, New Zealand and Taiwan, and the AIA Group's interest in its joint venture in India, which is reflected in the AIA Group's consolidated financial information using the equity method of accounting.

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
TWPI.....	1,184	1,366	1,390
Investment income ⁽¹⁾	352	397	400
Operating expenses	157	173	170
Operating profit	170	188	191
Operating profit after tax ⁽²⁾	105	153	137

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
Allocated segment equity ⁽³⁾	1,024	1,204	1,316
Net capital in/(out) flow ⁽⁴⁾	(1)	118	18
Ratios:			
Expense ratio	13.3%	12.7%	12.2%
Operating margin.....	14.4%	13.8%	13.7%
Operating return on allocated segment equity	11.1%	13.7%	10.9%

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- (1) Excludes investment income related to investment-linked contracts.
(2) Operating profit after tax is the amount that is attributable to shareholders of AIA, excluding the amount that is attributable to non-controlling interests.
(3) Allocated segment equity includes capital allocations in the form of subordinated inter company debt.
(4) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
Renewal premium	861	1,015	1,020
First year premium.....	296	325	358
Weighted single premium (10% of single premium)	27	26	12
Total	<u>1,184</u>	<u>1,366</u>	<u>1,390</u>

Year Ended 30 November 2009 Compared with Year Ended 30 November 2008

The collective performance of the AIA Group's Other Markets segment continued to increase with TWPI and operating profit in FY 2009 exceeding the corresponding amounts in FY 2008 and 2007. As the purchase of a 51 per cent. interest in Ayala Life was concluded only shortly before the AIA Group year end, this purchase had no impact on TWPI for FY 2009.

TWPI for Other Markets grew 1.8 per cent. to USD1,390 million in FY 2009 from USD1,366 million in FY 2008, corresponding to an increase of 12.6 per cent. on a constant exchange rate basis. In common with the performance of the Key Markets reporting segments, TWPI growth in the second half of FY 2009 was stronger in most of the AIA Group's operations in Other Markets, and across most product lines, compared with the first half of the year. Overall, TWPI grew 24.7 per cent. in the second half of FY 2009, as compared with the first half of the year. The increase in TWPI was led by growth in group insurance products, which represented 32.9 per cent. of overall TWPI for Other Markets in FY 2009 compared with 20.9 per cent. in FY 2008.

The overall growth in TWPI in Other Markets was led by the operations in Australia and Vietnam. TWPI for the Australian operations increased 37.8 per cent. between FY 2008 and FY 2009, or 53.5 per cent. on a constant exchange rate basis, as a result of strong growth in group insurance products and expansion of the AIA Group's distribution channels to include bancassurance in FY 2009. The AIA Group acquired significant new corporate accounts during the year, enabling it to attain a leading position in the Australian group insurance market for the first time in FY 2009. While Vietnam's contribution to overall TWPI for Other Markets is less significant, the AIA

Group considers this to be a market offering attractive growth opportunities, with year-on-year TWPI growth of 13.2 per cent., or 21.2 per cent. on a constant exchange rate basis. During FY 2009, the AIA Group sold its interest in its joint venture operation in Indonesia, PT Asuransi AIA Indonesia, and as a consequence, it was included in TWPI and its results of operations for only nine months of FY 2009. The sale generated a loss on disposal of USD29 million. The AIA Group continues to operate in Indonesia through its wholly owned subsidiary PT AIA Financial.

Investment income increased 0.8 per cent. to USD400 million in FY 2009 from USD397 million in FY 2008. On a constant exchange rate basis, investment income grew 10.5 per cent. year-on-year reflecting the increase in average assets under management.

Operating expenses decreased marginally to USD170 million in FY 2009 from USD173 million in FY 2008 but increased 8.3 per cent. on a constant exchange rate basis mainly as a result of higher spending on strategic initiatives during FY 2009, particularly in Australia, as the AIA Group invests in diversifying its distribution capabilities and improving operational efficiency. Its expense ratio improved to 12.2 per cent. in FY 2009 compared with 12.7 per cent. in FY 2008 as growth in TWPI outpaced the increase in expenses on a constant exchange rate basis.

Operating profit increased to USD191 million in FY 2009 from USD188 million in FY 2008 mainly attributable to a decrease in the AIA Group's share of losses associated with its interest in its joint venture in India, which fell to USD22 million in FY 2009 from USD29 million in FY 2008. Despite the growth in operating profit, operating profit after tax decreased to USD137 million in FY 2009 compared to USD153 million in FY 2008.

Operating margin remained broadly unchanged at 13.7 per cent. in FY 2009 and 13.8 per cent. in FY 2008 reflecting stable operating profit. Excluding the share of losses from associates and joint ventures, the operating margin was 15.3 per cent. in FY 2009, a slight deterioration compared with FY 2008 of 15.9 per cent., but higher than 15.0 per cent. in FY 2007.

Operating return on equity declined to 10.9 per cent. in FY 2009 as compared with 13.7 per cent. in FY 2008, reflecting lower operating profit after tax and higher allocated equity as the AIA Group retained earnings in local operations in order to provide capital to support further growth. During FY 2009 capital allocated to the Other Markets segment increased USD18 million, primarily reflecting a USD75 million increase in the Philippines as a result of sales of former subsidiaries less a dividend of USD25 million to ALICO and a decrease of USD43 million resulting from the sale of PT Asuransi AIA Indonesia.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

Despite the regional economic slowdown, most of the AIA Group's operating units in Other Markets experienced growth in FY 2008 with the exception of Indonesia, which was adversely affected by the AIG Events as it carried the AIG brand, and the Philippines, due to its close association with the AIG Group. Overall, the AIA Group's operations in Other Markets saw TWPI grow 15.4 per cent. to USD1,366 million in FY 2008 from USD1,184 million in FY 2007. On a constant exchange rate basis, the increase was 12.7 per cent.

The AIA Group's Australian operations were the largest contributor to TWPI among the Other Markets segment, representing 30.6 per cent. on a TWPI basis in FY 2008. In Australia, TWPI increased across all product lines and premium types with an overall increase of 33.1 per cent., primarily as a result of a significant increase in group and standalone A&H insurance premiums. The AIA Group's group insurance business in Australia acquired a number of large corporate customers, while growth in standalone A&H insurance business was driven primarily by higher sales achieved through greater focus on the IFA channel. Most of the AIA Group's other operating units within the Other Markets segment experienced growth in investment-linked and group product premiums. Its operations in Vietnam saw first year premiums grow at 19.6 per cent. in FY 2008, which was mainly due to favourable customer response to a repackaging of its universal life products with an A&H rider.

Investment income (excluding investment income from investment-linked contracts) increased 12.8 per cent. to USD397 million in FY 2008 from USD352 million in FY 2007, principally due to the inflow of new funds and steady investment returns.

Operating expenses increased 10.2 per cent. to USD173 million in FY 2008 from USD157 million in FY 2007. This increase was primarily driven by strategic initiatives undertaken in operating units in Indonesia, Australia and Vietnam, such as distribution channel expansion and systems improvements, and local currency appreciation against the U.S. Dollar in FY 2008. The expense ratio decreased marginally to 12.7 per cent. in FY 2008 from 13.3 per cent. in FY 2007.

The AIA Group's operating profit increased 10.6 per cent. to USD188 million in FY 2008 from USD170 million in FY 2007. Operating profit increased in most of its operating units in Other Markets due to higher sales and higher investment income. Operating profit also includes the effect of equity accounting for the AIA Group's share of losses from associates and joint ventures of USD29 million in FY 2008 and USD8 million in FY 2007. The operating margin decreased to 13.8 per cent. in FY 2008 from 14.4 per cent. in FY 2007, mainly as a result of TWPI increasing at a greater rate than operating profit before tax.

Operating return on allocated equity increased to 13.7 per cent. in FY 2008 from 11.1 per cent. in FY 2007 reflecting the increase in operating profit after tax and the effects of capital allocations by the AIA Group to support continued expansion in Australia of USD18 million (in the form of subordinated debt), in Vietnam of USD23 million, in Taiwan of USD8 million, as well as USD50 million (in the form of subordinated debt) to Indonesia to support local solvency requirements in FY 2008. In addition, the AIA Group invested USD48 million in its joint venture in India in FY 2008.

Corporate and Other

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
Investment income ⁽¹⁾	72	45	(10)
Operating expenses	148	104	82
Operating loss	(99)	(81)	(88)
Operating loss after tax ⁽²⁾	(146)	(87)	(106)
Allocated segment equity ⁽³⁾	828	518	785
Net capital in/(out) flow ⁽⁴⁾	285	(377)	413

(1) Excludes investment income related to investment-linked contracts.

(2) Operating loss after tax is the amount that is attributable to shareholders of AIA, excluding the amount that is attributable to non-controlling interests.

(3) Allocated segment equity includes capital allocations in the form of subordinated into company debt.

(4) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

Year Ended 30 November 2009 Compared with Year Ended 30 November 2008

The Corporate and Other segment comprises the AIA Group's corporate function and shared services, including intragroup reinsurance, holdings of surplus capital which is mainly invested in debt securities and investment properties, as well as reflecting the accounting entries to eliminate the effects of intragroup trading. The Corporate and Other segment holds the majority of the AIA Group's investment in AIG shares.

Investment income decreased to a net loss of USD10 million in FY 2009 from a net gain of USD45 million in FY 2008 reflecting lower interest income, which in turn was a result of lower invested assets as capital from the Corporate segment was deployed to support operating business units and to pay dividends to AIG in FY 2008.

Operating expenses for this segment are stated net of fees for corporate services which are charged to the reporting segments. Operating expenses decreased to USD82 million in FY 2009 from USD104 million in FY 2008 as the AIA Group further refined its corporate service fee charging policy and rationalised headcount in certain central

support functions, reducing head office personnel by some 200 individuals. Taking all of the above, together with a substantial reduction in investment management and finance costs, the operating loss grew to USD88 million in FY 2009 compared with USD81 million in FY 2008.

The AIA Group received a net capital contribution from AIG of USD413 million primarily in settlement of various separation activities including the AIA Group's withdrawal from securities lending, reimbursement of separation costs, the sale of the AIA Group's investment management operations to AIG and the disposal of other entities to third parties.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

Investment income (excluding investment income from investment-linked contracts) decreased 37.5 per cent. to USD45 million in FY 2008 from USD72 million in FY 2007 as capital from the Corporate and Other segment was redeployed to support continued expansion of the AIA Group's business and capital requirements of other segments, thereby decreasing funds available for investment in this reporting segment.

Operating expenses are stated net of fees for corporate services which are charged to the reporting segments. Operating expenses decreased 29.7 per cent. to USD104 million in FY 2008 from USD148 million in FY 2007, reflecting refinement in the basis of charging expenses, within the AIA Group. The operating loss decreased 18.2 per cent. to USD81 million in FY 2008 from USD99 million in FY 2007 mainly as a result of the reduction in investment income, partially offset by the reduction in operating expenses.

Operating loss after tax reduced to USD87 million in FY 2008 from USD146 million in FY 2007, representing a greater reduction than in the operating loss, primarily due to a reversal of deferred tax liabilities during FY 2008.

Allocated segment equity decreased in FY 2008 reflecting redeployment of capital to other segments to support business expansion and capital requirements as well as payment of dividends to the AIG Group.

LIQUIDITY AND CAPITAL RESOURCES

The AIA Group manages its liquidity and capital resources on a group-wide basis, as well as by subsidiaries and branches. Its principal cash inflows come from insurance premiums, deposits, policy fees, management fees for its investment-linked products and annuity sales. In the case of AIA, as discussed below under "— Distributable Reserves" in this section, its principal capital inflows will be dividends from AIA Limited and its principal capital outflows will be dividends to shareholders.

The principal sources of funds generated by the AIA Group's insurance operations are generally affected by fluctuations in the level of policy surrenders, withdrawals, maturities, benefits and claims and guarantees to policyholders. The AIA Group's operating units may face liquidity pressure in the form of unexpected cash demands that could arise from an increase in the level of policyholders terminating policies. The AIA Group closely monitors and manages the level of surrenders in order to minimise such liquidity risk. AIA is a holding company and depends upon dividends and other distributions and payments from AIA Limited for its cash flow, and AIA Limited depends upon dividends and other distributions and payments from the AIA Group's operating subsidiaries and branches for substantially all of its cash flow. The payment of dividends and other distributions and payments by the AIA Group's subsidiaries and branches is regulated by applicable insurance, foreign exchange and tax laws, rules and regulations. The amount and timing of certain dividends, distributions and other payments by the AIA Group's insurance subsidiaries or branches require regulatory approval. In particular, the payment of dividends, distributions and other payments to AIA by AIA Limited is subject to the oversight of the OCI. As a holding company, the ability of AIA to pay dividends and meet other obligations depends on dividends and other payments from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations.

Liquidity is also available from the AIA Group's portfolio of investment assets. Its investments generally comprise highly liquid and marketable securities, which generally could be liquidated to meet cash needs. As of 30 November 2009, its cash and cash equivalents were USD3,405 million. The AIA Group seeks to augment its liquidity by employing various liability management techniques, including staggering of maturities of term deposits, and investing in marketable short-term securities. As of 30 November 2009, its investments in fixed maturity securities had a fair value of USD52,201 million. In some of the markets in which it invests, the AIA Group is subject to market

liquidity risk due to the significant size of its local currency denominated investments. In some of the markets in which it invests, its ability to sell investments in a sizeable volume without impacting the markets may be limited.

The AIA Group's cash inflows and existing cash balances are used to pay liabilities under various life insurance, annuity and A&H insurance products, and to purchase investment assets. The AIA Group also uses its funds to pay operating expenses, income taxes and dividends that may be declared and payable to its shareholders. The AIA Group believes that its sources of liquidity are sufficient to meet its current cash requirements, and to support any unexpected liquidity needs of its insurance operations.

Foreign exchange rate risk arises from the AIA Group's capital being held in multiple currencies in the Asia Pacific region. The AIA Group's primary concern is potential gains and losses to the group-level solvency position that could result from translation of local currencies into the U.S. Dollar. The U.S. Dollar is the functional currency for the AIA Group's solvency margin reporting to the Hong Kong Office of the Commissioner of Insurance. Foreign exchange rate risk can also arise from gains or losses that result from the conversion of profits distributed to AIA Limited that are denominated in local currencies to the U.S. Dollar. The AIA Group actively monitors the exposure of its capital position to such foreign exchange rate risks and undertakes appropriate hedging strategies to mitigate such risks, to the extent they are inconsistent with the AIA Group's risk appetite.

Cash Flows

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
Profit/(loss) before tax.....	2,579	(32)	2,411
Net cash (used in)/provided by operating activities.....	1,634	2,287	(1,101)
Changes in net cash held in respect of investment-linked contract holders.....	442	502	(352)
Changes in net cash held in respect of securities lending activities	804	(643)	(160)
Net cash provided by/(used in) operations, excluding investment-linked and securities lending	2,880	2,146	(1,613)
Net cash (used in)/provided by investing activities.....	(72)	(168)	(98)
Net cash (used in)/provided by financing activities	(62)	(414)	348
Net increase in cash and cash equivalents	1,500	1,705	(851)
Cash and cash equivalents at the beginning of the financial year.....	1,035	2,583	4,164
Effect of exchange rate changes on the balance of cash held in foreign currencies at the beginning of the financial year	48	(124)	92
Cash and cash equivalents at end of the financial year.....	2,583	4,164	3,405

Operating Activities

Net cash used in operating activities was USD1,101 million in FY 2009 compared with net cash provided by operating activities of USD2,287 million in FY 2008, primarily reflecting the repositioning of the AIA Group's investment portfolio during the third and fourth quarters of FY 2009. Operating activities included net purchases and sales of financial investments. During FY 2007 and FY 2008, the AIA Group de-risked its balance sheet and maintained a high cash balance in response to the AIG Events and to meet potential obligations as it wound down and withdrew from its securities lending activities. The AIA Group increased its investment activities significantly in the second half of FY 2009 as debt and equity markets recovered and the economic and trading outlook became more positive, funded mainly by cash generated from operating activities. The impact of the AIA Group's portfolio re-risking as it re-entered the market at the end of FY 2009 was muted because of the substantial cash balances that it had built up. This impact of the de-risking and re-risking is demonstrated by deducting changes in net cash held by investment-linked funds and in respect of securities lending activities; this shows that the AIA Group began increasing its cash balances in FY 2007, increased them further in FY 2008 and then began withdrawing them in FY 2009.

Net cash provided by operating activities was USD2,287 million in FY 2008, an increase from USD1,634 million in FY 2007. The increase in cash provided by operating activities over this period was primarily due to realisation of financial investments, and due to changes in the AIA Group's investment strategy in the latter half of FY 2008 which resulted in an increase in the proportion of net cash inflows from its insurance business held as cash and cash equivalents, rather than invested in financial investments.

Of cash and cash equivalents at 30 November 2009, USD764 million was held to back investment-linked contracts, as compared with USD1,116 million at 30 November 2008. The AIA Group held a balance of cash and cash equivalents of USD160 million as at 30 November 2008 in association with its securities lending programme as compared with nil as at 30 November 2009 as it withdrew from the programme during the year.

Investing Activities

Investing activities consist of acquisitions and divestitures of subsidiaries and associates and acquisitions and disposals of investment property and intangible assets. Net cash used in investing activities was USD98 million in FY 2009, a decrease from USD168 million in FY 2008. The decrease in cash used in investing activities over this period was primarily due to a reduction in purchases of investment property, plant and equipment.

Net cash used in investing activities was USD168 million in FY 2008, an increase from USD72 million in FY 2007. The increase in cash used in investing activities over this period was primarily due to investment activities in investment property, plant and equipment.

Financing Activities

Net cash provided by financing activities was USD348 million in FY 2009 compared with net cash used in financing activities of USD414 million in FY 2008. This increase reflected the repayment of a substantial portion of loans from fellow subsidiaries of AIG in FY 2008 and the capital contribution the AIA Group received from AIG during FY 2009 of USD401 million, primarily in relation to separation activities including the withdrawal from the securities lending programme, reimbursement of separation costs, the sale of the AIA Group's investment management operations to AIG and the disposal of other entities to third parties.

Net cash used in financing activities was USD414 million in FY 2008, an increase from USD62 million in FY 2007. The increase in cash used in financing activities over this period was primarily due to repayment of borrowings from subsidiaries of AIG and an increase in dividend payments to AIA's parent. These amounts offset the cash inflow from a capital contribution by AIA's parent.

Insurance Solvency Margin

The AIA Group is in compliance with the solvency and capital adequacy requirements of its regulators. Its primary insurance regulator at the group level is the OCI, which requires that AIA meets the solvency margin requirements of the ICO. AIA defines "Total Available Capital" as the amount of assets in excess of liabilities measured in accordance with ICO and "Required Capital" as the minimum required margin of solvency calculated in accordance with ICO. The ICO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The "Solvency Margin Ratio" is the ratio of Total Available Capital to Required Capital. The ICO requires AIA to Total Available Capital that is not less than 100% of the required minimum solvency margin, such that Total Available Capital exceeds Required Capital.

A number of transactions undertaken in FY 2008 and FY 2009 enhanced the company solvency position of the AIA Group. Effective 28 February 2009, AIA-B and AIA Australia, among others, became subsidiaries of AIA Limited. On 3 November 2009, beneficial ownership of Philamlife was transferred to AIA. In particular, the integration of AIA-B as a wholly-owned subsidiary of AIA substantially strengthened its solvency and capital position. The information below illustrates AIA Limited and AIA-B's Total Available Capital, Required Capital and Required Solvency Margin Ratio under the ICO at the fiscal year end 2007, 2008 and 2009.

AIA – company solvency

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
Total Available Capital.....	2,551	2,751	811
Required Capital.....	1,357	1,316	1,547
Solvency Margin Ratio.....	188%	209%	311%

AIA-B – company solvency

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
Total Available Capital	2,519	1,469	2,742
Required Capital.....	648	684	911
Solvency Margin Ratio	389%	215%	301%

Combined with the capital contributions of AIA Australia and Philamlife into AIA, the Total Available Capital, Required Capital and Solvency Margin Ratio as of 30 November 2009 of AIA under the ICO was approximately USD4,811 million, USD1,547 and 311 per cent. respectively.

The AIA Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries are domiciled. AIA-B, although domiciled in Bermuda, is also required to comply with the solvency margin requirements under the ICO because of its substantial insurance business carried on in Hong Kong. The various regulators overseeing the AIA Group actively monitor its solvency margin position. AIA Limited and AIA-B submit annual filings to the OCI setting forth their solvency margin ratios based on their annual audited accounts, and the AIA Group's operating units perform similar annual filings with their respective local regulators. The AIA Group's operating units were in compliance with the solvency margin requirements of their respective local regulators at 30 November 2007, 2008 and 2009.

INDEBTEDNESS

Borrowings and Obligations under Securities Lending and Repurchase Agreements

As of 30 November 2009, the AIA Group had borrowings of USD688 million outstanding. Of these borrowings, USD549 million were in the form of bank loans, USD85 million in the form of bank overdrafts, USD50 million in the form of loans from fellow subsidiaries of AIG and USD4 million in the form of other loans.

The most material financing transaction that the AIA Group is a party to is a five year variable rate term loan facility dated 23 November 2007 relating to a refinancing of a loan facility for AIA Central. The available facility and amount outstanding as of 30 November 2009 was USD542 million. The loan facility for AIA Central is on standard commercial terms and on a non-recourse basis, principally secured against assets of the AIA Group's subsidiary company, Bayshore Development Group Limited ("Bayshore"), a wholly-owned subsidiary of the AIA Group which owns AIA Central in Hong Kong, and shares held by Grand Design Development Limited, a further subsidiary company, and the immediate parent of Bayshore, in Bayshore.

The remaining bank loan relates to a three year fixed rate term loan facility commencing 31 August 2007, held by the AIA Group's Thai operations. The available facility and amount outstanding as of 30 November 2009 was USD7 million. The loan facility, which is on standard commercial terms and on a non-recourse basis, is secured against a piece of land held by the AIA Group's Thai operations and is subject to AIA maintaining a certain minimum solvency ratio in respect of its regulated life insurance business in Thailand.

As of 30 November 2009, the AIA Group had no material bank loans other than as described immediately above.

Operational Borrowings

As of 30 November 2009, the AIA Group had a strong capital base and no structural debt or structural leverage, and AIA's operational borrowing for working capital management purposes consisted mainly of the loan facility for AIA Central and bond repurchase agreements. Throughout the track record period, bank borrowings for working capital management were in the range of approximately USD620 million to USD630 million. AIA enters into repurchase transactions from time to time to provide short term liquidity to augment its investment programme through optimizing working capital.

The following operational borrowing as a ratio of total equity attributable to shareholders of AIA is presented on a consistent basis as of 30 November 2007, 2008 and 2009. For purposes of this analysis, operational borrowings include short term loans from fellow subsidiaries of AIG arising from an intra-group corporate reorganisation and borrowings and obligations under repurchase agreements. It excludes obligations under securities lending agreements since the AIA Group has withdrawn from all securities lending arrangement in November 2009.

- As of 30 November 2007, the AIA Group's operational borrowing as a percentage of total equity attributable to shareholders of AIA was 22.6 per cent.. Excluding loans from fellow subsidiaries of AIG, the ratio of operational borrowing to total equity attributable to shareholders of AIA was 16.6 per cent..
- As of 30 November 2008, the AIA Group's operational borrowing as a percentage of total equity attributable to shareholders of AIA decreased to 15.9 per cent. despite a 33.6 per cent. decrease in equity to USD8,908 million from USD13,440 million in the previous year. The decrease in equity was principally driven by negative fair value and foreign currency translation reserves; while the decrease in operational borrowings reflects a substantial reduction in obligations under repurchase agreement (which decreased to USD755 million) and repayment of a substantial portion of related party borrowings (which decreased the related party borrowings to USD20 million).
- As of 30 November 2009, the AIA Group's ratio of operational borrowing as a percentage of total equity attributable to shareholders of AIA decreased further to 6.5 per cent. largely due to a reduction in obligations under repurchase agreements, which decreased 62.4 per cent. to USD284 million as of 30 November 2009 from USD755 million in the previous year, combined with a significant increase in equity to USD14,938 million as of 30 November 2009 compared with USD8,908 million in the previous year. The latter was largely driven by a recovery in market values of financial investments towards the end of FY 2009.

External Financing Plans

Currently, the AIA Group has no intention to undertake any material external financing transactions at the AIA Group level that would be outside the ordinary course of business.

Contractual Obligations

Commitments under Operating Leases

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
Properties and others			
Not later than one year.....	64	69	76
Later than one and not later than five years.....	121	136	102
Later than five years.....	117	101	94
Total	302	306	272

The AIA group is the lessee of a number of properties and items of office equipment held under operating leases. The leases typically run for an initial period of one to seven years, with an option to renew the lease when all terms

are renegotiated. Lease payments are usually reviewed at the end of the lease term to reflect market rates. None of the leases includes contingent rentals.

Investment Commitments

	Year ended 30 November		
	2007	2008	2009
	(in US\$ millions)		
Investment commitments			
Not later than one year	—	107	90
Later than one and not later than five years	143	51	36
Later than five years	—	131	138
Total	<u>143</u>	<u>289</u>	<u>264</u>

Investment commitments consist of commitments to invest in private equity partnerships.

Contingencies

The AIA Group is subject to regulation in each of the geographical markets in which it operates from insurance, securities, capital markets, pension, data privacy and other regulators and it is exposed to the risk of regulatory actions in response to perceived or actual non-compliance with regulations relating to suitability, sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties.

The AIA Group is exposed to legal proceedings, complaints and other actions from its commercial activities including those arising from commercial activities, sales practices, suitability of products, policies and claims.

The AIA Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. Due to a change in law, further cessions under this contract ended in July 2008. This reinsurance is fully retroceded to a subsidiary of AIG. The AIA Group is exposed to the risk of losses in the event of the failure of the counterparty retrocessionaire to honour its obligations. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates was approximately USD3,588 billion at 30 November 2009 (2008: USD3,147 million, 2007: USD4,507 million). The liabilities and related reinsurance assets, which totalled USD24 million (2008: USD32 million and 2007: USD31 million) respectively arising from these agreements are reflected and presented on a gross basis in accordance with the AIA Group's accounting policies. The AIA Group expects to fully recover any losses arising from this agreement from the retrocessionaire.

The AIA Group provided reinsurance and retrocession of general insurance business which was primarily underwritten in the 1970s and 1980s. In the absence of any claim notifications in the three years ended 30 November 2009, the AIA Group does not expect any further material liabilities to arise. At the time AIA-B was transferred to the AIA Group, AIRCO, the former owner of AIA-B, provided AIA with an uncapped indemnification for losses with respect to claims made before 1 November 2010, arising from underwriting activities of the Bermuda office of AIA-B prior to 28 February 2010.

The AIA Group has issued capital guarantees and minimum guaranteed rates of return ranging from 0 per cent. to 5 per cent. to holders of units of pension funds that have an accumulation value of approximately USD1,260 million (2008: USD1,232 million, 2007: USD1,272 million). It has the ability to reduce the guaranteed rates of return, subject to obtaining approvals of applicable regulators.

OFF-BALANCE SHEET ARRANGEMENTS

Except as described above in “— Contractual Obligations — Commitments under Operating Leases” and the discussion of capital guarantees and minimum guaranteed rates of return the AIA Group has issued to certain holders of units of pension funds in “Contingencies” in this section, the AIA Group has no other material off-balance sheet arrangements.

DISTRIBUTABLE RESERVES

The principal source of income of AIA is dividends from AIA Limited, while the principal capital outflows of AIA will be dividends to shareholders. AIA serves principally as a holding company and will incur certain corporate and listing related expenses.

PROPERTY INTERESTS

As of 30 September 2009, the AIA Group leased a total of approximately 600 properties and owned a total of approximately 150 properties in 15 jurisdictions. As of 30 November 2009, the total market value of its property interests was USD2,413 million, representing less than 3 per cent. of its total assets.

OTHER NON-RECURRING ITEMS

In FY 2009, material non-recurring items comprised restructuring and separation costs of USD89 million.

In FY 2008, material non-recurring items comprised: (i) a USD447 million gain arising on final settlement of the reinsurance recapture; (ii) the release of a withholding tax provision of USD275 million resulting from the clarification of a tax treaty; and (iii) USD10 million of restructuring costs incurred in order to enhance future operational efficiency of corporate operating expenses.

QUANTITATIVE AND QUALITATIVE ANALYSIS ABOUT MARKET RISK

Market risk is the exposure created by potential changes in market prices and rates. The AIA Group is exposed to market risk arising principally from its holding of financial investments. Some of the significant market risks it faces include interest rate risk, foreign exchange risk and equity market risks.

Interest Rate Risk

The AIA Group's exposure to interest rate risk predominantly arises from its investments in long-term fixed income debt securities, which are exposed to fluctuations in interest rates.

Interest rate risk also arises from the AIA Group's insurance and investment contracts with guaranteed and fixed terms, or settlement options available on maturity which carry the risk that interest income and capital redemptions from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable as interest rates rise and fall. For other products, including those with participation or investment-linked features, interest rate risk is significantly reduced due to the non-guaranteed nature of additional policyholder benefits.

The AIA Group manages its interest rate risk by generally investing in fixed income assets in the same currencies as those of its liabilities, as well as investing in financial instruments with tenors that broadly match the duration of its liabilities.

The AIA Group also considers the effect of interest rate risk in its overall product strategy. Certain products, such as investment-linked, universal life and participating business contracts, inherently have lower interest rate risk as their design provides flexibility as to crediting rates and policyholder dividend scales.

The table below sets forth the sensitivity of profit and total equity to changes in interest rates. In calculating the sensitivity of debt instruments to changes in interest rates the AIA Group has made assumptions about the corresponding impact on liabilities to policyholders. Assets held to support investment linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable

minimum policyholders' participation ratios. For the purpose of this illustration the impact of possible impairments of financial investments classified as available for sale which may arise in times of economic stress have been ignored, since default events reflect the characteristics of individual issuers. Because the AIA Group's accounting policies lock in interest rate assumptions on policy inception and its assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is no corresponding effect on liabilities.

	30 November 2007		30 November 2008		30 November 2009	
	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)
	US\$ millions					
+50 basis points shift in yield curves.....	(45)	(1,130)	(53)	(1,096)	(64)	(1,492)
-50 basis points shift in yield curves.....	45	1,130	53	1,096	64	1,492

Foreign Exchange Rate Risk

Foreign exchange rate risk arises from the AIA Group's operations in multiple jurisdictions in the Asia Pacific region. Foreign exchange rate risk associated with assets and liabilities denominated in non-functional currencies results in gains and losses being recognised in the income statement. Foreign exchange rate risk associated with the retranslation of the net assets of operations with non-U.S. Dollar functional currencies results in gains or losses being recorded directly in total equity.

The AIA Group generally invests in assets denominated in currencies that match its liabilities to avoid currency mismatches. However, for yield enhancement and risk diversification purposes, the AIA Group's business units also invest, in some instances, in instruments in currencies that are different from the originating liabilities. These activities expose the AIA Group to gains and losses arising from foreign exchange rate movements. The AIA Group's business units monitor foreign currency exposures and where these are not consistent with its risk appetite, positions may be closed or hedging instruments may be purchased.

The table below sets forth the sensitivity of the AIA Group's total equity to changes in foreign exchange rates applied to net foreign currency exposures after taking into account the effect of economic hedges of currency risk. While providing economic hedges that reduce net exposure to foreign exchange rate risk, hedge accounting is not applied. Currencies for which net exposure is not significant are excluded from the analysis below. In compiling the table below, the impact of a 5 per cent. strengthening of original currency is stated relative to the functional currency of the relevant operation of the AIA Group. The impact of a 5 per cent. strengthening of the U.S. Dollar is also stated relative to functional currency. Currency exposure reflects the net notional amount of currency derivative positions as well as net equity by currency.

	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
	US\$ millions						
30 November 2009							
Equity analysed by original currency.....	11,824	(410)	2,448	(1,922)	563	704	924
Net notional amounts of currency	(3,845)	—	1,256	3,031	—	—	100

	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
	US\$ millions						
derivative positions.....							
Currency exposure	7,979	(410)	3,704	1,109	563	704	1,024
5% strengthening of original currency							
Impact on profit before tax.....	103	(63)	1	11	1	9	2
5% strengthening of the US dollar							
Impact on total equity	(103)	(9)	(184)	(54)	(28)	(30)	(50)
30 November 2008							
Equity analysed by original currency.....	7,085	(502)	2,113	(1,887)	482	628	598
Net notional amounts of currency derivative positions.....	(3,316)	—	1,039	2,776	—	—	(96)
Currency exposure	3,769	(502)	3,152	889	482	628	502
5% strengthening of original currency							
Impact on profit before tax.....	31	(66)	1	6	—	7	1
5% strengthening of the US dollar							
Impact on total equity	(31)	(5)	(156)	(42)	(24)	(28)	(25)
30 November 2007							
Equity analysed by original currency.....	11,387	(15)	2,141	(2,370)	318	355	831
Net notional amounts of currency derivative positions.....	(2,818)	—	686	2,728	—	—	—
Currency exposure	8,569	(15)	2,827	358	318	355	831
5% strengthening of original currency							
Impact on profit before tax.....	128	(41)	(14)	8	2	8	8
5% strengthening of the US dollar							

	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
	US\$ millions						
Impact on total equity	(128)	(9)	(141)	(16)	(15)	(14)	(35)

Equity Market Price Risk

Equity market price risk arises from changes in the market value of equity securities and equity funds. With the exception of the AIA Group's holding of shares in AIG, a significant proportion of its equity instruments are either held to back investment-linked contracts, the investment risk in respect of which is wholly borne by policyholders; or in respect of participating business, where investment risks are shared between the AIA Group and its policyholders. Equity securities form a relatively low proportion of the AIA Group's overall non-linked investment portfolio (including participating funds).

For the purpose of illustrating the sensitivity of profit and total equity to changes in equity prices, the impact of possible impairments of financial investments classified as available for sale which may arise in times of economic stress has been ignored and certain assumptions were made about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support investment-linked contracts have also been excluded on the basis that changes in fair value are wholly borne by policyholders.

	30 November 2007		30 November 2008		30 November 2009	
	Impact on profit for the year before tax	Impact on total equity (before the effects of taxation)	Impact on profit for the year before tax	Impact on total equity (before the effects of taxation)	Impact on profit for the year before tax	Impact on total equity (before the effects of taxation)
	US\$ millions					
10 per cent increase in equity prices	464	716	204	214	308	314
10 per cent decrease in equity prices	(464)	(716)	(204)	(214)	(308)	(314)

PRELIMINARY AND UNAUDITED

**APPENDIX VI: AIA GROUP UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 NOVEMBER 2009**

The following is a summary of certain information that has been derived from AIA Group's unaudited results of operations. This information has not been audited and is subject to completion and issuance of the AIA Group's audited financial statements. In addition, the AIA Group's financial information has not been prepared in accordance with Prudential's accounting policies and is not directly comparable to Prudential's financial information.

Consolidated Income Statement

US\$m	Notes	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
Revenue				
<i>Turnover</i>				
Premiums and fee income		9,573	10,674	10,433
Premiums ceded to reinsurers		(833)	(392)	(331)
Net premiums and fee income		8,740	10,282	10,102
Investment return	8	6,409	(6,998)	8,843
Other operating revenue	8	77	526	71
Total revenue		15,226	3,810	19,016
Expenses				
Insurance and investment contract benefits		11,016	1,457	13,814
Insurance and investment contract benefits ceded		(653)	(248)	(251)
Net insurance and investment contract benefits		10,363	1,209	13,563
Commission and other acquisition expenses		947	1,563	1,648
Operating expenses		962	1,089	981
Restructuring and separation costs		-	10	89
Investment management expenses		92	103	89
Finance costs		203	159	50
Change in third party interests in consolidated investment funds		80	(319)	164
Total expenses	9	12,647	3,814	16,584
Profit before share of loss from associates and joint ventures		2,579	(4)	2,432
Share of loss from associates and joint ventures		-	(28)	(21)
Profit/(loss) before tax		2,579	(32)	2,411
Income tax (expense)/credit attributable to policyholders' returns		(70)	90	(137)
Profit before tax attributable to shareholders' profits		2,509	58	2,274
Tax (expense)/credit	10	(651)	445	(654)
Less: tax attributable to policyholders' returns		70	(90)	137
Tax (expense)/credit attributable to shareholders' profits		(581)	355	(517)
Net profit		1,928	413	1,757
<i>Net profit attributable to:</i>				
Shareholders of AIA Group Limited		1,914	408	1,754
Non-controlling interests		14	5	3
Earnings per share (US\$)				
Basic and diluted	12	0.16	0.03	0.15

PRELIMINARY AND UNAUDITED

Consolidated Statement of Comprehensive Income

US\$m	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
Net profit	1,928	413	1,757
Fair value gains/(losses) on available for sale financial assets (net of tax of: 2007: US\$181m; 2008: US\$(22)m; 2009 US\$(139)m)	(1,233)	(4,801)	2,915
Fair value (gains)/losses on available for sale financial assets transferred to income on disposal and impairment (net of tax of: 2007: nil; 2008: US\$10m; 2009: US\$6m)	(1)	222	223
Foreign currency translation adjustments	344	(796)	764
Other comprehensive income	(890)	(5,375)	3,902
Total comprehensive income	1,038	(4,962)	5,659
<i>Total comprehensive income attributable to:</i>			
Shareholders of AIA Group Limited	1,021	(4,922)	5,611
Non-controlling interests	17	(40)	48

Consolidated Statement of Financial Position

US\$m	Notes	1 December 2006	30 November 2007	30 November 2008	30 November 2009
Assets					
Intangible assets	14	185	200	232	233
Investments in associates and joint ventures	15	267	63	47	53
Property, plant and equipment	16	309	352	332	326
Investment property	17, 18	95	190	217	244
Reinsurance assets	19	2,427	2,668	147	284
Deferred acquisition and origination costs	20	8,135	10,044	10,047	10,976
Financial investments:	21, 23				
Loans and receivables		5,006	5,665	4,002	4,648
Available for sale					
Debt securities		27,688	30,955	29,934	37,722
Equity securities – shares in AIG		3,048	2,520	87	62
At fair value through profit or loss					
Debt securities		11,083	13,449	12,389	14,479
Equity securities		10,755	17,619	8,660	16,116
Derivative financial instruments	22	294	422	252	453
		57,874	70,630	55,324	73,480
Other assets	24	680	1,462	1,499	1,600
Cash and cash equivalents	25	1,035	2,583	4,164	3,405
Assets of disposal groups held for sale	11	-	-	-	58
Total assets		71,007	88,192	72,009	90,659
Liabilities					
Insurance contract liabilities	26	46,960	57,161	52,158	63,255
Investment contract liabilities	27	3,482	6,505	4,898	7,780
Borrowings	29	812	1,461	661	688
Obligations under securities lending and repurchase agreements	30	3,742	5,395	2,718	284
Derivative financial instruments	22	30	47	138	71
Provisions	32	135	142	166	250
Deferred tax liabilities	10	1,343	1,427	547	1,087
Current tax liabilities		221	269	218	185
Other liabilities	33	1,663	2,294	1,587	2,012
Liabilities of disposal groups held for sale	11	-	-	-	58
Total liabilities		58,388	74,701	63,091	75,670
Equity					
Issued share capital and shares yet to be issued	34	12,000	12,000	12,000	12,044
Share premium	34	1,914	1,914	1,914	1,914
Other reserves		(13,376)	(13,215)	(12,480)	(12,080)
Retained earnings		7,810	9,431	9,494	11,223
Fair value reserve		4,194	2,969	(1,565)	1,528
Foreign currency translation reserve		-	341	(455)	309
Amounts reflected in other comprehensive income		4,194	3,310	(2,020)	1,837
<i>Total equity attributable to:</i>					
Shareholders of AIA Group Limited		12,542	13,440	8,908	14,938
Non-controlling interests	35	77	51	10	51
Total equity		12,619	13,491	8,918	14,989
Total liabilities and equity		71,007	88,192	72,009	90,659

PRELIMINARY AND UNAUDITED

Consolidated Statement of Changes in Equity

US\$m	Notes	Issued share capital, shares yet to be issued and share premium	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Non-controlling interests	Total Equity
Balance at 1 December 2006		13,914	(13,376)	7,810	4,194	-	77	12,619
Net profit		-	-	1,914	-	-	14	1,928
Other comprehensive income		-	-	-	(1,237)	344	3	(890)
Capital contributions		-	164	-	-	-	-	164
Dividends	13	-	-	(259)	-	-	(2)	(261)
Acquisition of non-controlling interest		-	-	(34)	12	(3)	(41)	(66)
Share based compensation		-	(3)	-	-	-	-	(3)
Balance at 30 November 2007		13,914	(12,215)	9,431	2,969	341	51	13,491
Net profit		-	-	408	-	-	5	413
Other comprehensive income		-	-	-	(4,534)	(796)	(45)	(5,375)
Capital contributions		-	731	-	-	-	-	731
Dividends	13	-	-	(345)	-	-	(1)	(346)
Share based compensation		-	4	-	-	-	-	4
Balance at 30 November 2008		13,914	(12,480)	9,494	(1,565)	(455)	10	8,918
Net profit		-	-	1,754	-	-	3	1,757
Other comprehensive income		-	-	-	3,093	764	45	3,902
Capital contributions		44	394	-	-	-	-	438
Dividends	13	-	-	(25)	-	-	-	(25)
Acquisition of subsidiary		-	-	-	-	-	44	44
Disposal of subsidiary		-	-	-	-	-	(51)	(51)
Share based compensation		-	6	-	-	-	-	6
Balance at 30 November 2009		13,958	(12,080)	11,223	1,528	309	51	14,989

Consolidated Statement of Cash Flows

Cash flows presented in this statement cover all the Group's activities and include flows from both investment-linked contracts and participating funds, and shareholder activities.

US\$m	Notes	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
Cash flows from operating activities				
Profit/(loss) before tax		2,579	(32)	2,411
Gain on reinsurance recapture	5	-	(447)	-
Financial instruments	21	(11,934)	10,054	(11,044)
Insurance and investment contract liabilities	26	9,572	(2,974)	10,132
Obligations under securities lending and repurchase agreements	30	1,609	(3,162)	(2,505)
Other non-cash operating items, including investment income		(2,190)	(3,709)	(2,619)
Operating cash items:				
Interest received		2,462	2,933	2,798
Dividends received		185	201	147
Interest paid		(203)	(159)	(50)
Tax paid		(446)	(418)	(371)
Net cash (used in)/provided by operating activities		1,634	2,287	(1,101)
Cash flows from investing activities				
Payments for investments in associates	15	(8)	(48)	(24)
Disposals of investments in associates	15	217	17	1
Acquisitions of subsidiaries, net of cash acquired	4	(207)	-	(28)
Disposal of a subsidiary, net of cash disposed		-	-	(2)
Payments for investment property and property, plant and equipment	16, 17	(61)	(114)	(39)
Proceeds from sale of investment property and property, plant and equipment		9	15	8
Payments for intangible assets	14	(22)	(38)	(37)
Proceeds from sale of intangible assets		-	-	23
Net cash used in investing activities		(72)	(168)	(98)
Cash flows from financing activities				
Dividends paid during the year	13	(261)	(346)	(25)
Proceeds from borrowings	29	101	50	21
Repayment of borrowings	29	-	(849)	(49)
Purchase of non-controlling interest		(66)	-	-
Capital contributions		164	731	401
Net cash (used in)/provided by financing activities		(62)	(414)	348
Net (decrease)/increase in cash held		1,500	1,705	(851)
Cash and cash equivalents at beginning of the financial year		1,035	2,583	4,164
Effect of exchange rate changes on cash		48	(124)	92
Cash and cash equivalents at the end of the financial year	25	2,583	4,164	3,405

Notes to the Consolidated Financial Statements and Significant Accounting Policies

The following is a summary of certain information that has been derived from AIA Group's unaudited results of operations. This information has not been audited and is subject to completion and issuance of the AIA Group's audited financial statements. In addition, the AIA Group's financial information has not been prepared in accordance with Prudential's accounting policies and is not directly comparable to Prudential's financial information.

1. Corporate information and group reorganisation

AIA Group Limited ('the Company') was established as a company with limited liability incorporated in Hong Kong on 24 August 2009. The address of its registered office is 35/F, AIA Central, 1 Connaught Road, Central, Hong Kong.

AIA Group Limited and its subsidiaries (collectively 'the AIA Group' or 'the Group') is a life insurance based financial services provider operating in 15 jurisdictions throughout the Asia Pacific region. The Group's principal activity is the writing of life insurance business, providing life, pensions and accident and health insurance throughout Asia, and distributing related investment and other financial services products to its customers.

The AIA Group was formed following several steps in the reorganisation of the Asia Pacific life insurance operations of American International Group, Inc. ('AIG'). These included the reorganisation steps required under the purchase agreement dated 25 June 2009 between AIG, American International Reinsurance Company, Ltd ('AIRCO'), the Company's immediate parent company prior to the completion of the reorganisation and a fellow subsidiary of AIG, and the Federal Reserve Bank of New York (the 'FRBNY') ('the FRBNY Agreement') under which AIG agreed to contribute the equity of American International Assurance Company, Limited ('AIA') to a special purpose vehicle, AIA Aurora LLC, the details of which are set out in Note 44, Immediate and ultimate controlling party. The main steps in the reorganisation are summarised as follows:

- on 19 February 2009, AIA entered into a series of agreements with AIRCO in respect of the transfer of American International Assurance Company (Bermuda) Limited ('AIA-B'), AIA Australia Limited (previously known as American International Assurance Company (Australia) Limited) and AIA Pension and Trustee Co. Ltd (including, as of the transaction date, all of their subsidiaries, joint ventures and associates, and other investments) to AIA. These transactions completed on 28 February 2009;
- on 1 June 2009, American Life Insurance Company ('ALICO'), a fellow subsidiary of AIG, transferred its Taiwan branch together with the branch's life insurance and related business to AIA-B;
- on 13 August 2009, AIA-B entered into an agreement with AIG in respect of the transfer of AIG Global Investment Corporation (Asia) Limited to AIG. This transaction completed on 25 November 2009;
- on 24 August 2009, AIA entered into an agreement with AIG and ALICO in respect of the transfer of The Philippine American Life and General Insurance Company ('Philam') (including, as of the date of acquisition, all of its subsidiaries, joint ventures and associates, and other investments) to AIA. Philam's shares were transferred to AIA in exchange for a promissory note issued by AIA, with a principal amount of US\$586m ('the AIA promissory note'). The AIA promissory note was transferred by AIG and ALICO to AIA's then immediate parent company, AIRCO, which contributed the AIA promissory note to AIA in exchange for shares in AIA, following which the AIA promissory note was extinguished. This transaction completed on 3 November 2009.
- on 24 August 2009, AIA Group Limited was formed by AIA Aurora LLC pursuant to the terms of the FRBNY Agreement;
- on 23 September 2009, TH Central Holdings Limited, a wholly-owned subsidiary of AIA, entered into an agreement with AIRCO to acquire certain ownership interests in fellow subsidiaries of AIG. These entities perform service functions and hold property in Thailand. These transactions completed on 15 October 2009.
- on 27 November 2009, AIA Group Limited entered into an agreement with AIG and AIRCO, which completed on 30 November 2009, in respect of the transfer of AIA (including, as of the transaction date, all of its subsidiaries, joint ventures and associates, and other investments) to AIA Group Limited. AIRCO transferred AIA to AIA Group Limited in exchange for a promissory note issued by AIA Group Limited, with a principal amount of US\$13,964m ('the AIG Group promissory note'). AIRCO transferred the AIA Group promissory note to AIA Aurora LLC, which contributed the note to AIA Group Limited in exchange for shares (comprising issued share capital of US\$12,000m and share premium of US\$1,914m) and a further US\$50m promissory note from AIA Group Limited, upon receipt of which the first AIA Group promissory note was extinguished.

1. Corporate information and group reorganisation (continued)

The group reorganisation and business combinations arising from transfers of interests in entities that are under the common control of AIG throughout all periods presented in these consolidated financial statements, have been accounted for as if they had occurred at the beginning of the earliest period presented. The components of equity of the acquired entities are added to the same components within consolidated equity, except that any share capital of the acquired entities is recognised as part of other reserves.

Accordingly, the consolidated financial statements present the results of operations of the Group as if it had been in existence throughout the period from 1 December 2006 to date. All entities now comprising the Group, including joint ventures and associates, have adopted 30 November as their financial year end date for AIA Group reporting purposes.

The components of the Group previously produced published financial statements on a variety of different bases, including Hong Kong Financial Reporting Standards ('HKFRS'), International Financial Reporting Standards ('IFRS') and Philippines Financial Reporting Standards ('PFRS'). For the purposes of the group reorganisation and business combinations arising from transfers of entities under common control, the Directors of the Company have prepared consolidated financial statements of the Group for the three years ended 30 November 2007, 2008 and 2009 ('the relevant periods') in accordance with IFRS, as issued by the International Accounting Standards Board, and HKFRS, as issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'), based on the previously published financial statements of the component entities for the relevant periods, after making such adjustments as are appropriate to comply with the Group's IFRS and HKFRS accounting policies.

2. Significant accounting policies

2.1 Basis of preparation and statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS, HKFRS and the Hong Kong Companies Ordinance and the applicable disclosure provisions of the rules governing the listing of securities on the Hong Kong Stock Exchange ('the Listing Rules'). HKFRS is substantially consistent with IFRS and the accounting policy selections that the Group has made in preparing these consolidated financial statements are such that the Group is able to comply with both IFRS and HKFRS. References to IFRS, IAS and IFRIC in these consolidated financial statements should be read as referring to the equivalent HKFRS, HKAS and HKFRIC as the case may be. Accordingly, there are no differences of accounting practice between IFRS and HKFRS affecting these consolidated financial statements.

IFRS 1, *First Time Adoption of International Financial Reporting Standards* has been applied in preparing the consolidated financial statements. These consolidated financial statements are the first set of the Group's consolidated financial statements prepared in accordance with IFRS.

The consolidated financial statements have been prepared using the historical cost convention, as modified by the revaluation of available for sale financial assets, certain financial assets and liabilities designated at fair value through profit or loss and derivative financial instruments, all of which are carried at fair value.

The Group has applied all IFRS standards and interpretations effective for accounting periods starting on or after 1 December 2008 consistently from the date of transition to IFRS and HKFRS on 1 December 2006, unless otherwise stated.

The following new standards, amendments to standards and interpretations have been early adopted by the Group and applied consistently in preparing the consolidated financial statements:

- Revised IAS 1, *Presentation of Financial Statements*;
- IFRS 8, *Operating Segments*; and
- Revised IAS 23R, *Borrowing Costs*.

The following new standards, amendments and interpretations which are not effective for the year ended 30 November 2009 have not been adopted in these financial statements:

- IFRS 9, *Financial Instruments*;
- Amendment to IFRS 7, *Financial Instruments: Disclosures*;
- Revised IFRS 3, *Business Combinations*;
- Amendment to IAS 27, *Consolidated and Separate Financial Statements*; and
- Amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*.

The following new interpretations have not been applied because they have no material impact for the Group:

- IFRIC 9, *Reassessment of Embedded Derivatives*;
- IFRIC 12, *Service Concession Arrangements*;
- IFRIC 13, *Customer Loyalty Programmes*;
- IFRIC 14, *IAS19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*;
- IFRIC 15, *Agreements for the Construction of Real Estate*;
- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*;
- IFRIC 17, *Distributions of Non-cash Assets to Owners*;
- IFRIC 18, *Transfers of Assets from Customers*; and
- IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*.

IFRIC 16 can only be applied by the Group prospectively and hence has no impact for the Group in the current period.

2. Significant accounting policies (continued)

The following amendments to standards have no material impact for the Group:

- Amendments to IAS 24, *Related Party Disclosure: Revised definition of Related Parties*;
- Amendments to IFRS 2, *Share Based Payments, Vesting Conditions and Cancellations*;
- Amendments to IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*: Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations;
- Amendments to IFRS 7, *Financial Instruments: Disclosures, Reclassifications of Financial Assets* and IAS 39, *Financial Instruments*;
- Amendments to IAS 32, *Financial Instruments: Presentation* and IAS 1, *Presentation of Financial Instruments, Puttable Financial Instruments and Obligations Arising on Liquidations*;
- Amendments to IAS 39, *Financial Instruments: Recognition and Measurement, Eligible Hedged Items* (see note 2.6.4);
- Amendments to IAS 38, *Intangible Assets*: Additional consequential amendments arising from revised IFRS 3 and measuring the fair value of an intangible asset acquired in a business combination;
- Amendments to IAS 7, *Statement of Cash Flows*: Classification of expenditure on unrecognised assets;
- Amendments to IAS 17, *Leases*: Classification of leases of land and buildings; and
- Amendments to IAS 36, *Impairment of Assets*: Unit of accounting for goodwill impairment test.

Items included in the consolidated financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in millions of US Dollars (US\$m) unless otherwise stated, which is the Company's functional currency, and the presentation currency of the Group.

The significant accounting policies adopted in the preparation of the Group's consolidated financial statements are set out below. These policies have been applied consistently in all periods presented.

2.2 Operating profit

The long term nature of much of the Group's operations means that, for management's decision making and internal performance management purposes, the Group evaluates its results and its operating segments using a financial performance measure referred to as 'operating profit'. The Group defines operating profit before and after tax respectively as profit excluding the following non-operating items:

- investment experience (which consists of realised gains and losses, foreign exchange gains and losses, impairments and unrealised gains and losses on investments held at fair value through profit or loss);
- investment income related to investment-linked contracts (consisting of dividends, interest income and rent income);
- investment management expenses related to investment-linked contracts;
- corresponding changes in insurance and investment contract liabilities in respect of investment-linked and pension contracts and participating funds (see note 2.3) and changes in third party interests in consolidated investment funds resulting from the above; and
- other significant items that management considers to be non-operating income and expenses.

Whilst these excluded non-operating items are significant components of the Group's profit, the Group considers that the presentation of operating profit enhances the understanding and comparability of its performance and that of its operating segments. The Group considers that trends can be more clearly identified without the fluctuating effects of these non-operating items, many of which are largely dependent on market factors.

Operating profit is provided as additional information to assist in the comparison of business trends in different reporting periods on a consistent basis and enhance overall understanding of financial performance.

In the notes to the financial statements, investment-linked contracts are presented together with pensions contracts for disclosure purposes.

2. Significant accounting policies (continued)

2.3 Critical accounting policies and the use of estimates

Critical accounting policies

The preparation of consolidated financial statements requires the Group to select accounting policies and make estimates and assumptions that affect items reported in the consolidated income statement, consolidated statement of financial position, other primary statements and notes to the consolidated financial statements. The Group considers its critical accounting policies to be those where a diverse range of accounting treatments is permitted by IFRS and significant judgments and estimates are required.

Product classification

IFRS 4, *Insurance Contracts*, requires contracts written by insurers to be classified either as insurance contracts or investment contracts, depending on the level of insurance risk. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. Some insurance and investment contracts, referred to as participating business, have discretionary participation features, or DPF, which may entitle the customer to receive, as a supplement to guaranteed benefits, additional non-guaranteed benefits, such as policyholder dividends or bonuses. The Group applies the same accounting policies for the recognition and measurement of obligations arising from investment contracts with DPF as it does for insurance contracts.

Accordingly, the Group performs a product classification exercise covering its portfolio of contracts to determine the classification of contracts to these categories. Product classification requires the exercise of significant judgment to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Group to pay significant additional benefits to its customers. In the event the Group has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. For investment contracts that do not contain DPF, IAS 39, *Financial Instruments: Measurement and Recognition*, and, if the contract includes an investment management element, IAS 18, *Revenue Recognition*, are applied. IFRS 4 permits the continued use of previously applied accounting policies for insurance contracts and investment contracts with DPF, and this basis has been adopted by the Group in accounting for such contracts.

The judgments exercised in determining the level of insurance risk deemed to be significant in product classification affect the amounts recognised in the consolidated financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs.

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF)

IFRS 4 permits a wide range of accounting treatments to be adopted for the recognition and measurement of insurance contract liabilities, including liabilities in respect of insurance and investment contracts with DPF. The Group calculates insurance contract liabilities for traditional life insurance using a net level premium valuation method, whereby the liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. This method uses best estimate assumptions adjusted for a provision for the risk of adverse deviation for mortality, morbidity, expected investment yields, policyholder dividends (for other participating business), surrenders and expenses set at the policy inception date. These assumptions remain locked in thereafter, unless a deficiency arises on liability adequacy testing. Interest rate assumptions can vary by geographical market, year of issuance and product. Mortality, surrender and expense assumptions are based on actual experience by each geographical market, modified to allow for variations in policy form. The Group exercises significant judgment in making appropriate assumptions.

For contracts with an explicit account balance, such as universal life and investment-linked contracts, insurance contract liabilities represent the accumulation value, which represents premiums received and investment returns credited to the policy less deductions for mortality and morbidity costs and expense charges. Significant judgment is exercised in making appropriate estimates of gross profits, which are also regularly reviewed by the Group.

2. Significant accounting policies (continued)

Participating business, consisting of contracts with DPF, is distinct from other insurance and investment contracts as the Group has discretion as to either the amount or the timing of the benefits declared. In some geographical markets, participating business is written in a participating fund which is distinct from the other assets of the operating unit or branch. The allocation of benefits from the assets held in such participating funds is subject to minimum policyholder participation mechanisms which are established by applicable regulations. The extent of such policyholder participation may change over time.

The Group accounts for insurance contract liabilities for participating business written in participating funds by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon applicable regulations. Establishing these liabilities requires the exercise of significant judgment. In addition, the assumption that all relevant performance is declared as a policyholder dividend may not be borne out in practice. The Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

The judgments exercised in the valuation of insurance contract liabilities (including contracts with DPF) affect the amounts recognised in the consolidated financial statements as insurance contract benefits and insurance contract liabilities.

Deferred policy acquisition and origination costs

The costs of acquiring new insurance contracts, including commission, underwriting and other policy issue expenses which vary with and are primarily related to the production of new business or renewal of existing business, are deferred as an asset. Deferred acquisition costs are assessed for recoverability in the year of policy issue to ensure that these costs are recoverable out of the estimated future margins to be earned on the policy. Deferred acquisition costs are assessed for recoverability at least annually thereafter. Future investment income is also taken into account in assessing recoverability. To the extent that acquisition costs are not considered to be recoverable at inception or thereafter, these costs are expensed in the consolidated income statement.

Deferred acquisition costs for traditional life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are applied consistently throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

Deferred acquisition costs for universal life and investment-linked contracts are amortised over the expected life of the contracts in a majority of cases based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract. Estimated gross profits include expected amounts for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. The interest rate used to compute the present value of estimates of expected gross profits is based on the Group's estimate of the investment performance of the assets held to match these liabilities. Estimates of gross profits are revised regularly. Deviations of actual results from estimated experience are reflected in earnings. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favourable investment performance, previously expensed acquisition costs are reversed, not exceeding the amount initially deferred.

The costs of acquiring investment contracts with investment management services, including commissions and other incremental expenses directly related to the issue of each new contract, are deferred and amortised over the period that investment management service provided. Such deferred origination costs are tested for recoverability at each reporting date. The costs of acquiring investment contracts without investment management services are included as part of the effective interest rate used to calculate the amortised cost of the related investment contract liabilities.

The judgments exercised in the deferral and amortisation of acquisition and origination costs affect amounts recognised in the consolidated financial statements as deferred acquisition and origination costs and insurance and investment contract benefits.

2. Significant accounting policies (continued)

Liability adequacy testing

The Group evaluates the adequacy of its insurance and investment contract liabilities at least annually. Liability adequacy is assessed by portfolio of contracts in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. The Group performs liability adequacy testing separately for each geographical market in which it operates.

For traditional life insurance contracts, insurance contract liabilities, reduced by deferred acquisition costs and value of business acquired on acquired insurance contracts are compared with the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortised balance of deferred acquisition costs and value of business acquired on acquired insurance contracts are written down to the extent of the deficiency. If, after writing down deferred acquisition costs for the specific portfolio of contracts to nil, a deficiency still exists, the net liability is increased by the amount of the remaining deficiency.

For universal life and investment contracts, deferred acquisition costs, net of unearned revenue liabilities, are compared to estimated gross profits. If a deficiency exists, deferred acquisition costs are written down.

Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. The judgments exercised in liability adequacy testing affect amounts recognised in the consolidated financial statements as commission and other acquisition expenses, deferred acquisition costs and insurance contract benefits and insurance and investment contract liabilities.

Financial assets at fair value through profit or loss

The Group designates financial assets at fair value through profit or loss if this eliminates or reduces an accounting mismatch between the recognition and measurement of its assets and liabilities, or if the related assets and liabilities are actively managed on a fair value basis. This is the case for:

- financial assets held to back investment-linked contracts and held by participating funds;
- financial assets managed on a fair value basis; and
- compound instruments containing an embedded derivative which would otherwise require bifurcation.

Available for sale financial assets

The available for sale category of financial assets is used where the relevant investments are not managed on a fair value basis. These assets principally consist of the Group's holding of shares of AIG and the Group's portfolio of debt securities (other than those backing participating fund liabilities and investment-linked contracts). Available for sale financial assets are initially recognised at fair value plus attributable transaction costs and are subsequently measured at fair value. Changes in the fair value of available for sale securities, except for impairment losses and foreign exchange gains and losses on monetary items, are recorded in a separate fair value reserve within total equity, until such securities are disposed of.

The classification and designation of financial assets, either as at fair value through profit or loss, or as available for sale, determines whether movements in fair value are reflected in the consolidated income statement or in the consolidated statement of comprehensive income respectively.

Fair values of financial assets

The Group determines the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions and values obtained from current bid prices of comparable investments. More judgment is used in measuring the fair value of financial assets for which market observable prices are not available or are available only infrequently.

Changes in the fair value of financial assets held by the Group's participating funds affect not only the value of financial assets, but are also reflected in corresponding movements in insurance and investment contract liabilities. This is due to an insurance liability being recorded for the proportion of the net assets of the participating funds that would be allocated to policyholders if all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based on current local regulations. Both of the foregoing changes are reflected in the consolidated income statement.

2. Significant accounting policies (continued)

Changes in the fair value of financial assets held to back the Group's investment-linked contracts result in a corresponding change in insurance and investment contract liabilities. Both of the foregoing changes are also reflected in the consolidated income statement.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment regularly. This requires the exercise of significant judgment. A financial investment is impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the investment.

Use of estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly.

The table below sets out those items we consider particularly sensitive to changes in estimates and assumptions, and the relevant accounting policy.

Item	Accounting policy
Insurance and investment contract liabilities	2.5
Deferred acquisition and origination costs	2.5
Liability adequacy testing	2.5.1
Impairment of financial instruments classified as available for sale	2.6.3
Fair value of financial instruments not traded in active markets	2.6.2

Further details of estimation uncertainty in respect of the valuation and impairment of financial instruments are given in Notes 23 and 31 respectively. Further details of the estimation of amounts for insurance and investment contract liabilities and deferred acquisition and origination costs are given in Notes 26, 27, 28 and 20 respectively.

2.4 Basis of consolidation

Subsidiaries

Subsidiaries are those entities (including special purpose entities) over which the Group, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from consolidation from the date at which the Group no longer has control. Intercompany transactions are eliminated.

From 1 December 2006, the date of transition to IFRS, the Group is required to use the purchase method of accounting to account for the acquisition of subsidiaries, unless the acquisition forms part of the Group reorganisation of entities under common control (see Note 1). Under this method, the cost of an acquisition is measured as the fair value of consideration payable, shares issued or liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see 2.11 below). Any surplus of the acquirer's interest in the subsidiary's net assets over the cost of acquisition is credited to the consolidated income statement.

The consolidated financial statements of the Group include the assets, liabilities and results of the Company and subsidiaries in which AIA Group Limited has a controlling interest, using accounts drawn up to 30 November.

2. Significant accounting policies (continued)

Investment funds

In several countries, the Group has invested in investment funds, such as mutual funds and unit trusts. These invest mainly in equities, debt securities and cash and cash equivalents. The Group's percentage ownership in these funds can fluctuate from day to day according to the Group's and third party participation in them. Where the Group is deemed to control such funds, with control determined based on an analysis of the guidance in IAS 27 and SIC 12, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the issuer to repurchase or redeem units in such funds for cash. These are presented as 'Third party interests in consolidated investment funds' within other liabilities in the consolidated statement of financial position. In instances where the Group's ownership of investment funds declines marginally below 50% and, based on historical analysis and future expectations, the decline in ownership is expected to be temporary, the funds continue to be consolidated as subsidiaries under IAS 27. Likewise, marginal increases in ownership of investment funds above 50% which are expected to be temporary are not consolidated. Where the Group does not control such funds, they are not accounted for as associates and are, instead, carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Non-controlling interests

Non-controlling interests are presented within equity except when they arise through the minority's interest in puttable liabilities such as the unit holders' interest in consolidated investment funds, when they are recognised as a liability, reflecting the net assets of the consolidated entity.

Acquisitions and disposals of non-controlling interests, except when they arise through the minority's interest in puttable liabilities, are treated as transactions between equity holders. As a result, any difference between the acquisition cost or sale price of the non-controlling interest and the carrying value of the non-controlling interest is recognised as an increase or decrease in equity.

Group reorganisations and business combinations

Group reorganisations and business combinations arising from transfers of interests in entities that are under common control throughout all periods presented are accounted for as if they had occurred at the beginning of the earliest period presented in these consolidated financial statements. The assets and liabilities acquired are measured at the carrying amounts recognised previously in AIG's consolidated financial statements, converted, where appropriate, to the Group's IFRS accounting policies. The components of equity of the acquired entities are added to the same components within equity, except that any share capital of the acquired entities is recognised as part of other reserves.

Associates and joint ventures

Associates are entities over which the Group has significant influence, but which it does not control. Generally, it is presumed that the Group has significant influence if it has between 20% and 50% of voting rights. Joint ventures are entities whereby the Group and other parties undertake an economic activity which is subject to joint control arising from a contractual agreement.

Gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Losses are also eliminated, unless the transaction provides evidence of an impairment of an asset transferred between entities.

Investments in associates and joint ventures are accounted for using the equity method of accounting. Under this method, the cost of the investment in an associate or joint venture, together with the Group's share of that entity's post acquisition changes to equity, is included as an asset in the consolidated statement of financial position. Cost includes goodwill arising on acquisition. The Group's share of post acquisition profits or losses is recognised in the consolidated income statement and its share of post acquisition movement in equity is recognised in equity. Equity accounting is discontinued when the Group no longer has significant influence over the investment. If the Group's share of losses in an associate or joint venture equals or exceeds its interest in the undertaking, additional losses are provided for, and a liability recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

2. Significant accounting policies (continued)

The Company's investments

In the Company statement of financial position, subsidiaries, associates and joint ventures are stated at cost, unless impaired. No such impairment has arisen during the reporting period. The Company's interests in investment funds such as mutual funds and unit trusts are designated at fair value through profit or loss.

2.5 Insurance and investment contracts

Consistent accounting policies for the measurement and recognition of insurance and investment contracts have been adopted throughout the Group to substantially all of its business with effect from the date of adoption of IFRS. As permitted by IFRS 4, the Group has revised its previous accounting policies prior to the adoption of IFRS for certain insurance and investment contracts in order to make the consolidated financial statements more relevant and no less reliable to the economic decision making needs of users than the accounting policies previously adopted, primarily through the adoption of a consistent accounting basis for the Group.

In a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction, without deferral of acquisition costs.

Product classification

Insurance contracts are those contracts that transfer significant insurance risk. These contracts may also transfer financial risk. Significant insurance risk is defined as the possibility of paying significantly more in a scenario where the insured event occurs than in a scenario in which it does not. Scenarios considered are those with commercial substance.

Investment contracts are those contracts without significant insurance risk.

Once a contract has been classified as an insurance or investment contract no reclassification is subsequently performed, unless the terms of the agreement are later amended.

Certain contracts with DPF supplement the amount of guaranteed benefits due to policyholders. These contracts are distinct from other insurance and investment contracts as the Group has discretion in the amount and/or timing of the benefits declared, and how such benefits are allocated between groups of policyholders. Customers may be entitled to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - the profit or loss of the company, fund or other entity that issues the contract.

The Group applies the same accounting policies for the recognition and measurement of obligations and the deferral of acquisition costs arising from investment contracts with DPF as it does to insurance contracts. The Group refers to such contracts as participating business.

In some jurisdictions participating business is written in a participating fund which is distinct from the other assets of the company or branch. The allocation of benefits from the assets held in such participating funds is subject to minimum policyholder participation mechanisms which are established by regulation. The extent of such policy participation may change over time. The current policyholder participation in declared dividends for locations with participating funds is set out below:

Country	Current policyholder participation
Singapore	90%
Malaysia	90%
China	70%
Australia	80%
Brunei	80%

In some jurisdictions participating business is not written in a distinct fund and the Group refers to this as other participating business.

2. Significant accounting policies (continued)

The Group's products may be divided into the following main categories:

Policy type		Description of benefits payable	Basis of accounting for:	
			Insurance contract liabilities	Investment contract liabilities
Traditional participating life assurance with DPF	Participating funds	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities The timing of dividend and bonus declarations is at the discretion of the insurer. Local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends	Insurance contract liabilities make provision for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders, assuming all performance would be declared as a dividend based upon local regulations	Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts
	Other participating business	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience	Insurance contract liabilities make provision for the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders	Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts
Non-participating life assurance, annuities and other protection products		Benefits payable are not at the discretion of the insurer	Insurance contract liabilities reflect the present value of future policy benefits to be paid less the present value of estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognised	Investment contract liabilities are measured at amortised cost
Universal life		Benefits are based on an account balance, credited with interest at a rate set by the insurer, and a death benefit, which may be varied by the customer	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment return credited, less deductions for front end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded	Not applicable as such contracts generally contain significant insurance risk
Investment-linked		These may be primarily savings products or may combine savings with an element of protection.	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment return credited, less deductions for front end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded	Investment contract liabilities are measured at fair value (determined with reference to the accumulation value)

The basis of accounting for insurance and investment contracts is discussed in Notes 2.5.1 and 2.5.2 below.

2. Significant accounting policies (continued)

PRELIMINARY AND UNAUDITED

2.5.1 Insurance contracts and investment contracts with DPF

Premiums

Premiums from life insurance contracts, including participating policies and annuity policies with life contingencies, are recognised as revenue when due from the policyholder. Benefits and expenses are provided in respect of such revenue so as to recognise profits over the estimated life of the policies. For single premium and limited pay contracts, premiums are recognised in profit or loss when due, with any excess profit deferred and recognised in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from insurance contracts with investment features but with sufficient insurance risk to be considered insurance contracts, such as universal life, and certain investment-linked contracts, are accumulated as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration, and surrenders during the period. Premiums and policy fees on such contracts are reported as turnover and are determined as amounts received and receivable in the reporting period.

Upfront fees are recognised over the estimated life of the contracts to which they relate. Policy benefits and claims that are charged to expenses include benefit claims incurred in the period in excess of related policyholder contract deposits and interest credited to policyholder deposits.

Unearned revenue liability

Unearned revenue liability arising from insurance contracts representing upfront fees and other non-level charges is deferred and released to the consolidated income statement over the estimated life of the business.

Deferred acquisition costs

The costs of acquiring new business, including commissions, underwriting and other policy issue expenses, which vary with and are primarily related to the production of new business, are deferred. Deferred acquisition costs are subject to the testing of recoverability when issued and at least annually thereafter. Future investment income is taken into account in assessing recoverability.

Deferred acquisition costs for life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing (see below).

Deferred acquisition costs for universal life and investment-linked contracts are amortised over the expected life of the contracts in the majority of cases based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly. The interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of actual results from estimated experience are reflected in earnings.

Unamortised acquisition costs associated with internally replaced contracts that are, in substance, contract modifications, continue to be deferred and amortised. Any remaining unamortised balance of deferred acquisition costs associated with internally replaced contracts that are, in substance, new contracts, are expensed.

2. Significant accounting policies (continued)

Deferred sales inducements

Deferred sales inducements, consisting of day one bonuses, persistency bonuses and enhanced crediting rates are deferred and amortised using the same methodology and assumptions used to amortise acquisition costs when:

- the sales inducements are recognised as part of insurance contract liabilities;
- they are explicitly identified in the contract on inception;
- they are incremental to amounts credited on similar contracts without sales inducements; and
- they are higher than the expected ongoing crediting rates for periods after the inducement.

Unbundling

The deposit component of an insurance contract is unbundled when both of the following conditions are met:

- the deposit component (including any embedded surrender option) can be measured separately (i.e. without taking into account the insurance component); and
- the Group's accounting policies do not otherwise require the recognition of all obligations and rights arising from the deposit component.

Bifurcation

To the extent that certain of the Group's insurance contracts include embedded derivatives that are not clearly and closely related to the host contract, these are bifurcated from the insurance contracts and accounted for as derivatives.

Benefits and claims

Insurance contract benefits reflect the cost of all maturities, surrenders, withdrawals and claims arising during the year, including claims handling costs, as well as policyholder dividends accrued in anticipation of dividend declarations.

Accident and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, and are included in operating expenses.

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF)

These represent the estimated future policyholder benefit liability for life insurance policies.

Future policy benefits for life insurance policies are calculated using a net level premium valuation method which represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. The method uses best estimate assumptions set at the policy inception date, adjusted for a provision for the risk of adverse deviation for mortality, morbidity, expected investment yields, dividends (for other participating business), surrenders and expenses, which remain locked in thereafter, unless a deficiency arises on liability adequacy testing (see below).

Interest rate assumptions can vary by country, year of issuance and product. Mortality assumptions are based on actual experience by geographic area and are modified to allow for variations in policy form. Surrender assumptions are based on actual experience by geographic area and are modified to allow for variations in policy form.

For contracts with an explicit account balance, such as universal life and investment-linked contracts, insurance contract liabilities are equal to the accumulation value, which represents premiums received and investment returns credited to the policy less deductions for mortality and morbidity costs and expense charges.

Settlement options are accounted for as an integral component of the underlying insurance or investment contract unless they provide annuitisation benefits, in which case an additional liability is established to the extent that the present value of expected annuitisation payments at the expected annuitisation date exceeds the expected account balance at that date. Where settlement options have been issued with guaranteed rates less than market interest rates, the insurance or investment contract liability does not reflect any provision for subsequent declines in market interest rates unless a deficiency is identified through liability adequacy testing.

2. Significant accounting policies (continued)

The Group accounts for participating policies within participating funds by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders assuming all performance were to be declared as a dividend based upon local regulations. The Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

Liability adequacy testing

The adequacy of liabilities is assessed by portfolio of contracts, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. Liability adequacy testing is performed for each geographic market.

For traditional life insurance contracts, insurance contract liabilities reduced by deferred acquisition costs and value of business acquired on acquired insurance contracts, are compared to the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortised balance of deferred acquisition cost and value of business acquired on acquired insurance contracts are written down to the extent of the deficiency. If, after writing down the unamortised balance for the specific portfolio of contracts to nil, a deficiency still exists, the net liability is increased by the amount of the remaining deficiency.

For universal life and investment contracts, deferred acquisition costs, net of unearned revenue liabilities, are compared to estimated gross profits. If a deficiency exists, deferred acquisition costs are written down.

Financial guarantees

Financial guarantees are regarded as insurance contracts. Liabilities in respect of such contracts are recognised as incurred.

2.5.2 Investment contracts

Investment contracts do not contain sufficient insurance risk to be considered insurance contracts and are accounted for as a financial liability, other than investment contracts with DPF which are excluded from the scope of IAS 39 and are accounted for as insurance contracts.

Revenue from these contracts consists of various charges (policy fees, handling fees, management fees and surrender charges) made against the contract for the cost of insurance, expenses and early surrender. First year charges are amortised over the life of the contract as the services are provided.

2. Significant accounting policies (continued)

Investment contract fee revenue

Customers are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's account balance. The fees are recognised as revenue in the period in which they are received unless they relate to services to be provided in future periods, in which case they are deferred and recognised as the service is provided.

Origination and other 'upfront' fees (fees that are assessed against the account balance as consideration for origination of the contract) are charged on some non-participating investment and pension contracts. Where the investment contract is recorded at amortised cost, these fees are amortised and recognised over the expected term of the policy as an adjustment to the effective yield. Where the investment contract is measured at fair value, the front end fees that relate to the provision of investment management services are amortised and recognised as the services are provided.

Deferred origination costs

The costs of acquiring investment contracts with investment management services, including commissions and other incremental expenses directly related to the issue of each new contract, are deferred and amortised over the period that services are provided. Deferred origination costs are tested for recoverability at each reporting date.

The costs of acquiring new investment contracts without investment management services are included as part of the effective interest rate used to calculate the amortised cost of the related investment contract liabilities.

Investment contract liabilities

Deposits received in respect of investment contracts are not accounted for through the consolidated income statement, except for the investment income and fees attributable to those contracts, but are accounted for directly through the consolidated statement of financial position as an adjustment to the investment contract liability, which reflects the account balance.

The majority of the Group's contracts classified as investment contracts are investment-linked contracts. These represent investment portfolios maintained to meet specific investment objectives of policyholders who generally bear the credit and market risks on those investments. The liabilities are carried at fair value determined with reference to the accumulation value (current unit value) with changes recognised in income. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against customers' account balances are included in revenue, and accounted for as described under Investment contract fee revenue above.

Non investment-linked investment contract liabilities are carried at amortised cost, being the fair value of consideration received at the date of initial recognition, less the net effect of principal payments such as transaction costs and front end fees, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity value, and less any write down for surrender payments. The effective interest rate equates the discounted cash payments to the initial amount. At each reporting date, the unearned revenue liability is determined as the value of the future best estimate cash flows discounted at the effective interest rate. Any adjustment is immediately recognised as income or expense in the consolidated income statement.

The amortised cost of the financial liability is never recorded at less than the amount payable on surrender, discounted for the time value of money where applicable, if the investment contract is subject to a surrender option.

2. Significant accounting policies (continued)

2.5.3 Insurance and investment contracts

Reinsurance

The Group cedes reinsurance in the normal course of business, with retentions varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for such policies.

Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated income statement and statement of financial position.

Reinsurance assets consist of amounts receivable in respect of ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured insurance or investment contract liabilities or benefits paid and in accordance with the relevant reinsurance contract.

To the extent that reinsurance contracts principally transfer financial risk (as opposed to insurance risk) they are accounted for directly through the consolidated statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the consolidated income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Group will receive from the reinsurer can be reliably measured.

Value of business acquired ('VOBA')

The value of business acquired ('VOBA') in respect of a portfolio of long term insurance and investment contracts, either directly or through the purchase of a subsidiary, is recognised as an asset. If this results from the acquisition of an investment in a joint venture or an associate, the VOBA is held within the carrying amount of that investment. In all cases, the VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated income statement.

Shadow accounting

Shadow accounting is applied to insurance and certain investment contracts where financial assets backing insurance and investment contracts liabilities are classified as available for sale. Shadow accounting is applied to deferred acquisition costs, VOBA, deferred origination costs and the contract liabilities for investment contracts with DPF to take into account the effect of unrealised gains or losses on insurance liabilities or assets that are recognised in equity in the same way as for a realised gain or loss recognised in the consolidated income statement. Such assets or liabilities are adjusted with corresponding charges or credits recognised directly in shareholders' equity as a component of the related unrealised gains and losses.

Other assessments and levies

The Group is potentially subject to various periodic insurance related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included in insurance or investment contract liabilities but are included under 'Provisions' in the consolidated statement of financial position.

2. Significant accounting policies (continued)

2.6 Financial instruments

2.6.1 Classification of and designation of financial instruments

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss comprise two categories:

- financial assets designated at fair value through profit or loss; and
- derivative assets and liabilities.

Management designates financial assets at fair value through profit or loss if this eliminates a measurement inconsistency or if the related assets and liabilities are actively managed on a fair value basis, including:

- financial assets held to back investment-linked contracts and participating funds;
- other financial assets managed on a fair value basis; consisting of the Group's equity portfolio (other than its holding of shares of AIG which are now managed on a fair value basis) and investments held by the Group's fully consolidated investment funds; and
- compound instruments containing an embedded derivative, where the embedded derivative would otherwise require bifurcation.

Dividend income from equity instruments designated at fair value through profit or loss is recognised in investment income in the consolidated income statement, generally when the security becomes ex-dividend. Interest income is recognised on an accrued basis. For all financial assets designated at fair value through profit or loss, changes in fair value are recognised in investment experience.

Transaction costs in respect of financial instruments at fair value through profit or loss are expensed as they are incurred.

Available for sale financial assets

Financial assets, other than those at fair value through profit or loss, and loans and receivables, are classified as available for sale.

The available for sale category is used where the relevant investments backing insurance and investment contract liabilities and shareholders' equity are not managed on a fair value basis. These principally consist of the Group's debt securities (other than those backing participating funds and investment-linked contracts) and the Group's holding of shares in AIG. Available for sale financial assets are initially recognised at fair value plus attributable transaction costs. For available for sale debt securities, the difference between their cost and par value is amortised. Available for sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available for sale is recognised in investment income in the consolidated income statement using the effective interest method.

Unrealised gains and losses on securities classified as available for sale are analysed between differences resulting from foreign currency translation, and other fair value changes. Foreign currency translation differences on monetary available for sale investments, such as debt securities, are recognised in the consolidated income statement as investment experience. For impairments of available for sale financial assets reference is made to the section 'Impairment of other financial assets'.

Changes in the fair value of securities classified as available for sale, except for impairment losses and relevant foreign exchange gains and losses, are recorded in a separate fair value reserve within equity.

Realised gains and losses on financial assets

Realised gains and losses on available for sale financial assets are determined as the difference between the sale proceeds and amortised cost. Cost is determined by specific identification.

Recognition of financial instruments

Purchases and sales of financial instruments are recognised on the trade date, which is the date at which the Group commits to purchase or sell the assets.

2. Significant accounting policies (continued)

Derecognition and offset of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which the Group is exposed to changes in the fair value of the asset.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest rate method less any impairment losses. Interest income from loans and receivables is recognised in investment income in the consolidated income statement using the effective interest rate method.

Term deposits

Deposits include time deposits with financial institutions which do not meet the definition of cash and cash equivalents as their maturity at acquisition exceeds three months. Certain of these balances are subject to regulatory or other restriction as disclosed in Note 21 Loans and Receivables. Deposits are stated at face value.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short term highly liquid investments with maturities at acquisition of three months or less, which are held for cash management purposes. Cash and cash equivalents also include cash received as collateral for securities lending as well as cash and cash equivalents held for the benefit of policyholders in connection with investment-linked products. Cash and cash equivalents are stated at face value.

2.6.2. Fair values of non-derivative financial assets

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, having regard to the specific characteristics of the asset or liability concerned, assuming that the transfer takes place in the most advantageous market to which the Group has access. The fair values of financial instruments traded in active markets (such as financial instruments at fair value through profit or loss and available for sale securities) are based on quoted market prices at the date of the consolidated statement of financial position. The quoted market price used for financial assets held by the Group is the current bid price. The fair values of financial instruments that are not traded in active markets are determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions at the date of each consolidated statement of financial position. The objective of using a valuation technique is to estimate the price at which an orderly transaction would take place between market participants at the date of the consolidated statement of financial position.

Financial instruments carried at fair value are measured using a fair value hierarchy described in Note 23.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

2. Significant accounting policies (continued)

2.6.3. Impairment of financial assets

General

Financial assets are assessed for impairment on a regular basis. A financial asset is impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the financial asset.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data, including market prices, indicating that there is a potential decrease in the estimated future cash flows since the initial recognition of those assets, including:
 - adverse changes in the payment status of issuers
 - national or local economic conditions that correlate with increased default risk.

The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Available for sale financial instruments

When a decline in the fair value of an available for sale asset has been recognised in shareholders' equity and there is objective evidence that the asset is impaired, the cumulative loss already recognised directly in shareholders' equity is recognised in current period profit or loss. The Group generally considers an available for sale equity instrument for evidence of impairment if the fair value is significantly below cost or has been below cost for a prolonged period. If such assets are considered to be impaired, the amount of the cumulative loss that is removed from shareholders' equity and recognised in current period profit or loss is the difference between acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised.

If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in income, the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available for sale are not reversed.

Where, following the recognition of an impairment loss in respect of an available for sale debt security, the asset suffers further falls in value, such further falls are recognised as an impairment only in the case when objective evidence exists of a further impairment event to which the losses can be attributed.

2. Significant accounting policies (continued)

Loans and receivables

For loans and receivables impairment is considered to have taken place if it is probable that the Group will not be able to collect principal and/or interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount is decreased through a charge to profit or loss. The carrying amount of mortgage loans or receivables is reduced through the use of an allowance account, and the amount of any allowance is recognised as an impairment loss in profit or loss. The allowance is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for trends in the group of financial assets or individual accounts.

2.6.4. Derivative financial instruments

Derivative financial instruments include foreign exchange contracts and interest rate swaps that derive their value mainly from underlying foreign exchange rates and interest rates. All derivatives are initially recognised in the consolidated statement of financial position at their fair value, which represents their cost excluding transaction costs, which are expensed, giving rise to a day one loss. They are subsequently remeasured at their fair value, with movements in this value recognised in profit or loss. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivative instruments for economic hedging

Whilst the Group enters into derivative transactions to provide economic hedges under the Group's risk management framework, it does not currently apply hedge accounting to these transactions. This is either because the transactions would not meet the specific IFRS rules to be eligible for hedge accounting or the documentation requirements to meet hedge accounting criteria would be unduly onerous. These transactions are therefore treated as held for trading and fair value movements are recognised immediately in investment experience.

Embedded derivatives

Embedded derivatives are derivatives embedded within other non-derivative host financial instruments to create hybrid instruments. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value with changes in fair value recognised in profit or loss, the embedded derivative is bifurcated and carried at fair value as a derivative in accordance with IAS 39.

2.7 Segment reporting

An operating segment is a component of the Group that engages in business activity from which it earns revenues and incurs expenses and, for which, discrete financial information is available, and whose operating results are regularly reviewed by the Group's chief operating decision maker, considered to be the Executive Committee of the Group ('Exco').

2.8 Foreign currency translation

Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the year as this approximates to the exchange rates prevailing at the transaction date. Their statements of financial position are translated at year or period end exchange rates. Exchange differences arising from the translation of the net investment in foreign operations, are taken to the currency translation reserve within equity. On disposal of a foreign operation such exchange differences are transferred out of this reserve and are recognised in the consolidated income statement as part of the gain or loss on sale. As permitted by IFRS 1, the cumulative translation differences were deemed to be nil at the transition date to IFRS.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies into functional currency, are recognised in the consolidated income statement.

2. Significant accounting policies (continued)

Translation differences on financial assets designated at fair value through profit or loss are included in investment experience. For monetary financial assets classified as available for sale, translation differences are calculated as if they were carried at amortised cost and so are recognised in the consolidated income statement. Foreign exchange movements on non-monetary equities that are accounted for as available for sale are included in the fair value reserve.

2.9 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated using the straight line method to allocate cost less any residual value over the estimated useful life, generally:

Furniture, fixtures and office equipment	5 years
Buildings	20-40 years
Other assets	3-5 years
Freehold land	No depreciation

Subsequent costs are included in the carrying amount or recognised as a separate asset, as appropriate, when it is probable that future economic benefits will flow to the Group. Repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Residual values and useful lives are reviewed and adjusted, if applicable, at each reporting date. An asset is written down to its recoverable amount if the carrying value is greater than the estimated recoverable amount.

Any gain and loss arising on disposal of property, plant and equipment is measured as the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

The Government of the Hong Kong Special Administrative Region owns all the land in Hong Kong and permits its use under leasehold agreements. Where the cost of such leasehold is known, or can be reliably determined at the inception of the lease, the Group records its interest in leasehold land and land use rights separately as operating leases. These leases are recorded at original cost and amortised over the term of the lease (see 2.19).

2.10 Investment properties

Property held for long term rental that is not occupied by the Group is classified as investment property, and is carried at cost less accumulated depreciation and any accumulated impairment losses.

Investment property comprises freehold land and buildings. Buildings located on land held on an operating lease are classified as investment property if held for long term rental and not occupied by the Group. Where the cost of the land is known, or can be reliably determined at the inception of the lease, the Group records its interest in leasehold land and land use rights separately as operating leases (see 2.19). These leases are recorded at original cost and amortised over the term of the lease. Buildings that are held as investment properties are amortised on a straight line basis over their estimated useful lives of 20-40 years.

If an investment property becomes held for use, it is reclassified as property, plant and equipment. Where a property is partly used as an investment property and partly for the use of the Group, these elements are recorded separately within property, plant and equipment and investment property respectively, where the component used as investment property would be capable of separate sale or finance lease.

2. Significant accounting policies (continued)

2.11 Goodwill and other intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions prior to 1 December 2006 (the date of transition to IFRS) is carried at book value (original cost less cumulative amortisation) on that date, less any impairment subsequently incurred. Goodwill arising on the Group's investment in subsidiaries since that date is shown as a separate asset, whilst that on associates and joint ventures is included within the carrying value of those investments.

Other intangible assets

Other intangible assets consist primarily of acquired computer software and contractual relationships, such as access to distribution networks, and are amortised over their estimated useful lives.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs directly associated with the internal production of identifiable and unique software by the Group that will generate economic benefits exceeding those costs over a period greater than a year, are recognised as intangible assets. All other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs of acquiring computer software licences and incurred in the internal production of computer software are amortised using the straight line method over the estimated useful life of the software, which does not generally exceed a period of 3-15 years.

The amortisation charge for the year is included in the consolidated income statement under 'Other operating expenses'.

2.12 Impairment of non-financial assets

Property, plant and equipment, goodwill and other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised to the extent that the carrying amount of the asset exceeds its recoverable amount, which is the higher of the asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped into cash generating units at the level of the Group's operating segments, the lowest level for which separately identifiable cash flows are reported. The carrying value of goodwill and intangible assets with indefinite useful lives is reviewed at least annually or when circumstances or events indicate that there may be uncertainty over this value.

2.13 Securities lending including repurchase agreements

The Group is party to various securities lending agreements under which securities are loaned to third parties on a short term basis. The loaned securities are not derecognised and so they continue to be recognised within the appropriate investment classification.

Assets sold under repurchase agreements (repos)

Assets sold under repurchase agreements continue to be recognised and a liability is established for the consideration received. The Group may be required to provide additional collateral based on the fair value of the underlying assets, and such collateral assets remain on the consolidated statement of financial position.

Assets purchased under agreements to resell (reverse repos)

The Group enters into purchases of assets under agreements to resell (reverse repos). Reverse repos are initially recorded at the cost of the loan or collateral advanced within the caption 'Loans and Receivables' in the consolidated statement of financial position. In the event of failure by the counterparty to repay the loan the Group has the right to the underlying assets.

2. Significant accounting policies (continued)

Collateral

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of securities lending transactions, and repo and reverse repo transactions, in order to reduce the credit risk of these transactions. The amount and type of collateral depends on an assessment of the credit risk of the counterparty. Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset in the consolidated statement of financial position with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the consolidated statement of financial position unless the Group either sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability. To further minimise credit risk, the financial condition of counterparties is monitored on a regular basis.

Collateral pledged in the form of cash which is legally segregated from the group is derecognised from the consolidated statement of financial position and a corresponding receivable established for its return. Non-cash collateral pledged is not derecognised (except in the event of default) and therefore continues to be recognised in the consolidated statement of financial position within the appropriate financial instrument classification.

2.14 Borrowings

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest rate method. All borrowing costs are expensed as they are incurred, except for borrowing costs directly attributable to the development of investment properties and other qualifying assets, which are capitalised as part of the cost of the asset.

2.15 Income taxes

The current tax expense is based on the taxable profits for the year, including any adjustments in respect of prior years. Tax is allocated to profit or loss before taxation and amounts charged or credited to equity as appropriate.

Deferred tax is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except as described below.

The principal temporary differences arise from the basis of recognition of insurance and investment contract liabilities, revaluation of certain financial assets and liabilities including derivative contracts, deferred acquisition costs and the future taxes arising on the surplus in life funds where the relevant local tax regime is distributions based. The rates enacted or substantively enacted at the date of the consolidated statement of financial position are used to determine deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In countries where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is evidence that future profits will be available.

Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill or from goodwill for which amortisation is not deductible for tax purposes, or from the initial recognition of an asset or liability in a transaction which is not a business combination and which affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred tax related to fair value re-measurement of available for sale investments and other amounts taken directly to equity, is recognised initially within the applicable component of equity. It is subsequently recognised in the consolidated income statement, together with the gain or loss arising on the underlying item.

In addition to paying tax on shareholders' profits, certain of the Group's life insurance businesses pay tax on policyholders' investment returns ('policyholder tax') at policyholder tax rates. Policyholder tax is accounted for as an income tax and is included in the total tax expense and disclosed separately.

2. Significant accounting policies (continued)

2.16 Revenue

Investment return

Investment income consists of dividends, interest and rents receivable for the reporting period. Investment experience comprises realised gains and losses, impairments and unrealised gains and losses on investments held at fair value through profit or loss. Interest income is recognised as it accrues, taking into account the effective yield on the investment. Rental income on investment property is recognised on an accruals basis. Investment return consists of investment income and investment experience.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains and losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase price if purchased during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

Other fee and commission income

Other fee and commission income consists primarily of fund management fees, income from any incidental non-insurance activities, distribution fees from mutual funds, commissions on reinsurance ceded and commission revenue from the sale of mutual fund shares. Reinsurance commissions receivable are deferred in the same way as acquisition costs. All other fee and commission income is recognised as the services are provided.

2.17 Employee benefits

Annual leave and long service leave

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the reporting date.

Post retirement benefit obligations

The Group operates a number of funded and unfunded post retirement employee benefit schemes, whose members receive benefits on either a defined benefit basis (generally related to salary and length of service) or a defined contribution basis (generally related to the amount invested, investment return and annuity rates), the assets of which are generally held in separate trustee administered funds. The defined benefit plans provide life and medical benefits for employees after retirement and a lump sum benefit on cessation of employment, and the defined contribution plans provide post retirement pension benefits.

For defined benefit plans, the costs are assessed using the projected unit credit method. Under this method, the cost of providing benefits is charged to the consolidated income statement so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability. The resulting scheme surplus or deficit appears as an asset or liability in the consolidated statement of financial position.

For each plan, AIA Group recognises a portion of its actuarial gains and losses in income or expense if the unrecognised actuarial net gain or loss at the end of the previous reporting period exceeds the greater of:

- 10% of the projected benefit obligations at that date; or
- 10% of the fair value of any plan assets at that date.

Any recognised actuarial net gain or loss exceeding the greater of these two values is generally recognised in the consolidated income statement over the expected average remaining service periods of the employees participating in the plans. On adoption of IFRS on 1 December 2006 cumulative actuarial gains and losses were deemed to be nil as permitted by IFRS 1.

2. Significant accounting policies (continued)

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, has no further payment obligations. The Group's contributions are charged to the consolidated income statement in the reporting period to which they relate and are included in staff costs.

Share based compensation and cash incentive plans

The Group has various share based compensation and cash incentive plans sponsored by AIG.

The Group accounts for options and awards under equity settled share based compensation plans, which were granted after 7 November 2002, until such time as they are fully vested, using the fair value based method of accounting (the 'fair value method').

Under AIG's equity settled share based compensation plans, the fair value of the employee services received in exchange for the grant of shares and/or options is recognised as an expense in profit or loss over the vesting period, with a corresponding amount recorded in equity. Any amounts recharged from AIG clearly related to equity settled share based payment arrangements are offset against the amount recorded in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and/or options granted. Non-market vesting conditions (for example, profitability and premium income growth targets) are included in assumptions about the number of shares and/or options that are expected to be issued or become exercisable. At each period end, the Group revises its estimates of the number of shares and/or options that are expected to be issued or become exercisable. It recognises the impact of the revision to original estimates, if any, in profit or loss with a corresponding adjustment to equity. However, no subsequent adjustment to total equity is made after the vesting date. Where awards of share based payment arrangements vest in stages, each vesting tranche is recognised as a separate award, and therefore the fair value of each tranche is recognised over the applicable vesting period.

As the fair value of the options which AIG uses for its employee schemes cannot be compared to options available in the market, the Group estimates the fair value using a binomial lattice model. This model requires inputs such as share price, exercise price, implied volatility, risk free interest rate, expected dividend rate and the expected life of the option.

Where modification or cancellation of an equity settled share based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met.

2.18 Provisions and contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract held, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated.

2.19 Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the Group as a lessor, are classified as operating leases. Assets subject to such leases are included in property, plant and equipment, and are depreciated to their residual values over their estimated useful lives. Rentals from such leases are credited to the consolidated income statement on a straight line basis over the period of the relevant lease. Payments made by the Group as lessee under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight line basis over the period of the relevant lease. The Group classifies amounts paid to acquire leasehold land as an operating lease prepayment.

2. Significant accounting policies (continued)

There are no freehold land interests in Hong Kong. Accordingly, all land in Hong Kong is considered to be held under operating leases. The Group classifies the amounts paid to acquire leasehold land as operating lease prepayments. Such amounts are included within 'Other Assets'. Amortisation is calculated to write off the cost of the land on a straight line basis over the terms of the lease, which are generally between 19 and 886 years.

2.20 Share capital

Issued capital represents the nominal value of shares issued plus any share premium received from the issue of share capital.

Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue.

Dividends

Dividends on ordinary shares are recognised when they have been approved by shareholders.

2.21 Disposal groups classified as held for sale

Disposal groups are classified as held for sale if their carrying amounts will be principally recovered through a sale transaction rather than through continuing use. This requires that the disposal group must be available for immediate sale in its present condition and its sale must be highly probable. The appropriate level of management must be committed to a plan to sell the disposal group and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Any subsequent increase in the fair value less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been previously recognised.

2.22 Presentation of the consolidated statement of financial position

The Group's insurance and investment contract liabilities and related assets are realised and settled over periods of several years, reflecting the long term nature of the Group's products. Accordingly, the Group presents the assets and liabilities in its consolidated statement of financial position in approximate order of liquidity, rather than distinguishing current and non-current assets and liabilities. The Group regards its intangible assets, investments in associates and joint ventures, property plant and equipment, investment property and deferred acquisition and origination costs as non-current assets as these are held for the longer term use of the Group.

2.23 Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Earnings per share has also been calculated on the operating profit before adjusting items, after tax, attributable to ordinary shareholders, as the Directors believe this figure provides a better indication of operating performance.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as share options granted to employees.

Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

2.24 Fiduciary activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from these consolidated financial statements where the Group has no contractual rights to the assets and acts in a fiduciary capacity such as nominee, trustee or agent.

2. Significant accounting policies (continued)

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2.25 Consolidated cash flow statement

The consolidated cash flow statement presents movements in cash and cash equivalents as shown in the consolidated statement of financial position.

Purchases and sales of financial investments are included in operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims. Purchases and sales of investment property are included within investing cash flows.

2.26 Related party transactions

Transactions with related parties are recorded at amounts mutually agreed and transacted between the parties to the arrangement.

2.27 IFRS 1 – Adoption of IFRS

The Group is required to determine its IFRS accounting policies and apply them retrospectively to establish its opening consolidated statement of financial position under IFRS. However, IFRS 1 (revised), *First-Time Adoption of International Financial Reporting Standards* allows a number of exceptions and exemptions on adoption of IFRS for the first time. The date of adoption to IFRS for the Group is 1 December 2006. The Group has not previously published consolidated financial statements because the parent company of the Group was only established on 29 August 2009 and the group it heads has not previously published consolidated financial statements and therefore there are no previously published consolidated financial statements on which the effect of the impact of transition to IFRS can be disclosed.

The Group has taken advantage of the following exceptions and exemptions as permitted by IFRS 1:

Cumulative translation differences

Cumulative translation differences of foreign operations have not been restated on an IFRS basis and are deemed to be nil at the date of adoption.

Share based payment plans

The provisions of IFRS 2, *Share Based Payments*, have not been applied to options and awards granted on or before 7 November 2002 which had not vested by 1 December 2006.

Employee post retirement benefits

As permitted by IFRS 1, the Group has elected to recognise all cumulative actuarial gains and losses as at 1 December 2006, notwithstanding that the Group has elected to use the corridor approach for later actuarial gains and losses. This election has been applied consistently to all plans.

Designation of previously recognised financial instruments

The Group has designated the following previously recognised financial instruments at fair value through profit or loss on the date of adoption of IFRS:

- investments held to back investment-linked contracts and participating funds;
- assets that are actively managed on a fair value basis, such as the majority of the Group's equity portfolio and financial instruments held by consolidated investment funds; and
- compound instruments containing an embedded derivative that would otherwise require to be bifurcated.

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3. Exchange rates

The Group's principal overseas operations during the reporting period were located within the Asia Pacific region. The results and cash flows of these operations have been translated into US Dollars at the following average rates:

	US dollar exchange rates		
	Year ended 30 November	Year ended 30 November	Year ended 30 November
	2007	2008	2009
Hong Kong	7.80	7.79	7.75
Thailand	34.69	33.21	34.47
Singapore	1.52	1.42	1.46
Malaysia	3.46	3.31	3.53
China	7.65	6.99	6.83
Korea	929.37	1,047.12	1,287.00

Assets and liabilities have been translated at the following year end rates:

	US dollar exchange rates		
	As at 30 November	As at 30 November	As at 30 November
	2007	2008	2009
Hong Kong	7.79	7.75	7.75
Thailand	33.85	35.52	33.24
Singapore	1.45	1.51	1.38
Malaysia	3.36	3.62	3.39
China	7.39	6.83	6.83
Korea	920.81	1,468.43	1,162.79

Exchange rates are expressed in units of local currency per US\$1.

4. Changes in group composition

This note provides details of the acquisitions and disposals of subsidiaries that the Group has made during the reporting period, together with details of businesses held for sale. Principal subsidiary companies are listed in Note 43.

Acquisitions

On 27 November 2009, the Group acquired 51% of the share capital of Ayala Life Assurance Incorporated (subsequently renamed BPI-Philam Life Assurance Corporation ('BPLAC')), a company carrying on life insurance business in the Philippines, and entered a distribution agreement with Bank of the Philippine Islands ('BPI') to distribute BPLAC's products, for consideration of US\$39m of which US\$10m is deferred and expected to be settled in 2010. This amount is subject to a purchase price adjustment based on the final adjusted net worth as at the date of acquisition. The Group has initially estimated this purchase price adjustment to be US\$7m which is expected to be settled during 2010.

The profit after tax contributed by BPLAC for the year ended 30 November 2009 is insignificant as a consequence of the transaction completing at the end of the Group's financial year. Revenue and profit as though the acquisition had occurred on 1 December 2008 are not material to the AIA Group.

Details of the fair value of the assets and liabilities acquired and the goodwill arising, which have been provisionally determined in view of the time available, are as follows:

US\$m	Fair value	Carrying amount
BPLAC		
Intangible assets	15	-
Deferred acquisition costs (value of business acquired)	31	-
Property, plant and equipment	8	9
Investment property	13	13
Loans and receivables	67	65
Investment securities	246	246
Other assets	5	5
Cash and cash equivalents	2	2
Insurance and investment contract liabilities	(281)	(281)
Deferred tax assets / (liabilities)	(17)	3
Other liabilities	(6)	(6)
Total net assets acquired	83	56
Less: non-controlling interests acquired	(44)	
Net assets acquired	39	
Fair value of purchase consideration	46	
Acquisition costs	1	
Total purchase consideration	47	
Goodwill arising on acquisition	8	
Fair value of purchase consideration	47	
Less: deferred consideration and purchase price adjustment	(17)	
Less: cash and cash equivalents in acquired subsidiary	(2)	
Net cash outflow	28	

4. Changes in group composition (continued)

Acquisitions (continued)

On 30 November 2007, the Group acquired a further 50% of the share capital of Grand Design Development Limited ("Grand Design") for cash consideration of US\$233m. Grand Design is a holding company with a 90% interest in the share capital of Bayshore Development Group Limited ("Bayshore"), which owns a property in Hong Kong. Prior to the acquisition of this interest, the Group held a 50% interest in Grand Design. After such acquisition, the Group held a 100% interest in Grand Design. Prior to 30 November 2007, the Group had accounted for its interest in the share capital and shareholder loans of Grand Design as an associate. As a consequence of the acquisition of the further 50% interest in Grand Design, the Group consolidated Grand Design and Bayshore.

Also on 30 November 2007, Bayshore obtained banking refinancing of US\$539m, which enabled Bayshore to repay certain shareholder loans, including accrued interest. The Group received US\$204m for its share of these shareholder loans, which exceeded the Group's carrying value of Grand Design of US\$191m. As this refinancing occurred concurrent with the Group's acquisition of the further 50% of the share capital of Grand Design, the Group did not recognise a gain on this repayment, considering it to be a reduction in the purchase consideration payable for the further 50% interest in Grand Design. During 2008, a final purchase price adjustment of US\$1m was received by the Group.

Details of the fair value of the assets and liabilities acquired and the goodwill arising are as follows:

US\$m	Fair value	Carrying amount
Grand Design		
Property, plant and equipment	19	17
Investment property	89	78
Loans and receivables	3	7
Other assets	639	383
Cash and cash equivalents	26	26
Borrowings	(544)	(544)
Deferred tax liabilities	(2)	-
Other liabilities	(11)	(11)
Net assets acquired	219	(44)
Repayment of shareholders' loans	14	
Fair value of purchase consideration	233	
Less: cash and cash equivalents in acquired subsidiaries	(26)	
Net cash outflow	207	

During 2008, the Group acquired a further 50% of the share capital of AIG Consulting Services Company Limited. The fair value of the net assets acquired and purchase consideration are considered immaterial. Prior to the acquisition of this interest, the Group held a 50% interest in AIG Consulting Services Company Limited. After such acquisition, the Group held a 100% interest in AIG Consulting Services Company Limited.

Disposal

In October 2009, the Group sold its 60% interest in PT Asuransi AIA Indonesia for US\$65m. The loss on sale was US\$29m before tax. The Group continues to operate in Indonesia through its wholly owned subsidiary PT AIA Financial.

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5. Operating profit

Operating profit may be reconciled to net profit as follows:

US\$m	Note	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
Operating profit	7	1,742	1,943	1,835
Non-operating investment return:				
Investment experience		3,640	(10,222)	5,716
Investment income related to investment-linked contracts		63	80	68
Investment management expenses related to investment-linked contracts		(9)	(10)	(16)
Corresponding changes in insurance and investment contract liabilities for investment-linked contracts		(2,469)	5,919	(4,166)
Corresponding changes in insurance contract liabilities for participating funds		(308)	1,502	(773)
Corresponding changes in third party interests in consolidated investment funds		(80)	319	(164)
Non-operating investment return		837	(2,412)	665
Other non-operating items:				
Gain on recapture of reinsurance from former parent company		-	447	-
Restructuring and separation costs		-	(10)	(89)
Non-operating items		837	(1,975)	576
Profit/(loss) before tax		2,579	(32)	2,411
Tax on operating profit		(461)	(348)	(392)
Tax on non-operating investment return		(190)	518	(262)
Other non-operating tax items:				
Release of withholding tax provision		-	275	-
Tax (expense)/credit		(651)	445	(654)
Net profit		1,928	413	1,757
Operating profit		1,742	1,943	1,835
Tax on operating profit		(461)	(348)	(392)
Operating profit after tax		1,281	1,595	1,443
<i>Operating profit after tax attributable to:</i>				
Shareholders of AIA Group Limited		1,270	1,588	1,438
Non-controlling interests		11	7	5

In 2009, non-operating items consist of restructuring and separation costs of US\$89m. Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Separation costs are those significant and identifiable costs related to the Group's separation from AIG.

During 2008, the Group paid US\$190m to its then immediate parent, AIRCO, in full and final settlement of the recapture of a portfolio of reinsured risks and the transfer of a related portfolio of financial assets. The fair value of financial assets received exceeded the insurance and investment contract liabilities, deferred acquisition and origination costs, and this fee, resulting in a gain on recapture of US\$447m. Other items in 2008 considered to be non-operating in nature consist of restructuring and separation costs of US\$10m and the release of a provision for withholding tax, as a tax treaty was clarified during 2008 which resulted in the release of tax liabilities for withholding tax on profits to be remitted to Hong Kong in the amount of US\$275m.

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6. Total weighted premium income

For management decision making and internal performance management purposes, the Group measures business volumes using a performance measure referred to as total weighted premium income (TWPI). Total weighted premium income consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the Group's accounting policies.

Management considers that total weighted premium income provides an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not intended to be indicative of premium and fee income recorded in the consolidated income statement.

US\$m	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
Total weighted premium income by geography			
Hong Kong	2,845	2,916	2,861
Thailand	2,164	2,351	2,373
Singapore	1,514	1,641	1,524
Malaysia	667	727	707
China	806	934	1,018
Korea	2,178	2,268	1,759
Other Markets	1,184	1,366	1,390
Total	11,358	12,203	11,632

First year premiums by geography			
Hong Kong	482	414	357
Thailand	301	326	337
Singapore	115	139	111
Malaysia	78	91	93
China	161	160	166
Korea	683	664	322
Other Markets	296	325	358
Total	2,116	2,119	1,744

Single premiums by geography			
Hong Kong	893	475	175
Thailand	99	158	121
Singapore	1,187	952	400
Malaysia	107	93	32
China	380	193	166
Korea	740	457	77
Other Markets	273	247	119
Total	3,679	2,575	1,090

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6. Total weighted premium income (continued)

US\$m	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
Renewal premiums by geography			
Hong Kong	2,274	2,455	2,487
Thailand	1,853	2,009	2,024
Singapore	1,280	1,407	1,373
Malaysia	578	627	611
China	607	755	835
Korea	1,421	1,559	1,429
Other Markets	861	1,015	1,020
Total	8,874	9,827	9,779

7. Segment information

The Group's operating segments, based on the reporting received by the Group's Exco are each of the geographical markets in which the Group operates. Each of the reportable segments, other than the 'Corporate and Other' segment, writes life insurance business, providing life, pensions, and accident and health products to customers in its local market, and distributes related investment and other financial services products. The reportable segments, as required to be disclosed separately under IFRS 8, are Hong Kong, Thailand, Singapore, Korea, Malaysia, China, Other Markets and Corporate and Other. The Group's Hong Kong reportable segment includes Macau. The Group's Singapore reportable segment includes Brunei. Other Markets primarily includes the Group's operations in the Philippines, Indonesia, Vietnam, India, Australia, New Zealand and Taiwan. The activities of the Corporate and Other segment consist of the AIA Group's corporate functions, shared services and eliminations of intragroup transactions.

Because each reportable segment other than the Corporate and Other segment focuses on serving the life insurance needs of its local market there are limited transactions between reportable segments. The key performance indicators reported in respect of each segment are:

- total weighted premium income;
- investment income (excluding investment income in respect of investment-linked contracts);
- operating expenses;
- operating profit; (see Note 5);
- expense ratio; measured as operating expenses divided by total weight premium income;
- operating margin; measured as operating profit (see above) expressed as a percentage of total weighted premium income; and
- operating return on allocated segment equity, measured as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a simple average of opening and closing allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests, fair value and foreign currency translation reserves, and adjusted for subordinated intercompany debt).

In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Corporate and Other segment and capital inflows consist of capital injections into reportable segments by the Corporate and Other segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.

Business volumes in respect of the Group's five largest customers are less than 30 per cent of premiums and fee income.

7. Segment information (continued)

US\$m	Key markets							Corporate and Other	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets		
Year ended 30 November 2009									
Total weighted premium income	2,861	2,373	1,524	707	1,018	1,759	1,390	-	11,632
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	2,232	2,374	1,506	656	999	1,367	1,055	(16)	10,173
Investment income ¹	779	640	609	223	201	217	400	(10)	3,059
Total revenue	3,011	3,014	2,115	879	1,200	1,584	1,455	(26)	13,232
Net insurance and investment contract benefits ²	1,700	2,107	1,495	597	872	1,027	843	(17)	8,624
Commission and other acquisition expenses	398	391	160	70	55	371	204	(1)	1,648
Operating expenses	163	135	91	58	181	101	170	82	981
Investment management expenses and finance costs ³	52	23	13	5	3	4	25	(2)	123
Total expenses	2,313	2,656	1,759	730	1,111	1,503	1,242	62	11,376
Share of profit/(loss) from associates and joint ventures	-	-	-	1	-	-	(22)	-	(21)
Operating profit/(loss)	698	358	356	150	89	81	191	(88)	1,835
Tax on operating profit	(43)	(111)	(92)	(44)	(21)	(16)	(47)	(18)	(392)
Operating profit/(loss) after tax	655	247	264	106	68	65	144	(106)	1,443
<i>Operating profit/(loss) after tax attributable to:</i>									
Shareholders of AIA Group Limited	653	251	264	106	68	65	137	(106)	1,438
Non-controlling interests	2	(4)	-	-	-	-	7	-	5

Key operating ratios:

Expense ratio	5.7%	5.7%	6.0%	8.2%	17.8%	5.7%	12.2%	-	8.4%
Operating margin	24.4%	15.1%	23.4%	21.2%	8.7%	4.6%	13.7%	-	15.8%
Operating return on allocated equity	16.9%	9.4%	21.1%	22.5%	11.2%	5.3%	10.9%	-	12.0%

Operating profit includes:

Finance costs	43	2	6	2	-	-	3	(6)	50
Depreciation and amortisation	4	8	8	8	13	10	9	6	66
Strategic initiative expenses	10	6	14	2	3	-	9	18	62

Note: (1) Excludes investment income related to investment-linked contracts

Note: (2) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds and investment income related to investment-linked contracts

Note: (3) Excludes investment management expenses related to investment-linked contracts

7. Segment information (continued)

Operating profit may be reconciled to net profit/(loss) as follows:

US\$m	Key markets						Other Markets	Corporate and Other	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea			
30 November 2009									
Operating profit/(loss)	698	358	356	150	89	81	191	(88)	1,835
Non-operating items	(32)	563	139	35	30	(80)	(40)	(39)	576
Profit/(loss) before tax	666	921	495	185	119	1	151	(127)	2,411
Tax on operating profit	(43)	(111)	(92)	(44)	(21)	(16)	(47)	(18)	(392)
Tax on non-operating items	-	(168)	(75)	(20)	(8)	15	(3)	(3)	(262)
Tax (expense)/credit	(43)	(279)	(167)	(64)	(29)	(1)	(50)	(21)	(654)
Net profit/(loss)	623	642	328	121	90	-	101	(148)	1,757
<i>Net profit/(loss) attributable to:</i>									
Shareholders of AIA Group Limited	621	646	328	121	90	-	94	(146)	1,754
Non-controlling interests	2	(4)	-	-	-	-	7	(2)	3

Allocated equity may be analysed as follows:

US\$m	Key markets						Other Markets	Corporate and Other	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea			
30 November 2009									
Assets before investments in associates and joint ventures	23,761	16,530	20,690	6,337	6,510	7,498	7,829	1,451	90,606
Investments in associates and joint ventures	-	2	7	4	-	-	40	-	53
Total assets	23,761	16,532	20,697	6,341	6,510	7,498	7,869	1,451	90,659
Total liabilities⁴	19,023	12,955	18,914	5,787	5,828	6,378	6,090	695	75,670
Total equity	4,738	3,577	1,783	554	682	1,120	1,779	756	14,989
Non-controlling interests	2	-	-	-	-	-	48	1	51
Amounts reflected in other comprehensive income:									
Fair value reserve	572	463	108	24	(32)	49	375	(31)	1,528
Foreign currency translation reserve	-	195	149	26	54	(156)	40	1	309
Allocated equity	4,164	2,919	1,526	504	660	1,227	1,316	785	13,101
Net capital in/(out) flows	(30)	(175)	220	(54)	16	11	18	413	419

Note: (4) Corporate and Other and Other Markets adjusted for subordinated intercompany debt provided to Other Markets of US\$63m

7. Segment information (continued)

Segment information may be reconciled to the consolidated income statement as shown below.

US\$m	Segment information	Investment experience	Investment income related to investment-linked contracts	Investment management expenses related to investment-linked contracts	Related changes in insurance and investment contract benefits		Third party interests in consolidated investment funds	Other non-operating items	Consolidated income statement	
					Investment-linked contracts	Participating funds				
30 November 2009										
Total revenue	13,232	5,716	68	-	-	-	-	-	19,016	Total revenue
Of which:										
Net premiums, fee income and other operating revenue	10,173	-	-	-	-	-	-	-	10,173	Net premiums and fee income and other operating revenue
Investment return	3,059	5,716	68	-	-	-	-	-	8,843	Investment return
Total expenses	11,376	-	-	16	4,166	773	164	89	16,584	Total segment expenses
Of which:										
Net insurance and investment contract benefits	8,624	-	-	-	4,166	773	-	-	13,563	Net insurance and investment contract benefits
Restructuring and separation costs	-	-	-	-	-	-	-	89	89	Restructuring and separation costs
Investment management expenses and finance costs	123			16					139	Investment management expenses and finance costs
Change in third party interests in consolidated investment funds	-	-	-	-	-	-	164	-	164	Change in third party interests in consolidated investment funds
Share of loss of associates and joint ventures	(21)	-	-	-	-	-	-	-	(21)	Share of loss of associates and joint ventures
Operating profit	1,835	5,716	68	(16)	(4,166)	(773)	(164)	(89)	2,411	Profit/(loss) before tax

Other non-operating items in 2009 consist of restructuring and separation costs of US\$89m (see Note 5).

7. Segment information (continued)

US\$m	Key markets							Corporate and Other	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets		
Year ended 30 November 2008									
Total weighted premium income	2,916	2,351	1,641	727	934	2,268	1,366	-	12,203
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	2,023	2,403	1,658	706	847	1,698	1,032	(6)	10,361
Investment income ¹	767	657	616	230	184	248	397	45	3,144
Total revenue	2,790	3,060	2,274	936	1,031	1,946	1,429	39	13,505
Net insurance and investment contract benefits ²	1,540	2,101	1,551	663	692	1,222	860	1	8,630
Commission and other acquisition expenses	336	381	238	80	76	307	148	(3)	1,563
Operating expenses	183	132	129	64	172	132	173	104	1,089
Investment management expenses and finance costs ³	141	23	24	5	6	4	31	18	252
Total expenses	2,200	2,637	1,942	812	946	1,665	1,212	120	11,534
Share of profit/(loss) from associates and joint ventures	-	1	1	(1)	-	-	(29)	-	(28)
Operating profit/(loss)	590	424	333	123	85	281	188	(81)	1,943
Tax on operating profit/(loss)	(21)	(121)	(100)	(11)	3	(63)	(29)	(6)	(348)
Operating profit/(loss) after tax	569	303	233	112	88	218	159	(87)	1,595
<i>Operating profit/(loss) after tax attributable to:</i>									
Shareholders of AIA Group Limited	568	303	233	112	88	218	153	(87)	1,588
Non-controlling interests	1	-	-	-	-	-	6	-	7

Key operating ratios:

Expense ratio	6.3%	5.6%	7.9%	8.8%	18.4%	5.8%	12.7%	-	8.9%
Operating margin	20.2%	18.0%	20.3%	16.9%	9.1%	12.4%	13.8%	-	15.9%
Operating return on allocated equity	18.3%	11.7%	22.7%	27.5%	16.8%	20.2%	13.7%	-	15.1%

Operating profit includes:

Finance costs	122	2	21	1	1	-	2	10	159
Depreciation and amortisation	1	13	9	7	14	9	6	5	64
Strategic initiative expenses	4	2	9	1	-	-	1	8	25

Note: (1) Excludes investment income related to investment-linked contracts

Note: (2) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds and investment income related to investment-linked contracts

Note: (3) Excludes investment management expenses related to investment-linked contracts

7. Segment information (continued)

Operating profit may be reconciled to net profit/(loss) as follows:

US\$m	Key markets						Other Markets	Corporate and Other	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea			
30 November 2008									
Operating profit/(loss)	590	424	333	123	85	281	188	(81)	1,943
Non-operating items	(326)	(738)	(479)	(74)	(50)	(83)	(102)	(123)	(1,975)
Profit/(loss) before tax	264	(314)	(146)	49	35	198	86	(204)	(32)
Tax on operating profit	(21)	(121)	(100)	(11)	3	(63)	(29)	(6)	(348)
Tax on non-operating items	-	221	193	48	15	29	9	3	518
Other non-operating tax items	-	-	-	-	-	-	-	275	275
Tax (expense)/credit	(21)	100	93	37	18	(34)	(20)	272	445
Net profit/(loss)	243	(214)	(53)	86	53	164	66	68	413
<i>Net profit/(loss) attributable to:</i>									
Shareholders of AIA Group Limited	243	(214)	(53)	86	53	164	62	67	408
Non-controlling interests	-	-	-	-	-	-	4	1	5

Allocated equity may be analysed as follows:

US\$m	Key markets						Other Markets	Corporate and Other	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea			
30 November 2008									
Assets before investments in associates and joint ventures	19,252	13,938	15,883	5,534	5,636	5,055	5,656	1,008	71,962
Investments in associates and joint ventures	-	2	7	2	-	-	36	-	47
Total assets	19,252	13,940	15,890	5,536	5,636	5,055	5,692	1,008	72,009
Total liabilities⁴	17,416	11,030	15,003	5,075	4,953	4,424	4,716	474	63,091
Total equity	1,836	2,910	887	461	683	631	976	534	8,918
Non-controlling interests	-	-	-	-	-	-	10	-	10
Amounts reflected in other comprehensive income:									
Fair value reserve	(1,737)	457	(112)	27	76	(175)	(118)	17	(1,565)
Foreign currency translation reserve	-	5	21	(3)	53	(410)	(120)	(1)	(455)
Allocated equity	3,573	2,448	978	437	554	1,216	1,204	518	10,928
Net capital in/(out) flows	684	(74)	(45)	(28)	7	105	118	(377)	390

Note: (4) Corporate and Other and Other Markets adjusted for subordinated intercompany debt provided to Other Markets of US\$68m

7. Segment information (continued)

Segment information may be reconciled to the consolidated income statement as shown below.

US\$m	Segment information	Investment experience	Investment income related to investment-linked contracts	Investment management expenses related to investment-linked contracts	Related changes in insurance and investment contract benefits		Third party interests in consolidated investment funds	Other non-operating items	Consolidated income statement	
					Investment-linked contracts	Participating funds				
30 November 2008										
Total revenue	13,505	(10,222)	80	-	-	-	-	447	3,810	Total revenue
Of which:										Of which:
Net premiums, fee income and other operating revenue	10,361	-	-	-	-	-	-	447	10,808	Net premiums and fee income and other operating revenue
Investment return	3,144	(10,222)	80	-	-	-	-	-	(6,998)	Investment return
Total expenses	11,534	-	-	10	(5,919)	(1,502)	(319)	10	3,814	Total expenses
Of which:										Of which:
Net insurance and investment contract benefits	8,630	-	-	-	(5,919)	(1,502)	-	-	1,209	Net insurance and investment contract benefits
Restructuring and separation costs	-							10	10	Restructuring and separation costs
Investment management expenses and finance costs	252			10					262	Investment management expenses and finance costs
Change in third party interests in consolidated investment funds	-	-	-	-	-	-	(319)	-	(319)	Change in third party interests in consolidated investment funds
Share of loss of associates and joint ventures	(28)	-	-	-	-	-	-	-	(28)	Share of loss of associates and joint ventures
Operating profit	1,943	(10,222)	80	(10)	5,919	1,502	319	437	(32)	Profit/(loss) before tax

Other non-operating items in 2008 consist of a gain of US\$447m arising on the recapture of a reinsurance treaty and restructuring costs of US\$10m (see Note 5).

7. Segment information (continued)

US\$m	Key markets							Corporate and Other	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets		
Year ended 30 November 2007									
Total weighted premium income	2,845	2,164	1,514	667	806	2,178	1,184	-	11,358
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	1,401	2,206	1,464	610	723	1,506	912	(5)	8,817
Investment income ¹	607	557	538	200	147	233	352	72	2,706
Total revenue	2,008	2,763	2,002	810	870	1,739	1,264	67	11,523
Net insurance and investment contract benefits ²	1,124	1,928	1,434	554	551	1,165	829	1	7,586
Commission and other acquisition expenses	198	293	76	75	68	165	70	2	947
Operating expenses	133	114	95	52	127	136	157	148	962
Investment management expenses and finance costs ³	153	26	49	6	2	4	30	16	286
Total expenses	1,608	2,361	1,654	687	748	1,470	1,086	167	9,781
Share of profit/(loss) from associates and joint ventures	8	(1)	-	-	-	-	(8)	1	-
Operating profit/(loss)	408	401	348	123	122	269	170	(99)	1,742
Tax on operating profit	(40)	(126)	(68)	(38)	(11)	(77)	(54)	(47)	(461)
Operating profit/(loss) after tax	368	275	280	85	111	192	116	(146)	1,281
<i>Operating profit/(loss) after tax attributable to:</i>									
Shareholders of AIA Group Limited	368	275	280	85	111	192	105	(146)	1,270
Non-controlling interests	-	-	-	-	-	-	11	-	11

Key operating ratios:

Expense ratio	4.7%	5.3%	6.3%	7.8%	15.8%	6.2%	13.3%	-	8.5%
Operating margin	14.3%	18.5%	23.0%	18.4%	15.1%	12.4%	14.4%	-	15.3%
Operating return on allocated equity	15.5%	11.0%	25.9%	24.3%	26.9%	23.8%	11.1%	-	13.7%

Operating profit includes:

Finance costs	141	-	42	2	1	-	-	17	203
Depreciation and amortisation	6	8	8	4	7	8	6	5	52
Strategic initiative expenses	-	-	-	-	-	-	-	-	-

Note: (1) Excludes investment income related to investment-linked contracts

Note: (2) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds and investment income related to investment-linked contracts

Note: (3) Excludes investment management expenses related to investment-linked contracts

7. Segment information (continued)

Operating profit may be reconciled to net profit/(loss) as follows:

US\$m	Key markets						Other Markets	Corporate and Other	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea			
30 November 2007									
Operating profit/(loss)	408	401	348	123	122	269	170	(99)	1,742
Non-operating items	203	341	68	55	63	36	42	29	837
Profit/(loss) before tax	611	742	416	178	185	305	212	(70)	2,579
Tax on operating profit	(40)	(126)	(68)	(38)	(11)	(77)	(54)	(47)	(461)
Tax on non-operating items	-	(103)	(36)	(28)	(12)	(11)	(1)	1	(190)
Tax (expense)/credit	(40)	(229)	(104)	(66)	(23)	(88)	(55)	(46)	(651)
Net profit/(loss)	571	513	312	112	162	217	157	(116)	1,928
<i>Net profit/(loss) attributable to:</i>									
Shareholders of AIA Group Limited	571	513	312	112	162	217	143	(116)	1,914
Non-controlling interests	-	-	-	-	-	-	14	-	14

Allocated equity may be analysed as follows:

US\$m	Key markets						Other Markets	Corporate and Other	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea			
30 November 2007									
Assets before investments in associates and joint ventures	23,623	13,730	20,535	5,790	4,544	7,763	6,815	5,329	88,129
Investments in associates and joint ventures	-	4	17	-	-	-	23	19	63
Total assets	23,623	13,734	20,552	5,790	4,544	7,763	6,838	5,348	88,192
Total liabilities	20,873	10,715	19,331	5,365	4,142	6,893	5,135	2,247	74,701
Total equity	2,750	3,019	1,221	425	402	870	1,703	3,101	13,491
Non-controlling interests	-	-	-	-	-	-	51	-	51
Amounts reflected in other comprehensive income:									
Fair value reserve	104	141	70	17	(108)	(85)	558	2,272	2,969
Foreign currency translation reserve	-	142	75	29	16	8	70	1	341
Allocated equity	2,646	2,736	1,076	379	494	947	1,024	828	10,130
Net capital in/(out) flows	(7)	(61)	(319)	(51)	-	60	(1)	285	(94)

7. Segment information (continued)

Segment information may be reconciled to the consolidated income statement as shown below.

US\$m	Segment information	Investment experience	Investment income related to investment-linked contracts	Investment management expenses related to investment-linked contracts	Related changes in insurance and investment contract benefits		Third party interests in consolidated investment funds	Other non-operating items	Consolidated income statement	
					Investment-linked contracts	Participating funds				
30 November 2007										
Total revenue	11,523	3,640	63	-	-	-	-	-	15,226	Total revenue
Of which:										Of which:
Net premiums, fee income and other operating revenue	8,817	-	-	-	-	-	-	-	8,817	Net premiums and fee income and other operating revenue
Investment return	2,706	3,640	63	-	-	-	-	-	6,409	Investment return
Total expenses	9,781	-	-	9	2,469	308	80	-	12,647	Total expenses
Of which:										Of which:
Net insurance and investment contract benefits	7,586	-	-	-	2,469	308	-	-	10,363	Net insurance and investment contract benefits
Investment management expenses and finance costs	286			9					295	Investment management expenses and finance costs
Change in third party interests in consolidated investment funds	-	-	-	-	-	-	80	-	80	Change in third party interests in consolidated investment funds
Operating profit	1,742	3,640	63	(9)	(2,469)	(308)	(80)	-	2,579	Profit/(loss) before tax

8. Revenue

Investment return

	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
US\$m			
Interest income	2,560	2,958	2,913
Dividend income	184	203	147
Rental income	25	63	67
Investment income	2,769	3,224	3,127
Available for sale			
Net realised gains/(losses) from debt securities	1	(90)	(162)
Impairment of debt securities	-	(142)	(67)
Net gains/(losses) of available for sale financial assets reflected in the consolidated income statement	1	(232)	(229)
At fair value through profit or loss			
Net (losses)/gains of debt securities	(227)	(1,117)	635
Net gains/(losses) of equity securities	4,030	(8,968)	5,506
Net fair value movement on derivatives	100	(247)	273
Net gains/(losses) in respect of financial assets at fair value through profit or loss	3,903	(10,332)	6,414
Net foreign exchange (losses)/gains	(262)	300	(426)
Other realised (losses)/gains	(2)	42	(43)
Investment experience	3,640	(10,222)	5,716
Investment return	6,409	(6,998)	8,843

Other realised (losses)/gains for the year ended 30 November 2009 includes US\$9m of impairment loss relating to the disposal group held for sale (see Note 11 for further information) and US\$29m loss before tax relating to the disposal of PT Asuransi AIA Indonesia.

Foreign currency movements resulted in the following (losses)/gains recognised in the income statement (other than gains and losses arising on items measured at fair value through profit or loss):

	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
US\$m			
Foreign exchange (loss)/gain	(225)	227	(140)

8. Revenue (continued)

Other operating revenue

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
Gain on recapture of reinsurance from former parent company (see Note 5)	-	447	-
Other revenue	77	79	71
Total	77	526	71

The balance of other operating revenue largely consists of asset management fees.

9. Expenses

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
Insurance contract benefits	4,555	5,402	5,375
Change in insurance contract liabilities	5,233	(1,898)	6,275
Investment contract benefits	1,228	(2,047)	2,164
Insurance and investment contract benefits	11,016	1,457	13,814
Insurance and investment contract benefits ceded	(653)	(248)	(251)
Insurance and investment contract benefits, net of ceded reinsurance	10,363	1,209	13,563
Commissions and other acquisition expenses incurred	2,282	2,269	1,855
Deferral and amortisation of acquisition costs	(1,335)	(706)	(207)
Commission and other acquisition expenses	947	1,563	1,648
Employee benefit expenses	585	639	610
Depreciation	45	61	57
Amortisation	7	3	9
Operating lease rentals	81	94	90
Other operating expenses	244	292	215
Operating expenses	962	1,089	981
Restructuring costs	-	8	11
Separation costs	-	2	78
Restructuring and separation costs	-	10	89
Investment management expenses	92	103	89
Finance costs	203	159	50
Change in third party interests in consolidated investment funds	80	(319)	164
Total	12,647	3,814	16,584

Other operating expenses include auditors' remuneration of US\$8m (2007: US\$8m; 2008: US\$8m). Operating expenses include strategic initiative expenses of US\$62m (2007: US\$nil; 2008: US\$25m). Strategic initiative expenses consist of expenses for enhancing distribution capability and operational efficiency and are approved by the Group's Strategic Initiative Office.

9. Expenses (continued)

Investment management expenses may be analysed as:

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
Investment management expenses including fees paid to related parties	88	101	87
Depreciation on investment property	4	2	2
Total	92	103	89

Finance costs may be analysed as:

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
Securities lending and repurchase agreements (see Note 30 for details)	193	134	44
Bank and other loans	1	18	5
Related party borrowings (see Note 41)	9	7	1
Total	203	159	50

Interest expense includes US\$5m (2007: US\$10m; 2008: US\$25m) on bank loans, overdrafts and related party loans wholly repayable within five years.

Employee benefit expenses consist of:

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
Wages and salaries	464	497	477
Share based compensation	11	19	8
Pension costs - defined contribution plans	20	27	30
Pension costs - defined benefit plans	12	12	14
Other employee benefit expenses	78	84	81
Total	585	639	610

10. Income tax

	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
US\$m			
Tax (credited)/charged in the consolidated income statement			
Current income tax - Hong Kong Profits Tax	39	37	34
Current income tax - overseas	425	364	287
Deferred income tax on temporary differences	187	(846)	333
Total	651	(445)	654

The provision for Hong Kong Profits Tax is calculated at 16.5%, starting from the year of assessment 2008/09. In previous periods, the Profits Tax rate in Hong Kong was 17.5%. Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions of which the most significant jurisdictions are outlined below. The tax benefit or expense attributable to Singapore, Malaysia, Australia and New Zealand life insurance policyholder returns is included in the tax charge or credit and is analysed separately in the consolidated income statement in order to permit comparison of the underlying effective rate of tax attributable to shareholders from year to year. The tax attributable to policyholders' returns included above is US\$137m charge (2007: US\$70m charge; 2008: US\$90m credit).

	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
Thailand	30%	30%	30%
Singapore	18%	18%	17%
Korea	27.50%	24.20%	24.2%
Malaysia	27%	26%	25%
China	25%/33%	25%	25%
Hong Kong	17.50%	16.50%	16.50%
Other	20% - 35%	20% - 35%	20% - 30%

The table above reflects the principal rate of corporate income taxes, as at the end of each year. The rate changes reflect changes to the enacted or substantively enacted corporate tax rates throughout the period in each jurisdiction.

The most significant matters affecting the tax charge for the year ended 30 November 2008 are the release of a provision for withholding tax of US\$275m following clarification of a tax treaty with Hong Kong (see Note 5 and below), a tax credit of US\$41m relating to a change of tax law in Malaysia and a reduction in Korea's corporate tax rate which will fall to 22% from 2012.

Hong Kong, where the Group is headquartered, currently has a number of tax treaties providing double tax relief in respect of countries in which the Group operates. The overall benefit of these treaties reduces the tax balances recorded in the consolidated statement of financial position as at 30 November 2009 by US\$358m (2008: US\$290m).

In the analysis that follows, the terms 'life insurance tax' and 'life surplus' have the following meaning:

- life insurance tax refers to the permanent differences which arise where the tax regime specific to the life insurance business does not adopt net income as the basis for calculating taxable profit, for example Hong Kong, where life business taxable profit is derived from life premiums; and
- life surplus relates to the temporary difference which arises where the taxable profits are based on actual distributions from the long term fund. This primarily relates to Singapore and Malaysia.

10. Income tax (continued)

	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
US\$m			
Income tax reconciliation			
Profit/(loss) before income tax	2,579	(32)	2,411
Tax calculated at domestic tax rates applicable to profits in the respective countries	610	5	549
Reduction in tax payable from:			
Release of provision for withholding tax	-	(275)	-
Life insurance tax	-	(108)	-
Exempt investment income	(17)	(33)	(38)
Changes in tax rate and law	(24)	(44)	-
Release of provisions for uncertain tax positions	-	(10)	-
Amounts over provided in prior years	(10)	(3)	(4)
Unrecognised deferred tax assets	-	-	-
Other	-	(4)	-
	(51)	(477)	(42)
Increase in tax payable from:			
Life insurance tax	19	-	70
Withholding taxes	37	-	12
Disallowed expenses	3	20	43
Unrecognised deferred tax assets	13	7	4
Provisions for uncertain tax positions	3	-	3
Other	17	-	15
	92	27	147
Total income tax expense/(credit)	651	(445)	654
Deferred tax			
Temporary differences not recognised in the consolidated statement of financial position are:			
Tax losses	144	148	148
Insurance contract liabilities	117	89	52
Total	261	237	200

There are no current tax assets recoverable in more than one year. All jurisdictions are either in a net deferred tax liability position or there is no recognition of deferred tax assets.

The Group has unused income tax losses carried forward in China, Indonesia, Vietnam and the Philippines. The losses in China, Vietnam and Indonesia expire if they remain unused five years after being incurred. Losses in the Philippines expire three years after being incurred. All of the tax losses currently carried forward are due to expire by the end of 2014.

10. Income tax (continued)

The movement in deferred tax liabilities in the period may be analysed as set out below:

US\$m	Net deferred tax asset/(liability) at 1 December	(Charged)/credited to the income statement	(Charged)/credited to other comprehensive income		Net deferred tax asset/(liability) at 30 November
			Fair value reserve	Foreign exchange	
30 November 2009					
Revaluation of financial instruments	(415)	(721)	(133)	(161)	(1,430)
Deferred acquisition costs	(1,244)	(187)	-	(42)	(1,473)
Insurance and investment contract liabilities	1,387	711	-	157	2,255
Withholding taxes	(48)	(12)	-	(3)	(63)
Provision for expenses	7	(11)	-	(2)	(6)
Losses available for offset against future taxable income	4	-	-	-	4
Life surplus	(255)	(118)	-	(26)	(399)
Other	17	5	-	3	25
Total	(547)	(333)	(133)¹	(74)	(1,087)
30 November 2008					
Revaluation of financial instruments	(1,226)	755	(12)	68	(415)
Deferred acquisition costs	(1,620)	345	-	31	(1,244)
Insurance and investment contract liabilities	2,142	(693)	-	(62)	1,387
Withholding taxes	(304)	261	-	(5)	(48)
Provision for expenses	59	(48)	-	(4)	7
Losses available for offset against future taxable income	6	(2)	-	-	4
Life surplus	(431)	161	-	15	(255)
Other	(53)	67	-	3	17
Total	(1,427)	846	(12)¹	46	(547)
30 November 2007					
Revaluation of financial instruments	(1,379)	(20)	181	(8)	(1,226)
Deferred acquisition costs	(1,484)	(98)	-	(38)	(1,620)
Insurance and investment contract liabilities	1,683	331	-	128	2,142
Withholding taxes	(256)	(34)	-	(14)	(304)
Provision for expenses	150	(66)	-	(25)	59
Losses available for offset against future taxable income	67	(44)	-	(17)	6
Life surplus	(36)	(285)	-	(110)	(431)
Other	(88)	29	-	6	(53)
Total	(1,343)	(187)	181¹	(78)	(1,427)

Note: (1) Of the fair value reserve deferred tax charge of US\$133m for 2009, US\$139m (2008: US\$(22)m, 2007: US\$181m) relates to fair value gains and losses on available for sale financial assets and US\$6m (2008: US\$10m, 2007: US\$nil) relates to fair value gains and losses on available for sale financial assets transferred to income on disposal and impairment

11. Disposal groups held for sale

On 28 August 2009, AIA-B agreed to sell AIA (Bermuda) Services Inc. and transfer a block of life insurance policies through a business transfer to ALICO for an aggregate consideration of US\$1.

As a result, the assets and liabilities have been presented as held for sale at 30 November 2009. Refer to Note 8 for additional information.

The following table shows the assets and liabilities of the disposal group classified as held for sale.

US\$m	30 November 2009
Available for sale – debt securities	50
Other assets	5
Cash and cash equivalents	3
Total assets	58
Insurance contract liabilities	57
Other liabilities	1
Total liabilities	58

12. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares in issue during the year.

	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
Net profit attributable to shareholders of AIA Group Limited (US\$m)	1,914	408	1,754
Weighted average number of ordinary shares in issue (million)	12,000	12,000	12,000
Basic earnings per share (cents per share)	16	3	15

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's only potentially dilutive instruments during the years presented are the shares yet to be issued at 30 November 2009 as described in note 34.

	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
Net profit attributable to shareholders of AIA Group Limited (US\$m)	1,914	408	1,754
Weighted average number of ordinary shares for diluted earnings per share (million)	12,000	12,000	12,000
Diluted earnings per share (cents per share)	16	3	15

Operating profit per share

Operating profit (see Note 5) per share is calculated by dividing the operating profit after tax attributable to owners of the company by the weighted average number of ordinary shares in issue during the year. The Group's only potentially dilutive instruments during the years presented are the shares yet to be issued at 30 November 2009 as described in note 34.

	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
Basic and fully diluted (cents per share)	11	13	12

13. Dividends

	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
	US\$m	US\$m	US\$m
Ordinary dividends declared and charged to equity in the period	261	346	25

Dividends declared and charged to equity reflect dividends declared by the subsidiaries of the Group to their former parent companies.

14. Intangible assets

US\$m	Goodwill	Computer software	Distribution and other rights	Total
Cost				
At 1 December 2006	144	81	5	230
Additions	-	22	-	22
Foreign exchange movements	1	-	-	1
At 30 November 2007	145	103	5	253
Additions	-	20	18	38
Disposals	-	(8)	-	(8)
Foreign exchange movements	(1)	(5)	-	(6)
At 30 November 2008	144	110	23	277
Additions	8	23	5	36
Acquisition of a subsidiary	-	-	15	15
Disposals	-	(4)	(18)	(22)
Disposal of a subsidiary	(23)	(1)	-	(24)
Foreign exchange movements	-	8	(1)	7
At 30 November 2009	129	136	24	289
Accumulated amortisation				
At 1 December 2006	(6)	(39)	-	(45)
Amortisation charge for the year	-	(7)	-	(7)
Foreign exchange movements	-	(1)	-	(1)
At 30 November 2007	(6)	(47)	-	(53)
Amortisation charge for the year	-	(3)	-	(3)
Disposals	-	8	-	8
Foreign exchange rate movements	-	3	-	3
At 30 November 2008	(6)	(39)	-	(45)
Amortisation charge for the year	-	(8)	(1)	(9)
Disposal of a subsidiary	-	1	-	1
Foreign exchange rate movements	-	(3)	-	(3)
At 30 November 2009	(6)	(49)	(1)	(56)
Net book value				
At 30 November 2007	139	56	5	200
At 30 November 2008	138	71	23	232
At 30 November 2009	123	87	23	233

14. Intangible assets (continued)

Of the above, US\$224m (2007: US\$191m; 2008: US\$210m) is expected to be recovered more than 12 months after the end of the reporting period.

Goodwill arises primarily in respect of the Group's insurance businesses. Impairment testing is performed by comparing the carrying value of goodwill with the present value of expected future cash flows plus a multiple of the present value of the new business generated.

15. Investments in associates and joint ventures

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
Group			
At 1 December	267	63	47
Cash distributions (see Note 4 for details)	(190)	-	-
Additions	8	48	24
Disposals	(27)	(17)	(1)
Share of net (loss)/profit	-	(28)	(21)
Foreign exchange movements	5	(19)	4
At 30 November	63	47	53

The Group's interest in its principal associates and joint ventures is as follows:

	Country of incorporation	Type of shares held	Principal activity	Percentage interest held		
				As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
AIG Card (Thailand) Company Limited	Thailand	Ordinary	Credit card business	39%	39%	-
AIG Consulting Services Company Limited	China	Ordinary	Consultancy service	50%	-	-
AIG Credit Card Co. (HK) Limited	Hong Kong	Ordinary	Credit card business	50%	-	-
Beacon Property Ventures, Inc	Philippines	Ordinary	Property management	40%	40%	40%
Chelshire Investments Private Limited	Singapore	Ordinary	Property management	50%	50%	50%
Chelville Investments Private Limited	Singapore	Ordinary	Property management	50%	50%	50%
Deeptro Private Limited	Singapore	Ordinary	Property management	50%	50%	50%
Grange Development Private Limited	Singapore	Ordinary	Property development	23.25%	-	-
ICCP Holdings Inc	Philippines	Ordinary	Investment holding	20%	20%	20%
Manila Exposition Complex, Inc	Philippines	Ordinary	Hotel	10%	10%	10%
NaiLert Park Hotel Co. Limited	Thailand	Ordinary	Property management	20%	20%	20%
Panareno Sendrian Berhad	Malaysia	Ordinary and preference	Property management	35%	35%	35%
Philam Realty	Philippines	Ordinary	Property management	40%	40%	40%
Science Park of the Philippines	Philippines	Ordinary	Property management	17%	17%	17%
Tata AIG Life Insurance Company Limited	India	Ordinary	Insurance	26%	26%	26%
Winfame Investments Private Limited	Singapore	Ordinary	Property management	50%	50%	50%
Winwave Investments Private Limited	Singapore	Ordinary	Property management	50%	50%	50%

In 2008, AIG Consulting Services Company Limited in China became a subsidiary. All associates and joint ventures are unlisted.

15. Investments in associates and joint ventures (continued)

Aggregated financial information of associates and joint ventures

	As at 30 November	As at 30 November	As at 30 November
US\$m	2007	2008	2009
Share of income	142	65	146
Share of expenses	(142)	(93)	(167)
Share of profit/(loss)	-	(28)	(21)
Share of current assets	265	221	425
Share of long term assets	161	195	186
Share of current liabilities	(239)	(73)	(30)
Share of long term liabilities	(124)	(296)	(528)
Share of net assets	63	47	53

Investments in associates and joint ventures are held for their long term contribution to the Group's performance and so all amounts are expected to be realised more than 12 months after the end of the reporting period.

16. Property, plant and equipment

US\$m	Property held for use	Fixtures and fittings	Computer hardware	Total
Cost				
At 1 December 2006	339	194	133	666
Additions	3	27	28	58
Disposals	-	(7)	(7)	(14)
Transfers from investment property	19	-	-	19
Foreign exchange movements	24	-	(1)	23
At 30 November 2007	385	214	153	752
Additions	4	45	18	67
Disposals	(10)	(8)	(6)	(24)
Transfers from investment property	4	-	-	4
Foreign exchange movements	(19)	(19)	(12)	(50)
At 30 November 2008	364	232	153	749
Additions	2	15	20	37
Disposals	-	(19)	(16)	(35)
Transfers to investment property	(10)	-	-	(10)
Acquisition of a subsidiary	7	-	1	8
Disposal of a subsidiary	(1)	(3)	(1)	(5)
Foreign exchange movements	23	15	9	47
At 30 November 2009	385	240	166	791
Accumulated depreciation				
At 1 December 2006	(118)	(135)	(104)	(357)
Depreciation charge	(11)	(18)	(16)	(45)
Disposals	-	4	4	8
Foreign exchange movements	(7)	-	1	(6)
At 30 November 2007	(136)	(149)	(115)	(400)
Depreciation charge	(13)	(26)	(22)	(61)
Disposals	5	4	5	14
Transfers from investment property	(1)	-	-	(1)
Foreign exchange movements	8	12	11	31
At 30 November 2008	(137)	(159)	(121)	(417)
Depreciation charge	(11)	(23)	(23)	(57)
Disposals	-	14	15	29
Transfers to investment property	1	-	-	1
Disposal of a subsidiary	-	3	1	4
Foreign exchange movements	(9)	(9)	(7)	(25)
At 30 November 2009	(156)	(174)	(135)	(465)
Net book value				
At 30 November 2007	249	65	38	352
At 30 November 2008	227	73	32	332
At 30 November 2009	229	66	31	326

The Group holds freehold land in the form of property, plant and equipment outside Hong Kong of US\$73m (2007: US\$71m; 2008: US\$68m).

The Group holds property, plant and equipment for its long term use and, accordingly, the annual depreciation charge approximates to the amount expected to be recovered through consumption within 12 months after the end of the reporting period.

17. Investment property

US\$m	Investment Property
Cost	
At 1 December 2006	136
Additions	111
Transfers to property, plant and equipment	(19)
Foreign exchange movements	13
At 30 November 2007	241
Additions	47
Disposals	(10)
Transfers to property, plant and equipment	(4)
Foreign exchange movements	(11)
At 30 November 2008	263
Additions	2
Disposals	(2)
Transfers from property, plant and equipment	10
Acquisition of a subsidiary	13
Foreign exchange movements	8
At 30 November 2009	294
Accumulated depreciation	
At 1 December 2006	(41)
Charge for the year	(4)
Foreign exchange movements	(6)
At 30 November 2007	(51)
Charge for the year	(2)
Disposals	4
Transfers to property, plant and equipment	1
Foreign exchange movements	2
At 30 November 2008	(46)
Charge for the year	(2)
Transfers from property, plant and equipment	(1)
Foreign exchange movements	(1)
At 30 November 2009	(50)
Net book value	
At 30 November 2007	190
At 30 November 2008	217
At 30 November 2009	244

The Group holds investment property for the long term, and so the annual amortisation charge approximates to the amount expected to be recovered within 12 months after the reporting period.

17. Investment property (continued)

The Group leases out its investment property under operating leases. The leases typically run for an initial period of two to twelve years, with an option to renew the lease based on future negotiations. Lease payments are usually negotiated every two years to reflect market rentals. None of the leases include contingent rentals. Rental income generated from investment properties amounted to US\$68m (2007: US\$25m; 2008: US\$63m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US\$12m (2007: US\$22m; 2008: US\$25m).

The Group owns investment property in the form of freehold land outside Hong Kong of US\$50m (2007: US\$10m; 2008: US\$47m). The Group does not hold freehold land in Hong Kong.

The future minimum operating lease rental income under non-cancellable operating leases that the Group expects to receive in future periods may be analysed as follows:

	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
US\$m			
Leases of investment property			
Expiring no later than one year	42	47	56
Expiring later than one year and no less than five years	100	95	104
Expiring after five years or more	23	21	12
Total	165	163	172

18. Fair value of investment property and property held for use

	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
US\$m			
Carrying value¹			
Investment properties	190	217	244
Property held for use (classified as property, plant and equipment)	249	227	229
Leasehold land (classified as prepayments in other assets)	693	686	690
Total	1,132	1,130	1,163
Fair value¹			
Investment properties (including land)	1,445	1,407	1,593
Properties held for use (including land)	827	748	870
Total	2,272	2,155	2,463

Note: (1) Carrying and fair values are presented before non-controlling interests and, for assets held in participating funds, before allocation to policyholders.

19. Reinsurance assets

	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
US\$m			
Amounts recoverable from reinsurers	87	19	29
Ceded insurance and investment contract liabilities	2,581	128	255
Total	2,668	147	284

20. Deferred acquisition and origination costs

	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
US\$m			
Carrying amount			
Deferred acquisition costs on insurance contracts	9,188	9,082	10,123
Deferred origination costs on investment contracts	856	965	853
Total	10,044	10,047	10,976
	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
Movements in the period			
At 1 December	8,135	10,044	10,047
Deferral and amortisation of acquisition costs	1,249	695	308
Foreign exchange movements	336	(1,150)	827
Recapture of reinsurance treaty (see Note 5)	-	505	-
Impact of assumption changes	86	11	(101)
Acquisition of a subsidiary	-	-	31
Disposal of a subsidiary	-	-	(70)
Other movements	238	(58)	(66)
At 30 November	10,044	10,047	10,976

Deferred acquisition and origination costs are expected to be recoverable over the mean term of the Group's insurance and investment contracts, and liability adequacy testing is performed at least annually to confirm their recoverability. Accordingly, the annual amortisation charge, which varies with investment performance for certain universal life and investment-linked products, approximates to the amount which is expected to be realised within 12 months of the end of the reporting period.

21. Financial investments

The following tables analyse the AIA Group's financial investments by type and nature. The AIA Group manages its financial investments in two distinct categories: Investment-linked Investments and Policyholder and Shareholder Investments. The investment risk in respect of Investment-linked Investments is generally wholly borne by our customers, and does not directly affect the profit for the year before tax. Furthermore, investment-linked contract holders are responsible for allocation of their policy values amongst investment options offered by the Group. Although profit for the year before tax is not affected by Investment-linked Investments, the investment return from such financial investments is included in the AIA Group's profit for the year before tax, as the AIA Group has elected the fair value option for all Investment-linked Investments with corresponding change in insurance and investment contract liabilities for investment-linked contracts. Policyholder and Shareholder Investments include all financial investments other than Investment-linked Investments. The investment risk in respect of Policyholder and Shareholder Investments is partially or wholly borne by the Group.

Policyholder and Shareholder Investments are further categorised as Participating Funds and Other Policyholder and Shareholder. The Group has elected to separately analyse financial investments held by Participating Funds within Policyholder and Shareholder Investments as they are subject to local regulations that generally prescribe a minimum proportion of policyholder participation in declared dividends. The Group has elected the fair value option for debt and equity securities of Participating Funds. The Group's accounting policy is to record an insurance liability for the proportion of net assets of the Participating Fund that would be allocated to policyholders assuming all performance would be declared as a dividend based upon local regulations as at the date of the statement of financial position. As a result the Group's net profit for the year before tax is impacted by the proportion of investment return that would be allocated to shareholders as described in the previous sentence.

Other Policyholder and Shareholder Investments are distinct from Investment-linked Investments and Participating Funds as there is no direct contractual or regulatory requirement governing the amount, if any, for allocation to policyholders. The Group has elected to apply the fair value option for equity securities in this category and the available for sale classification in respect of the majority of debt securities in this category. The investment risk from investments in this category directly impacts the Group's financial statements. Although a proportion of investment return may be allocated to policyholders through policyholder dividends, the Group's accounting policy for insurance and investment contract liabilities utilises a net level premium methodology that includes best estimates as at the date of issue for non-guaranteed participation. To the extent investment return from these investments either is not allocated to participating contracts or varies from the best estimates, it will impact the Group's profit before tax.

In the following tables, "FVTPL" indicates financial investments designated at fair value through profit or loss and "AFS" indicates financial investments classified as available for sale.

Debt securities

In compiling the tables, external ratings have been used where available. Where external ratings are not readily available an internal rating methodology has been adopted. The following conventions have been adopted to conform the various ratings.

External ratings		Internal ratings	Reported as
Standard and Poor's	Moody's		
AAA	Aaa	+1/-1	AAA
AA+ to AA-	Aa1 to Aa3	+2/-2	AA
A+ to A-	A1 to A3	+3/-3	A
BBB+ to BBB-	Baa1 to Baa3	+4/-4	BBB
BB+ and below	Ba1 and below	+5 and below	Below investment grade

21. Financial investments (continued)

Debt securities by type comprise the following:

US\$'m	Rating	Policyholder and shareholder			Sub-total	Investment-linked	Total
		Participating funds	Other policyholder and shareholder				
		FVTPL	FVTPL	AFS			
30 November 2009							
Government bonds – issued in local currency							
Singapore	AAA	1,496	-	759	2,255	70	2,325
Thailand	A	-	-	7,374	7,374	-	7,374
Philippines	BB	-	-	1,309	1,309	22	1,331
Malaysia	A	953	-	196	1,149	1	1,150
China	A	271	-	836	1,107	3	1,110
Indonesia	BB	-	-	494	494	115	609
Korea	A	-	-	1,539	1,539	4	1,543
Other ⁽¹⁾		1	4	312	317	-	317
Sub-total		2,721	4	12,819	15,544	215	15,759
Government bonds – foreign currency							
Mexico	BBB	9	15	135	159	2	161
South Africa	BBB	-	2	164	166	2	168
Philippines	BB	2	10	749	761	46	807
Malaysia	A	11	-	77	88	1	89
Indonesia	BB	48	10	210	268	-	268
Korea	A	16	1	205	222	2	224
China	A	-	-	46	46	2	48
Other(1)		53	92	291	436	10	446
Sub-total		139	130	1,877	2,146	65	2,211
Government agency bonds²							
AAA		542	-	694	1,236	64	1,300
AA		1	-	194	195	64	259
A		611	-	2,797	3,408	116	3,524
BBB		873	-	1,583	2,456	4	2,460
Below investment grade		-	-	346	346	-	346
Not rated		-	-	-	-	8	8
Sub-total		2,027	-	5,614	7,641	256	7,897

Note: (1) Of the total government bonds listed as 'Other' at 30 November 2009, 85% is rated as investment grade and a further 14% is rated BB- and above. The balance is rated below BB- or unrated

Note: (2) Government agency bonds comprise bonds issued by government sponsored institutions such as state owned enterprises, provincial and municipal authorities and supranational financial institutions, such as the Asian Development Bank

21. Financial investments (continued)

US\$m	Rating	Policyholder and shareholder			Sub-total	Investment-linked FVTPL	Total
		Participating funds FVTPL	Other policyholder and shareholder FVTPL	AFS			
30 November 2009							
Corporate bonds							
AAA		237	-	296	533	34	567
AA		1,397	79	1,757	3,233	253	3,486
A		2,960	188	8,149	11,297	454	11,751
BBB		1,656	348	5,726	7,730	198	7,928
Below investment grade		198	32	876	1,106	41	1,147
Not rated		127	70	51	248	190	438
Sub-total		6,575	717	16,855	24,147	1,170	25,317
Structured securities							
AAA		7	22	-	29	-	29
AA		-	-	-	-	-	-
A		39	-	424	463	-	463
BBB		247	20	90	357	5	362
Below investment grade		51	51	41	143	15	158
Not rated		3	-	2	5	-	5
Sub-total		347	93	557	997	20	1,017
Total		11,809	944	37,722	50,475	1,726	52,201

Note: (3) Structured securities include CDOs, mortgage backed securities and other asset backed securities

21. Financial investments (continued)

US\$m	Rating	Policyholder and shareholder			Sub-total	Investment-linked FVTPL	Total
		Participating funds	Other policyholder and shareholder				
		FVTPL	FVTPL	AFS			
30 November 2008							
Government bonds – issued in local currency							
Singapore	AAA	1,166	-	547	1,713	69	1,782
Thailand	A	-	-	6,377	6,377	-	6,377
Philippines	BB	-	-	862	862	12	874
Malaysia	A	1,192	-	290	1,482	3	1,485
China	A	244	-	723	967	70	1,037
Indonesia	BB	-	-	315	315	59	374
Korea	A	-	-	857	857	6	863
Other ¹		11	2	231	244	-	244
Sub-total		2,613	2	10,202	12,817	219	13,036
Government bonds – foreign currency							
Mexico	BBB	15	11	141	167	3	170
South Africa	BBB	-	1	115	116	2	118
Philippines	BB	1	12	452	465	18	483
Malaysia	A	80	-	186	266	2	268
Indonesia	BB	39	7	206	252	5	257
Korea	A	-	-	67	67	2	69
China	A	10	-	49	59	2	61
Other ¹		49	95	310	454	8	462
Sub-total		194	126	1,526	1,846	42	1,888
Government agency bonds²							
AAA		654	-	536	1,190	15	1,205
AA		17	-	378	395	65	460
A		610	-	2,459	3,069	100	3,169
BBB		509	-	1,868	2,377	6	2,383
Below investment grade		1	2	261	264	1	265
Not rated		-	-	-	-	33	33
Sub-total		1,791	2	5,502	7,295	220	7,515
Corporate bonds							
AAA		47	-	178	225	78	303
AA		1,630	55	1,586	3,271	298	3,569
A		2,113	150	5,718	7,981	292	8,273
BBB		1,227	132	4,038	5,397	211	5,608
Below investment grade		199	250	548	997	45	1,042
Not rated		19	65	1	85	47	132
Sub-total		5,235	652	12,069	17,956	971	18,927

Note: (1) Of the total government bonds listed as 'Other' at 30 November 2008, 83% is rated as investment grade and a further 16% is rated BB- and above. The balance is rated below BB- or unrated

Note: (2) Government agency bonds comprise bonds issued by government sponsored institutions such as state owned enterprises, provincial and municipal authorities and supranational financial institutions, such as the Asian Development Bank

21. Financial investments (continued)

US\$m	Policyholder and shareholder			Sub-total	Investment-linked	Total
	Participating funds	Other policyholder and shareholder				
	FVTPL	FVTPL	AFS		FVTPL	
30 November 2008						
Structured securities						
AAA	15	30	434	479	-	479
AA	35	37	-	72	-	72
A	22	2	54	78	-	78
BBB	141	-	77	218	1	219
Below investment grade	24	1	70	95	14	109
Sub-total	237	70	635	942	15	957
Total	10,070	852	29,934	40,856	1,467	42,323

Note: (3) Structured securities include CDOs, mortgage backed securities and other asset backed securities

21. Financial investments (continued)

US\$m	Rating	Policyholder and shareholder			Sub-total	Investment-linked	Total
		Participating funds	Other policyholder and shareholder				
		FVTPL	FVTPL	AFS		FVTPL	
30 November 2007							
Government bonds – issued in local currency							
Singapore	AAA	1,374	-	472	1,846	51	1,897
Thailand	A	-	-	5,826	5,826	-	5,826
Philippines	BB	-	-	1,200	1,200	30	1,230
Malaysia	A	1,154	-	220	1,374	1	1,375
China	A	220	-	675	895	30	925
Indonesia	BB	-	-	514	514	86	600
Korea	A	-	-	1,399	1,399	16	1,415
Other ¹		36	33	244	313	-	313
Sub-total		2,784	33	10,550	13,367	214	13,581
Government bonds – foreign currency							
Mexico	BBB	1	15	152	168	-	168
South Africa	BBB	-	2	101	103	1	104
Philippines	BB	4	22	606	632	39	671
Malaysia	A	115	-	192	307	1	308
Indonesia	BB	63	9	288	360	17	377
Korea	A	101	-	264	365	1	366
China	A	9	-	44	53	1	54
Other ¹		86	173	197	456	12	468
Sub-total		379	221	1,844	2,444	72	2,516
Government agency bonds²							
AAA		898	-	438	1,336	31	1,367
AA		45	-	245	290	35	325
A		437	-	2,728	3,165	63	3,228
BBB		533	-	1,351	1,884	16	1,900
Below investment grade		7	2	76	85	3	88
Not rated		-	-	102	102	16	118
Sub-total		1,920	2	4,940	6,862	164	7,026
Corporate bonds							
AAA		72	-	229	301	59	360
AA		1,773	66	1,657	3,496	281	3,777
A		2,034	175	5,887	8,096	292	8,388
BBB		1,091	108	3,865	5,064	200	5,264
Below investment grade		319	227	625	1,171	151	1,322
Not rated		-	53	29	82	37	119
Sub-total		5,289	629	12,292	18,210	1,020	19,230

Note: (1) Of the total government bonds listed as 'Other' at 30 November 2007 70% is rated as investment grade and a further 21% is rated BB- and above. The balance is rated below BB- or unrated

Note: (2) Government agency bonds comprise bonds issued by government sponsored institutions such as state owned enterprises, provincial and municipal authorities and supranational financial institutions, such as the Asian Development Bank

21. Financial investments (continued)

US\$m	Policyholder and shareholder			Sub-total	Investment-linked	Total
	Participating funds	Other policyholder and shareholder				
	FVTPL	FVTPL	AFS			
30 November 2007						
Structured securities						
AAA	32	79	887	998	-	998
AA	115	120	33	268	-	268
A	122	41	277	440	-	440
BBB	133	-	87	220	3	223
Below investment grade	22	14	35	71	15	86
Not rated	17	9	10	36	-	36
Sub-total	441	263	1,329	2,033	18	2,051
Total	10,813	1,148	30,955	42,916	1,488	44,404

Note: (3) Structured securities include CDOs, mortgage backed securities and other asset backed securities

21. Financial investments (continued)

Equity securities

Equity securities by type comprise the following:

US\$m	Policyholder and shareholder			Subtotal	Investment-linked	Total
	Participating funds	Other policyholder and shareholder	AFS			
	FVTPL	FVTPL	AFS		FVTPL	
30 November 2009						
Ordinary shares	1,685	2,008	-	3,693	2,738	6,431
Securities held by consolidated mutual funds managed by AIG	167	494	-	661	1,333	1,994
Interests in investment funds						
AIG managed	116	132	-	248	1,232	1,480
Non-AIG managed	241	193	-	434	5,777	6,211
	357	325	-	682	7,009	7,691
Shares in AIG	-	-	62	62	-	62
Total	2,209	2,827	62	5,098	11,080	16,178

US\$m	Policyholder and shareholder			Subtotal	Investment-linked	Total
	Participating funds	Other policyholder and shareholder	AFS			
	FVTPL	FVTPL	AFS		FVTPL	
30 November 2008						
Ordinary shares	705	1,000	-	1,705	1,211	2,916
Securities held by consolidated mutual funds managed by AIG	109	619	-	728	805	1,533
Interests in investment funds						
AIG managed	158	197	-	355	851	1,206
Non-AIG managed	151	39	-	190	2,815	3,005
	309	236	-	545	3,666	4,211
Shares in AIG	-	-	87	87	-	87
Total	1,123	1,855	87	3,065	5,682	8,747

US\$m	Policyholder and shareholder			Subtotal	Investment-linked	Total
	Participating funds	Other policyholder and shareholder	AFS			
	FVTPL	FVTPL	AFS		FVTPL	
30 November 2007						
Ordinary shares	1,629	2,817	-	4,446	2,268	6,714
Securities held by consolidated mutual funds managed by AIG	107	1,047	-	1,154	1,558	2,712
Interests in investment funds						
AIG managed	364	352	-	716	1,380	2,096
Non-AIG managed	221	42	-	263	5,834	6,097
	585	394	-	979	7,214	8,193
Shares in AIG	-	-	2,520	2,520	-	2,520
Total	2,321	4,258	2,520	9,099	11,040	20,139

21. Financial investments (continued)

	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
US\$m			
Debt securities			
Listed			
Hong Kong	377	421	394
Overseas	25,344	20,010	30,663
	25,721	20,431	31,057
Unlisted	18,683	21,892	21,144
Total	44,404	42,323	52,201
Equity securities			
Listed			
Hong Kong	238	47	399
Overseas	12,675	3,093	6,606
	12,913	3,140	7,005
Unlisted	7,226	5,607	9,173
Total	20,139	8,747	16,178

21. Financial investments (continued)

Loans and receivables

	As at 30 November	As at 30 November	As at 30 November
US\$m	2007	2008	2009
Policy loans	1,327	1,437	1,644
Mortgage loans on residential real estate	609	587	527
Mortgage loans on commercial real estate	112	105	48
Intercompany loans to fellow subsidiaries of AIG (see Note 41)	1,589	29	87
Other loans	182	242	446
Allowance for loan losses	(15)	(7)	(12)
Loans	3,804	2,393	2,740
Due from insurance and investment contract holders	471	536	546
Due from agents, brokers and intermediaries	9	13	39
Insurance receivables	480	549	585
Related party receivables	95	33	1
Receivables from sales of investments	329	86	34
Other receivables	362	285	396
Receivables	1,266	953	1,016
Term deposits	595	656	892
Total¹	5,665	4,002	4,648

Note: (1) Of total loans and receivables, US\$33m of term deposits (2007: US\$38m; 2008: US\$48m), and US\$75m of other loans (2007: US\$60m; 2008: US\$62m) are held to back investment-linked contracts. The balance of loans and receivables consists of policyholder and shareholder. Of this, US\$942m relates to participating funds (2007: US\$1,136m; 2008: US\$986m).

Certain term deposits with financial institutions are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within the term deposits classification is US\$104m (2007: US\$128m; 2008: US\$141m).

All insurance receivables are expected to be recovered within less than one year. Accordingly, no ageing analysis has been provided.

Receivables include receivables from reverse repurchase agreements under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. At 30 November 2009 the carrying value of such receivables is US\$69m (2007: US\$67m; 2008: US\$54m).

22. Derivative financial instruments

The Group's non-hedge derivative exposure was as follows:

US\$m	Notional Amount	Fair value	
		⁽¹⁾⁽²⁾ Assets	⁽¹⁾ Liabilities
30 November 2009			
Foreign exchange contracts:			
Forwards	222	1	-
Cross currency swaps	8,390	439	(69)
Total foreign exchange contracts	8,612	440	(69)
Interest rate contracts			
Interest rate swaps	1,092	13	-
Other			
Commodity index swaps	20	-	(2)
Total	9,724	453	(71)
30 November 2008			
Foreign exchange contracts:			
Forwards	333	-	(4)
Cross currency swaps	7,423	228	(131)
Total foreign exchange contracts	7,756	228	(135)
Interest rate contracts			
Interest rate swaps	1,086	24	-
Other			
Commodity index swaps	20	-	(3)
Total	8,862	252	(138)
30 November 2007			
Foreign exchange contracts:			
Forwards	17	-	-
Cross currency swaps	6,492	415	(37)
Total foreign exchange contracts	6,509	415	(37)
Interest rate contracts			
Interest rate swaps	978	4	(10)
Other			
Commodity index swaps	2	3	-
Total	7,489	422	(47)

Note: (1) Derivative assets and liabilities are classified as at fair value through profit or loss as they are held for trading

(2) Of derivative assets, US\$240m are held to back participating funds (2007: US\$247m; 2008: US\$87m). The balance of derivative assets relate to other policyholder and shareholder amounts.

(3) The notional amount of derivative financial instruments with related parties amounted to US\$58m (2007: US\$43m; 2008: US\$58m)

For swap transactions, both legs of the transaction have been disclosed in the column 'notional amount'.

22. Derivative financial instruments (continued)

The Group only holds over the counter ('OTC') derivatives. OTC derivative contracts are individually negotiated between contracting parties and include forwards and swaps. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments.

Derivative assets and derivative liabilities are recognised in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Group's derivative risk management policies are outlined in Note 37. The Group does not employ hedge accounting, although most of its derivative holdings may have the effect of an economic hedge of other exposures. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

Foreign exchange contracts

Forward exchange contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Currency swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gain and loss on both types of swap contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Interest rate swaps

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments.

23. Fair value of financial instruments

The Group classifies all financial assets as either at fair value through profit or loss, or as available for sale, which are carried at fair value, or as loans and receivables, which are carried at amortised cost. Financial liabilities are classified as either at fair value through profit or loss or at amortised cost, except for investment contracts with DPF which are accounted for under IFRS 4.

The following tables presents the estimated fair values of the Group's financial assets and financial liabilities.

US\$m	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
30 November 2009						
Financial investments:	21					
Loans and receivables		-	-	4,648	4,648	4,688
Debt securities		14,479	37,722	-	52,201	52,201
Equity securities		16,116	62	-	16,178	16,178
Derivative financial instruments	22	453	-	-	453	453
Reinsurance receivables	19	-	-	29	29	29
Cash and cash equivalents	25	-	-	3,405	3,405	3,405
Financial assets		31,048	37,784	8,082	76,914	76,954

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities:					
Investment contract liabilities	27	6,669	1,111	7,780	7,780
Borrowings	29	-	688	688	688
Obligations under securities lending and repurchase agreements	30	-	284	284	284
Derivative financial instruments	22	71	-	71	71
Other liabilities and current tax liabilities ¹		-	1,800	1,800	1,800
Financial liabilities		6,740	3,883	10,623	10,623

Note: (1) Excludes third party interests in consolidated investment funds

23. Fair value of financial instruments (continued)

US\$m	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
30 November 2008						
Financial investments	21					
Loans and receivables		-	-	4,002	4,002	3,990
Debt securities		12,389	29,934	-	42,323	42,323
Equity securities		8,660	87	-	8,747	8,747
Derivative financial instruments	22	252	-	-	252	252
Reinsurance receivables	19	-	-	19	19	19
Cash and cash equivalents	25	-	-	4,164	4,164	4,164
Financial assets		21,301	30,021	8,185	59,507	59,495

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	27	4,226	672	4,898	4,898
Borrowings	29	-	661	661	661
Obligations under securities lending and repurchase agreements	30	-	2,718	2,718	2,718
Derivative financial instruments	22	138	-	138	138
Other liabilities and current tax liabilities ¹		-	1,407	1,407	1,407
Financial liabilities		4,364	5,458	9,822	9,822

Note:(1) Excludes third party interests in consolidated investment funds

23. Fair value of financial instruments (continued)

US\$m	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
30 November 2007						
Financial investments	21					
Loans and receivables		-	-	5,665	5,665	5,686
Debt securities		13,449	30,955	-	44,404	44,404
Equity securities		17,619	2,520	-	20,139	20,139
Derivative financial instruments	22	422	-	-	422	422
Reinsurance receivables	19	-	-	87	87	87
Cash and cash equivalents	25	-	-	2,583	2,583	2,583
Financial assets		31,490	33,475	8,335	73,300	73,321

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	27	5,926	579	6,505	6,505
Borrowings	29	-	1,461	1,461	1,461
Obligations under securities lending and repurchase agreements	30	-	5,395	5,395	5,395
Derivative financial instruments	22	47	-	47	47
Other liabilities and current tax liabilities ¹		-	1,843	1,843	1,843
Financial liabilities		5,973	9,278	15,251	15,251

Note: (1) Excludes third party interests in consolidated investment funds

The carrying amount of assets included in the above tables represents the maximum credit exposure.

Foreign currency exposure, including the net notional amount of foreign currency derivative positions, is shown in Note 37 for the Group's key foreign exchange exposures.

The fair value of investment contract liabilities measured at amortised cost is not considered to be materially different from the amortised cost carrying value.

The carrying value of financial instruments expected to be settled within 12 months (after taking into account valuation allowances, where applicable) is not considered to be materially different from the fair value.

Fair value measurements on a recurring basis

The Group measures at fair value financial instruments designated at fair value through profit or loss, available for sale securities portfolios, derivative assets and liabilities, investments held by investment funds which are consolidated, investments in non-consolidated investment funds and certain investment contract liabilities on a recurring basis. The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

23. Fair value of financial instruments (continued)

An other than active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

The following methods and assumptions were used by the Group to estimate the fair value of financial instruments.

Financial assets and liabilities

Loans and receivables

For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

The fair values of mortgage loans are estimated by discounting future cash flows using interest rates currently being offered in respect of similar loans to borrowers with similar credit ratings. The fair values of fixed rate policy loans are estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying values of policy loans with variable rates approximate to their fair value.

Debt securities and equity securities

The fair values of equity securities are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. For holdings in hedge funds and limited partnerships, fair values are determined based on the net asset values provided by the general partner or manager of each investment, the accounts of which are generally audited on an annual basis. The transaction price is used as the best estimate of fair value at inception.

Derivative financial instruments

The Group values its derivative financial assets and liabilities using market transactions and other market evidence whenever possible, including market based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contract terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The Group generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatilities for commonly traded option products. Examples of inputs that may be unobservable include volatilities for less commonly traded option products and correlations between market factors.

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance receivables

The carrying amount of amounts receivable from reinsurers is not considered materially different to their fair value.

Fair value of securities lending invested collateral and securities lending payables

Securities lending collateral is recorded at fair value. The contract values of securities lending payables approximate fair value as these obligations are short term in nature.

23. Fair value of financial instruments (continued)

Other assets

The carrying amount of other assets is not materially different to their fair value. The fair values of deposits with banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates offered for receivables with similar characteristics.

Investment contract liabilities

For investment contract liabilities the fair values have been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts where the investment risk is borne by the policyholder the fair value generally approximates to the fair value of the underlying assets.

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured and classified according to the Group practice for insurance contract liabilities and hence are disclosed within Note 26. These are not measured at fair value as there is currently no agreed definition of fair value for investment and insurance contracts with DPF under IFRS. In the absence of any agreed methodology it is not possible to provide a range of estimates within which fair value is likely to fall. The IASB is expecting to address this issue in Phase II of its insurance contracts project.

Borrowings

The fair values of borrowings with stated maturities have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities.

Other liabilities

The fair value of other unquoted liabilities is estimated by discounting expected future cash flows using current market rates applicable to their yield, credit quality and maturity, except for those with no stated maturity, where the carrying value approximates to fair value.

Fair value hierarchy

Beginning on 1 December 2007, assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three 'levels' based on the observability of inputs available in the market place used to measure their fair values as discussed below:

- **Level 1:** Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Group does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded listed equities. The Group considers that government debt securities issued by G7 countries (United States, Canada, France, Germany, Italy, Japan, the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.
- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, hedge fund investments and derivative contracts.

23. Fair value of financial instruments (continued)

- Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain classes of structured securities, certain derivative contracts, private equity and real estate fund investments, and direct private equity investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Group's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, the Group considers factors specific to the asset or liability.

A summary of investments carried at fair value according to fair value hierarchy is given below:

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
30 November 2009				
Financial assets				
Available for sale				
Debt securities	21	37,533	168	37,722
Equity securities – shares in ultimate parent	62	-	-	62
At fair value through profit or loss				
Debt securities				
Participating funds	-	11,605	204	11,809
Investment-linked	-	1,726	-	1,726
Other policyholder and shareholder	1	665	278	944
Equity securities				
Participating funds	2,088	15	106	2,209
Investment-linked	10,384	696	-	11,080
Other policyholder and shareholder	2,607	91	129	2,827
Derivative financial assets	-	453	-	453
Total	15,163	52,784	885	68,832
<i>Total %</i>	<i>22.0</i>	<i>76.7</i>	<i>1.3</i>	<i>100.0</i>
Financial liabilities				
Investment contract liabilities	-	-	6,669	6,669
Derivative financial instruments	-	69	2	71
Total	-	69	6,671	6,740
<i>Total %</i>	<i>-</i>	<i>1.0</i>	<i>99.0</i>	<i>100.0</i>

23. Fair value of financial instruments (continued)

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
30 November 2008				
Financial assets				
Available for sale				
Debt securities	-	29,665	269	29,934
Equity securities – shares in ultimate parent	87	-	-	87
At fair value through profit or loss				
Debt securities				
Participating funds	-	9,835	235	10,070
Investment-linked	-	1,467	-	1,467
Other policyholder and shareholder	-	682	170	852
Equity securities				
Participating funds	895	97	131	1,123
Investment-linked	5,158	506	18	5,682
Other policyholder and shareholder	1,541	165	149	1,855
Derivative financial assets	-	238	14	252
Total	7,681	42,655	986	51,322
<i>Total %</i>	<i>15.0</i>	<i>83.1</i>	<i>1.9</i>	<i>100.0</i>
Financial liabilities				
Investment contract liabilities	-	-	4,226	4,226
Derivative financial instruments	-	132	6	138
Total	-	132	4,232	4,364
<i>Total %</i>	<i>-</i>	<i>3.0</i>	<i>97.0</i>	<i>100.0</i>

The tables below set out a summary of changes in the Group's Level 3 financial assets and liabilities for the years ended 30 November 2008 and 2009. The tables reflect gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 30 November 2008 and 2009 respectively. The tables do not present gains or losses for instruments that were sold or transferred out of Level 3 prior to 1 December 2007.

Level 3 financial assets and liabilities

US\$m	Debt securities	Equity securities	Derivative financial assets	Derivative financial liabilities	Investment contracts
At 1 December 2008	674	298	14	(6)	(4,226)
Realised gains/(losses)	(134)	(33)	(4)	(2)	-
Net movement on investment contract liabilities	-	-	-	-	(2,443)
Unrealised gains/(losses) relating to instruments still held at the reporting date					
Reported in the consolidated income statement	73	(23)	-	-	-
Reported in the consolidated statement of comprehensive income	245	-	-	-	-
Purchases, issues and settlements	(84)	5	-	-	-
Transfers in to/(out of) Level 3	(124)	(12)	(10)	6	-
At 30 November 2009	650	235	-	(2)	(6,669)

23. Fair value of financial instruments (continued)

Level 3 financial assets and liabilities

US\$m	Debt securities	Equity securities	Derivative financial assets	Derivative financial liabilities	Investment contracts
At 1 December 2007	1,364	131	4	(12)	(5,926)
Realised gains/(losses)	(61)	(7)	5	14	-
Net movement on investment contract liabilities	-	-	-	-	1,700
Unrealised gains/(losses) relating to instruments held at the reporting date					
Reported in the consolidated income statement	(319)	(21)	-	-	-
Reported in the consolidated statement of comprehensive income	(174)	-	-	-	-
Purchases, issues and settlements	121	149	(1)	-	-
Transfers in to/(out of) Level 3	(257)	46	6	(8)	-
At 30 November 2008	674	298	14	(6)	(4,226)

Realised gains and losses arising from the disposal of the Group's Level 3 financial assets and liabilities are presented in the consolidated income statement.

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. Details of the movement in investment contract liabilities are provided in Note 27.

There are no differences between the fair values on initial recognition and the amounts determined using valuation techniques since the models adopted are calibrated using initial transaction prices.

Certain private equity investments are measured at cost because there is no quoted market price in an active market. The balance of such investments is US\$nil (2007: US\$1m; 2008: nil).

24. Other assets

	As at 30 November	As at 30 November	As at 30 November
US\$m	2007	2008	2009
Prepayments			
Operating leases of leasehold land	693	686	690
Other	44	44	51
Accrued investment income	725	766	854
Pension scheme assets			
Defined benefit pension scheme surpluses (Note 38)	-	3	5
Total	1,462	1,499	1,600

Included in 'Other Assets' are the following amounts which relate to the Group's interest in leasehold land and land use rights which are accounted for as prepayments of operating leases.

	As at 30 November	As at 30 November	As at 30 November
US\$m	2007	2008	2009
Land held in Hong Kong			
Long-term leases (>50 years)	641	636	635
Medium-term leases (10 - 50 years)	-	-	-
Short-term leases (<10 years)	-	-	-
Land held outside Hong Kong			
Freehold	-	-	-
Long-term leases (>50 years)	50	48	53
Medium-term leases (10 - 50 years)	2	2	2
Short-term leases (<10 years)	-	-	-
Total	693	686	690

All amounts other than prepayments in respect of operating leases of leasehold land are expected to be recovered within 12 months after the end of the reporting period. Prepayments in respect of operating leases of land are expected to be recovered over the period of the leases shown above.

25. Cash and cash equivalents

Cash and deposits

	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
US\$m			
Cash	586	802	1,217
Cash equivalents	1,997	3,362	2,188
Total¹	2,583	4,164	3,405

Note: (1) Of cash and cash equivalents, US\$764m are held to back investment-linked contracts (2007: US\$614m; 2008: US\$1,116m). The balance of cash and cash equivalents consists of other policyholder and shareholder

Cash comprises cash at bank and cash in hand. Cash equivalents comprise bank deposits with maturities at acquisition of three months or less and money market funds. Accordingly, all such amounts are expected to be realised within 12 months after the reporting period.

26. Insurance contract liabilities

	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
US\$m			
At 1 December	46,960	57,161	52,158
Valuation premiums	8,758	9,676	8,522
Liabilities released for death or other termination and related expenses	(4,161)	(6,180)	(4,639)
Fees deducted from account balances	(229)	(320)	(542)
Accretion of interest	1,871	1,948	2,080
Foreign exchange movements	2,171	(4,165)	4,005
Change in asset values attributable to policyholders	1,264	(3,762)	2,082
Transfer to liabilities of the disposal group classified as held for sale	-	-	(57)
Acquisition of subsidiary	-	-	281
Disposal of subsidiary	-	-	(657)
Other movements	527	(2,200)	22
At 30 November	57,161	52,158	63,255

Insurance contract liabilities include amounts relating to investment-linked contracts of US\$7,031m (2007: US\$7,118m; 2008: US\$3,952m).

26. Insurance contract liabilities (continued)

Business description

The table below summarises the key variables on which insurance and investment contract cash flows depend.

Type of contract		Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows	Key reportable segments
Traditional participating life assurance with DPF	Participating funds	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities. The timing of dividend declarations is at the discretion of the insurer. Local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	<ul style="list-style-type: none"> ● Investment performance ● Expenses ● Mortality ● Surrenders 	Singapore, China, Malaysia
	Other participating business	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends the timing or amount of which is at the discretion of the insurer taking into account factors such as investment experience	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	<ul style="list-style-type: none"> ● Investment performance ● Expenses ● Mortality ● Surrenders 	Hong Kong, Thailand, Other Markets
Traditional non-participating life		Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	<ul style="list-style-type: none"> ● Mortality ● Morbidity ● Lapses ● Expenses 	All ¹
Accident and health		These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover	Benefits, defined in the insurance contract are determined by the contract and are not affected investment performance or the performance of the contract as a whole	<ul style="list-style-type: none"> ● Mortality ● Morbidity ● Lapses ● Expenses 	All ¹
Investment-linked		Investment-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitised funds	Benefits are based on the value of the unitised funds and death benefits	<ul style="list-style-type: none"> ● Investment performance ● Lapses ● Expenses ● Mortality 	All ¹
Universal life		The customer pays flexible premiums subject to specified limits accumulated in an account balance which are credited with interest at a rate set by the insurer, and a death benefit which may be varied by the customer	Benefits are based on the account balance and death benefit	<ul style="list-style-type: none"> ● Investment performance ● Crediting rates ● Lapses ● Expenses ● Mortality 	All ¹

Note: (1) Other than the Group's corporate and other segment

26. Insurance contract liabilities (continued)

Methodology and assumptions

The most significant items to which profit for the period and shareholders' equity are sensitive are market, insurance and lapse risks which are shown in the table below. Indirect exposure indicates that there is a second order impact. For example, whilst the profit for the period attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders (for example, in respect of investment-linked contracts), there is a second order effect through the investment management fees which the Group earns by managing such investments. The distinction between direct and indirect exposure is not intended to indicate the relative sensitivity to each of these items. Where the direct exposure is shown as being 'net neutral' this is because the exposure to market and credit risk is offset by a corresponding movement in insurance contract liabilities.

Type of contract		Market and credit risk			Significant insurance and lapse risks
		Direct exposure		Indirect exposure	
		Insurance and investment contract liabilities	Risks associated with related investment portfolio		
Traditional participating life assurance with DPF	Participating funds	<ul style="list-style-type: none"> Net neutral except for the insurer's share of participating investment performance Guarantees 	<ul style="list-style-type: none"> Net neutral except for the insurer's share of participating investment performance Guarantees 	<ul style="list-style-type: none"> Investment performance subject to smoothing through dividend declarations 	<ul style="list-style-type: none"> Impact of persistency on future dividends Mortality
	Other participating business	<ul style="list-style-type: none"> Net neutral except for the insurer's share of participating investment performance Guarantees 	<ul style="list-style-type: none"> Net neutral except for the insurer's share of participating investment performance Guarantees 	<ul style="list-style-type: none"> Investment performance 	<ul style="list-style-type: none"> Impact of persistency on future dividends Mortality
Traditional non-participating life assurance		<ul style="list-style-type: none"> Investment performance Credit risk Asset liability mismatch risk 	<ul style="list-style-type: none"> Guarantees 	<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> Mortality Persistency Morbidity
Accident and health		<ul style="list-style-type: none"> Loss ratio Asset liability mismatch risk 	<ul style="list-style-type: none"> Investment performance Credit risk 	<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> Claims experience Morbidity Persistency
Pensions		<ul style="list-style-type: none"> Net neutral Asset liability mismatch risk 	<ul style="list-style-type: none"> Net neutral 	<ul style="list-style-type: none"> Performance related investment management fees 	<ul style="list-style-type: none"> Persistency
Investment-linked		<ul style="list-style-type: none"> Net neutral 	<ul style="list-style-type: none"> Net neutral 	<ul style="list-style-type: none"> Performance related investment management fees 	<ul style="list-style-type: none"> Persistency Mortality
Universal life		<ul style="list-style-type: none"> Guarantees Asset liability mismatch risk 	<ul style="list-style-type: none"> Investment performance Credit risk 	<ul style="list-style-type: none"> Spread between earned rate and crediting rate to policyholders 	<ul style="list-style-type: none"> Mortality Persistency Withdrawals

The Group is also exposed to currency risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business.

27. Investment contract liabilities

US\$m	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
At 1 December	3,482	6,505	4,898
Effect of foreign exchange translation	20	(33)	102
Investment contract benefits	1,228	(2,047)	2,164
Fees charged	(222)	(174)	(326)
Net deposits/(withdrawals) and other movements	1,997	647	942
At 30 November	6,505	4,898	7,780

Investment contract liabilities include amounts relating to investment-linked liabilities of US\$6,669m (2007: US\$5,926m; 2008: US\$4,226m).

28. Effect of changes in assumptions and estimates

The table below sets out the sensitivities of the assumptions in respect of insurance and investment contracts with DPF to key variables. This disclosure only allows for the impact on liabilities and related assets, such as reinsurance, and deferred acquisition costs and does not allow for offsetting movements in the fair value of financial assets backing those liabilities.

US\$m	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
(Increase)/decrease in insurance contract liabilities, equity and profit before tax			
Interest rates + 0.5%	7	7	4
Interest rates - 0.5%	(8)	(7)	(4)
Expenses +10%	(1)	(3)	(2)
Mortality +10%	(5)	(8)	(10)
Lapse rates +5%	(19)	(21)	(12)

Future policy benefits for traditional life insurance policies (including investment contracts with DPF) are calculated using a net level premium valuation method with reference to best estimate assumptions set at policy inception date unless a deficiency arises on liability adequacy testing. There is no impact of the above assumption sensitivities on the carrying amount of traditional life insurance liabilities as the sensitivities presented would not have triggered a liability adequacy adjustment. During the periods presented there was no effect of changes in assumptions and estimates on the Group's traditional life products.

For interest sensitive insurance contracts, such as universal life products and investment-linked contracts, assumptions are made at each reporting date including mortality, persistency, expenses, future investment earnings and future crediting rates.

The impact of changes in assumptions on the valuation of insurance and investment contracts with DPF was US\$86m decrease in profit (2007: US\$17m; 2008: US\$(11)m).

29. Borrowings

	As at 30 November	As at 30 November	As at 30 November
US\$m	2007	2008	2009
Bank loans	546	548	549
Bank overdrafts	71	88	85
Loans from fellow subsidiaries of AIG	812	20	50
Other loans	32	5	4
Total	1,461	661	688

Assets with a book value of US\$756m (2007: US\$755m; 2008: US\$751m) and a fair value of US\$1,290m (2007: US\$1,101m; 2008: US\$1,107m) are pledged as security with respect to amounts disclosed as bank loans above. Interest on loans reflects market rates of interest with the exception of certain related party borrowings which are repayable on demand. Interest expense on borrowings is shown in Note 9. Further information relating to interest rates and the maturity profile of borrowings is presented in Note 37.

30. Obligations under securities lending and repurchase agreements

The Group has entered into securities lending agreements whereby securities are loaned to both third parties and a related party. In addition, the Group has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date.

The securities related to these agreements are not derecognised from the Group's consolidated statement of financial position, but are retained within the appropriate financial asset classification. The following table specifies the amounts included within financial investments subject to securities lending or repurchase agreements at each period end:

	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
US\$m			
Debt securities:			
Repurchase agreements	1,620	831	315
Securities lending			
Related parties	1,231	578	-
Others	2,446	1,691	-
Total	5,297	3,100	315

Collateral

Generally, the Group received collateral in excess of 100% of the fair value of securities loaned from all borrowers, typically consisting of cash or debt securities. During 2009 and 2008, borrowers were not providing collateral to 100% of the fair value of the securities lent; however, the Group's ultimate parent company provided additional collateral to fully collateralise the arrangements.

Collateral received under securities lending or consideration received for repurchase agreements typically consists of cash or debt securities. Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset in the consolidated statement of financial position, with a corresponding liability for its repayment.

Non-cash collateral received is not recognised in the consolidated statement of financial position unless the Group either sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability.

The fair value of non-cash collateral received from securities lending agreements and the respective amount which the Group can sell or re-pledge in the absence of default is disclosed in the table below:

	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
US\$m			
Debt securities			
Related parties	-	390	-
Others	-	-	-
Total	-	390	-
Collateral available for pledge/sale	-	-	-

The value of collateral that was actually sold or re-pledged in the absence of default was nil for all periods.

30. Obligations under securities lending and repurchase agreements (continued)

Obligations under securities lending and repurchase agreements comprise the following:

	As at 30 November	As at 30 November	As at 30 November
US\$m	2007	2008	2009
Securities lending			
Related parties	1,291	657	-
Others	2,523	1,306	-
Repurchase agreements	1,581	755	284
Total	5,395	2,718	284

On 10 November 2008, the Group entered into an agreement with AIG Funding, Inc. ('AIGF') whereby the Group can borrow from AIGF to return cash collateral to securities borrowers in connection with a portfolio of securities loans of which AIG Securities Lending (Ireland) Ltd ('AIGSL') is the agent.

The Group can only borrow under this facility if the collateral investment account maintained on behalf of the Group does not have sufficient cash at the time to satisfy the Group's obligations to repay the third party borrowers.

Under the terms of this agreement, interest accrues on the outstanding borrowings at three months US\$ LIBOR-BBA plus 1% per annum. Either party may terminate the agreement at any time upon 30 business days prior written notice to the other party.

The Group has not drawn down on this agreement at any time. Effective 30 November 2009, the Group terminated AIGSL's ability to make additional loans on behalf of the Group. As there are no outstanding loans under the programme, the Group no longer has the ability to draw down under this agreement.

31. Impairment of financial assets

Impairment of financial assets

In accordance with the Group's accounting policies, impairment reviews were performed for available for sale securities and loans and receivables.

Available for sale debt securities

During the period to 30 November 2009, impairment losses of US\$67m (2007: nil; 2008: US\$142m) were recognised in respect of available for sale debt securities.

In 2007 the onset of the credit crisis resulted in a number of impairments being made against debt securities, including CDOs, held by the Group. In 2008 the global outlook worsened significantly as the impact of the credit crisis spread to other parts of the economy. As a result, a number of companies, including certain global financial institutions, amongst them issuers of a number of available for sale debt securities held by the Group, experienced significant financial difficulties. The impairment charge for 2008 includes US\$67m relating to bonds issued by Lehman Brothers and US\$52m relating to CDOs.

Loans and receivables

The Group's primary potential credit risk exposure in respect of loans and receivables arises in respect of policy loans and a small portfolio of high quality mortgage loans on residential and commercial real estate (see Note 21 Financial investments for further details). The Group's credit exposure on policy loans is mitigated because, if and when the total indebtedness on any policy, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Group has a first lien on all policies which are subject to policy loans.

The Group has a small high quality portfolio of residential and commercial mortgage loans which it originates. To the extent that any such loans are past their due dates specific allowance is made, together with a collective allowance, based on historical delinquency. Insurance receivables are short term in nature and cover is not provided if consideration is not received. An ageing of accounts receivable is not provided as all amounts are due within 1 year and cover is cancelled if consideration is not received.

32. Provisions

US\$m	Employee benefits	Other	Total
At 1 December 2006	50	85	135
Charged to the consolidated income statement	11	4	15
Exchange differences	1	1	2
Utilised during the period	(7)	(3)	(10)
At 30 November 2007	55	87	142
Charged to the consolidated income statement	11	31	42
Exchange differences	(10)	(3)	(13)
Utilised during the period	(3)	(2)	(5)
At 30 November 2008	53	113	166
Charged to the consolidated income statement ¹	16	131	147
Exchange differences	3	9	12
Contributions	(2)	-	(2)
Utilised during the period	-	(73)	(73)
At 30 November 2009	70	180	250

Note: (1) Of the provisions charged to the consolidated income statement as "Other" during 2009, US\$89m related to provision for restructuring and separation costs.

Further details of provisions for employee post retirement benefits are provided in Note 38.

Other provisions

Other provisions comprise provisions in respect of regulatory matters, litigation, reorganisation and restructuring. In view of the diverse nature of the matters provided for and the contingent nature of the matters to which they relate the Group is unable to provide an accurate assessment of the term over which provisions are expected to be utilised.

33. Other liabilities

US\$m	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
Trade and other payables	1,389	1,082	1,162
Third party interests in consolidated investment funds	720	398	397
Payables from purchases of investments	84	72	396
Reinsurance payables	101	35	57
Total	2,294	1,587	2,012

Third party interests in consolidated investment funds consist of third party unit holders' interests in consolidated investment funds which are reflected as a liability since they can be put back to the Group for cash.

Trade and other payables are all expected to be settled within 12 months after the end of the reporting period. The realisation of third party interests in investment funds cannot be predicted with accuracy since these represent the interests of third party unit holders in consolidated investment funds held to back insurance and investment contract liabilities and are subject to market risk and the actions of third party investors.

34. Share capital and reserves

Share capital

	As at 30 November 2007		As at 30 November 2008		As at 30 November 2009	
	Million shares	US\$m	Million shares	US\$m	Million shares	US\$m
Authorised						
Ordinary shares of US\$1 each	20,000	20,000	20,000	20,000	20,000	20,000
Issued and fully paid						
At start of the reporting period	12,000	12,000	12,000	12,000	12,000	12,000
At end of the reporting period	12,000	12,000	12,000	12,000	12,000	12,000
Shares yet to be issued	-	-	-	-	44	44
Share premium		1,914		1,914		1,914

There were no shares issued under share option schemes in the period. The Company and its subsidiaries have not undertaken any purchase, sale, or redemption of the Company's issued share capital in the reporting period. Share premium of US\$1,914m represents the difference between the net book value of the Group on acquisition by the Company of US\$13,958m and the nominal value of the share capital issued of US\$12,044m.

Reserves

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

Other reserves

Other reserves include the impact of merger accounting for business combinations under common control and share based compensation.

At 30 November 2009 the Company does not have any distributable reserves.

35. Non-controlling interests

	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
US\$m			
Equity shares in subsidiaries	6	6	51
Share of earnings	35	25	-
Share of other reserves	10	(21)	-
Total	51	10	51

36. Group capital structure

Objectives, policies and processes for managing capital

The Group's capital management objectives focus on maintaining a strong capital base to support the development of its business, satisfying regulatory capital requirements at all times, and supporting its credit rating targets. The Group recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain an appropriate balance.

The Group's capital management function oversees all capital related activities of the Group and assists senior management in making capital decisions. The capital management function participates in decisions concerning asset-liability management exposures, asset-liability proposals and strategic asset allocation. The capital management function also engages in ongoing active capital and solvency management, including maintaining active dialogue and relationships with our regulators and ratings agencies. The Group has also incorporated the capital management framework into its budgeting process to ensure capital and dividend policies and programmes are implemented within the guidelines set forth by the Group.

Externally imposed capital requirements

The Group is in compliance with the solvency and capital adequacy requirements of its regulators. The Group's primary insurance regulator at the AIA and AIA-B levels is the Hong Kong Office of the Commissioner of Insurance ('OCI'), which requires that AIA and AIA-B meet the solvency margin requirements of the Hong Kong Insurance Companies Ordinance. The Hong Kong Insurance Companies Ordinance (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The OCI requires AIA and AIA-B to maintain total available capital that is not less than 100% of the required minimum solvency margin such that total available capital exceeds required capital. The Hong Kong Insurance Companies Ordinance requires AIA and AIA-B to maintain a minimum solvency margin of 100%.

The Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries are domiciled. The various regulators overseeing the Group actively monitor the solvency margin position of the Group. AIA and AIA-B submit annual filings to the OCI of their solvency margin position based on their annual audited accounts, and the Group's other operating units perform similar annual filings with their respective local regulators.

The ability of the Company to pay dividends and meet other obligations depends on dividends and other payments from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations, as well as the terms of the Framework Agreement between the Company and the FRBNY. The various regulators overseeing the individual branches and subsidiaries of the Group have the discretion to impose additional restrictions on the ability of those regulated subsidiaries and branches to make payment of dividends or other distributions and payments to AIA, including increasing the required margin of solvency that an operating unit must maintain.

The payment of dividends and other distributions and payments by the Company's subsidiaries and their branches is regulated by applicable insurance, foreign exchange and tax and other laws, rules and regulations. The amount and timing of certain dividends, distributions and other payments require regulatory approval. In particular, the payment of dividends, distributions and other payments to the Company from AIA is subject to the oversight of the Office of the Commissioner of Insurance of Hong Kong. In addition, regulators may prohibit the payment of dividends or other distributions and payments by our regulated subsidiaries and branches if they determine that such payment could be adverse to the interests of relevant policyholders or contract holders.

Our Board of Directors will declare dividends, if any, on a per share basis in U.S. dollars. Shareholders will have the option to receive cash dividends in Hong Kong dollars or U.S. dollars.

36. Group capital structure (continued)

Group capital position

The Group defines 'capital' as the amount of assets in excess of liabilities measured in accordance with the Hong Kong Insurance Companies Ordinance. The Group defines total available capital as the amount of assets in excess of liabilities measures in accordance with the Insurance Companies Ordinance and 'required capital' as the minimum required margin of solvency calculated in accordance with the Insurance Companies Ordinance. The solvency margin ratio is the ratio of total available capital to required capital. A number of transactions undertaken in 2008 and 2009 enhanced the solvency position of the Group. With effect from 28 February 2009, AIA-B and AIA Australia, among others, become subsidiaries of AIA, and on 3 November 2009, the Group acquired Philam.

The capital positions of the two principal operating companies within the Group are illustrated in the table:

US\$m	30 November 2007			30 November 2008			30 November 2009		
	Total available capital	Required capital	Solvency margin ratio	Total available capital	Required capital	Solvency margin ratio	Total available capital	Required capital	Solvency margin ratio
AIA	2,551	1,357	188	2,751	1,316	209	4,811	1,547	311
AIA-B	2,519	648	389	1,469	684	215	2,742	911	301

37. Risk management

Risk management framework

The managed acceptance of risk is fundamental to the Group's insurance business model. The Group's risk management framework seeks to effectively manage, rather than eliminate, the risks the Group faces.

The Group's central risk management framework requires all operations to establish processes for identifying, evaluating and managing the key risks faced by the organisation. This risk management framework has evolved in recent years and now encompasses an established risk governance structure with clear oversight and assignment of responsibility for monitoring and management of strategic, operational and financial risks.

Insurance and financial risk exposures

As an insurance group, the Group is exposed to a range of insurance and financial risks. The Group applies a consistent risk management philosophy that is embedded in management processes and controls such that both existing and emerging risks are considered and addressed.

The following section summarises the Group's key risk exposures and the primary policies and processes used by the Group to manage its exposures to these risks.

Insurance risk

The Group considers insurance risk to be a combination of the following component risks:

- inadequate or inappropriate product design;
- inappropriate underwriting or pricing of policies;
- lapse risk; and
- variability in claims experience.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Product design risk

Product design risk refers to potential defects in product design and pricing. The Group manages product design risk by completing pre-launch reviews and approval of products by local and the Group functional departments such as actuarial and underwriting. These departments have significant experience and have developed proprietary expertise to identify potential flaws in product design.

There is a strong focus within the Group on actively managing each part of the actuarial control cycle to minimise risk in the in-force book as well as for new business acceptances. A significant component of the Group's long-term insurance business is participating in nature where the Group has the ability to adjust dividends to reflect market conditions. This reduces the Group's exposure to changes in circumstances, in particular investment returns, that may arise during the life of long-term insurance policies.

37. Risk management (continued)

Pricing and underwriting risk

Pricing and underwriting risk refers to the possibility of product related income being inadequate to support future obligations arising from those contracts.

The Group manages pricing and underwriting risk by adhering to group wide underwriting guidelines. Each operating unit maintains a team of professional underwriters who review and select risks that are consistent with the underwriting strategy of the Group. A second layer of underwriting review is conducted by the Group for complex and large insurance risks. Any exceptions require specific approval and may be subject to separate risk management actions.

The Group makes use, in certain circumstances, of reinsurance to obtain product pricing expertise when entering new lines of business, products or territories. Reinsurance is also used, to a limited extent, to manage concentrations of insurance risk. However, the breadth of the Group's geographical spread and product portfolio creates natural diversification and reduces the extent to which concentrations of insurance risk arise.

Claims risk

Claims risk refers to the possibility that the frequency or severity of claims arising from insurance contracts exceeds the level anticipated at the time of underwriting. For insurance contracts where death and diagnosis of critical illness are the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS, SARS or other communicable conditions) or widespread changes in lifestyle resulting in earlier or more claims than expected. Other factors affecting the frequency and severity of claims include the following:

- insurance risk under disability contracts is dependent on economic conditions. Recession and unemployment tend to increase the number of claims for disability benefits as well as reduce the rate of recovery from disability;
- insurance risk under hospitalisation contracts is dependent on medical costs and medical technology; and
- insurance risk under accident contracts is more random and dependent on occupation.

The Group seeks to mitigate claims risk by conducting regular reviews of mortality and morbidity experience and considering the impact of these on reinsurance needs and product design and pricing. These reviews, alongside other experience studies, results and economic outlook data, are incorporated into new product design and in-force policy management which illustrates the benefit of the Group's scale, history and experience in achieving a coherent insurance risk management strategy.

Mortality and morbidity risk in excess of the respective retention limits are ceded to reduce volatility in claims experience for the Group.

Lapse risk

Lapse risk refers to the possibility of financial loss due to early termination of contracts where the acquisition cost incurred may not be recoverable from future revenue.

The Group carries out regular studies of persistency experience. The results are assimilated into new and in-force business management. Target pay back periods that form part of the product pricing controls enable monitoring of the Group's exposure to lapse risk. Certain products include surrender charges that entitle the Company to additional fees on early termination by the policyholder, thereby reducing exposure to lapse risk.

Concentrations of insurance risk

Concentration of insurance risk refers to the possibility of significant financial losses arising from a lack of diversification, either geographical or by product type, of the Group's portfolio. Certain events, such as viral pandemics, may give rise to higher levels of mortality or morbidity experience and exhibit geographical concentrations.

The Group has a broad geographical footprint across Asia and its results are not substantially dependent upon any one of these individual markets. This breadth provides a natural diversification of geographic concentrations of insurance and other risks (such as political risks). However, given the Group's exposure to Asia, it may be relatively more exposed to pandemics localised in Asia than insurance groups with a world-wide presence.

37. Risk management (continued)

Although long-term insurance and investment business are the Group's primary operations, the Group has a range of product offerings, such as term life, accident and health, participating, annuity and investment-linked, which vary in the extent and nature of risk coverage and thereby reduce exposures to concentrations of mortality or morbidity risk. For example, the insured risk for certain annuity products is survival of the annuitant, whereas the insured risk for a term life product is the death of the policyholder.

As a result of the Group's history and scale, a substantial volume of experience data has been accumulated which assists in evaluation and pricing of insurance risk. The Group's capital position combined with its profitable product portfolio and diversified geographical presence are factors in management's decision to retain (rather than reinsure) a high proportion of its written insurance risks.

Concentrations of risk are managed within each market through the monitoring of product sales and size of the in-force book by product group. Actuarial analyses are also performed to establish the impact of changes in mortality and morbidity experience for use in financial reporting, pricing and the Group's assessment of reinsurance needs.

Credit risk

Credit risk arises from the possibility of financial loss arising from default by borrowers and transactional counterparties and the loss of value in financial instruments due to deterioration in credit quality. The key areas where the Group is exposed to credit risk include repayment risk in respect of:

- cash and cash equivalents;
- investments in debt securities;
- loans and receivables (including insurance receivables); and
- reinsurance receivables.

The Group has in place a credit analysis process that accounts for diverse factors, including market conditions, industry specific conditions, company cash flows and quality of collateral. The Group also has a monitoring programme in place whereby the Group's credit analysis teams review the status of the obligor on a regular basis to anticipate any credit issues.

Cross-border investment exposures are controlled through the assignment of individual country counterparty risk limits by the CRM.

The Group monitors its credit exposures to any single unrelated external reinsurer or group.

The maximum exposure to credit risk for loans and receivables, debt securities and cash and cash equivalents is the carrying value in the consolidated statement of financial position, net of allowances.

Market risk

Market risk arises from the possibility of financial loss caused by changes in financial instrument fair values or future cash flows due to fluctuations in key variables, including interest rates, equity market prices and foreign exchange rates.

The Group manages the risk of market-based fluctuations in the value of the Group's investments, as well as liabilities with exposure to market risk.

The Group uses various quantitative measures to assess market risk, including sensitivity analysis. The level of movements in market factors on which the sensitivity analysis is based were determined based on economic forecasts and historical experience of variations in these factors.

37. Risk management (continued)

The Group routinely conducts sensitivity analyses of its fixed income portfolios to estimate its exposure to movements in interest rates. The Group's fixed income sensitivity analysis is primarily a duration-based approach. This approach provides an adequate representation of risk, because very few of the Group's fixed income investments have embedded options which exhibit negative convexity.

Interest rate risk

The Group's exposure to interest rate risk predominantly arises from the Group's investments in long-term fixed income debt securities, which are exposed to fluctuations in interest rates.

Interest rate risk also arises from the Group's insurance and investment contracts with guaranteed and fixed terms, including settlement options available upon maturity, which carry the risk that interest income and capital redemptions from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable as interest rates rise and fall. For other products, including those with participation or investment-linked features, interest rate risk is significantly reduced due to the non-guaranteed nature of additional policyholder benefits.

The Group manages its interest rate risk by generally investing in fixed income assets in the same currencies as those of its liabilities, as well as investing in financial instruments with tenors that broadly match the duration of its liabilities.

The Group also considers the effect of interest rate risk in its overall product strategy. Certain products such as investment-linked, universal life and participating business, inherently have lower interest rate risk as their design provides flexibility as to crediting rates and policyholder dividend scales.

Exposure to interest rate risk

The table below summarises the nature of the interest rate risk associated with financial assets and liabilities. In preparing this analysis, fixed rate interest bearing instruments that mature or re-price within 12 months of the reporting date have been disclosed as variable rate instruments. The contractual and estimated maturity dates of the liabilities are shown below.

US\$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 2009				
Financial assets				
Loans and receivables	904	2,825	919	4,648
Debt securities	4,715	47,486	-	52,201
Equity securities	-	-	16,178	16,178
Reinsurance receivables	-	-	29	29
Derivative financial instruments	-	-	453	453
Cash and cash equivalents	3,144	-	261	3,405
Total financial assets	8,763	50,311	17,840	76,914
Financial liabilities				
Insurance contract liabilities (net of reinsurance)	-	-	63,000	63,000
Investment contract liabilities	-	-	7,780	7,780
Borrowings	603	-	85	688
Obligations under securities lending and repurchase agreements	284	-	-	284
Derivative financial liabilities	-	-	71	71
Other financial liabilities including tax payable	-	-	1,800	1,800
Total financial liabilities	887	-	72,736	73,623
Net financial assets and liabilities	7,876	50,311	(54,896)	3,291

37. Risk management (continued)

US\$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 2008				
Financial assets				
Loans and receivables	1,423	1,563	1,016	4,002
Debt securities	3,723	38,600	-	42,323
Equity securities	-	-	8,747	8,747
Derivative financial instruments	-	-	252	252
Reinsurance receivables	-	-	19	19
Cash and cash equivalents	4,116	-	48	4,164
Total financial assets	9,262	40,163	10,082	59,507
Financial liabilities				
Insurance contract liabilities (net of reinsurance)	-	-	52,030	52,030
Investment contract liabilities	-	-	4,898	4,898
Borrowings	546	26	89	661
Obligations under securities lending agreements	2,718	-	-	2,718
Derivative financial liabilities	-	-	138	138
Other financial liabilities including tax payable	-	-	1,407	1,407
Total financial liabilities	3,264	26	58,562	61,852
Net financial assets and liabilities	5,998	40,137	(48,480)	(2,345)
30 November 2007				
Financial assets				
Loans and receivables	2,009	1,543	2,113	5,665
Debt securities	4,578	39,826	-	44,404
Equity securities	-	-	20,139	20,139
Derivative financial instruments	-	-	422	422
Reinsurance receivables	-	-	87	87
Cash and cash equivalents	2,529	-	54	2,583
Total financial assets	9,116	41,369	22,815	73,300
Financial liabilities				
Insurance contract liabilities (net of reinsurance)	-	-	54,580	54,580
Investment contract liabilities	-	-	6,505	6,505
Borrowings	543	846	72	1,461
Obligations under securities lending agreements	5,395	-	-	5,395
Derivative financial liabilities	-	-	47	47
Other financial liabilities including tax payable	-	785	1,058	1,843
Total financial liabilities	5,938	1,631	62,262	69,831
Net financial assets and liabilities	3,178	39,738	(39,447)	3,469

37. Risk management (continued)

Foreign exchange rate risk

Foreign exchange risk arises from the Group's operations in multiple jurisdictions in the Asia Pacific region. Foreign currency risk associated with assets and liabilities denominated in non-functional currencies results in gains and losses being recognised in the consolidated income statement. Foreign currency risk associated with the translation of the net assets of operations with non-US dollar functional currencies results in gains or losses being recorded directly in total equity.

The Group generally invests in assets denominated in currencies that match its liabilities to avoid currency mismatches. However, for yield enhancement and risk diversification purposes, the Group's business units also invest, in some instances, in instruments in currencies that are different from the originating liabilities. These activities expose the Group to gains and losses arising from foreign exchange rate movements. The Group's business units monitor foreign currency exposures and where these are not consistent with the risk appetite of the Group, positions may be closed or hedging instruments may be purchased.

The Group's net foreign currency exposures and the estimated impact of changes in foreign exchange rates are set out in the tables below after taking into account the effect of economic hedges of currency risk. Whilst providing economic hedges that reduce the Group's net exposure to foreign exchange risk, hedge accounting is not applied. Currencies for which net exposure is not significant are excluded from the analysis below. In compiling the table below the impact of a 5% strengthening of original currency is stated relative to the functional currency of the relevant operation of the Group. The impact of a 5% strengthening of the US dollar is also stated relative to functional currency. Currency exposure reflects the net notional amount of currency derivative positions as well as net equity by currency.

Net exposure

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
30 November 2009							
Equity analysed by original currency	11,824	(410)	2,448	(1,922)	563	704	924
Net notional amounts of currency derivative positions	(3,845)	-	1,256	3,031	-	-	100
Currency exposure	7,979	(410)	3,704	1,109	563	704	1,024

5% strengthening of original currency							
Impact on profit before tax	103	(63)	1	11	1	9	2
5% strengthening of the US dollar							
Impact on shareholders' equity	(103)	(9)	(184)	(54)	(28)	(30)	(50)

30 November 2008							
Equity analysed by original currency	7,085	(502)	2,113	(1,887)	482	628	598
Net notional amounts of currency derivative positions	(3,316)	-	1,039	2,776	-	-	(96)
Currency exposure	3,769	(502)	3,152	889	482	628	502
5% strengthening of original currency							
Impact on profit before tax	31	(66)	1	6	-	7	1
5% strengthening of the US dollar							
Impact on shareholders' equity	(31)	(5)	(156)	(42)	(24)	(28)	(25)

37. Risk management (continued)

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
30 November 2007							
Equity analysed by original currency	11,387	(15)	2,141	(2,370)	318	355	831
Net notional amounts of currency derivative positions	(2,818)	-	686	2,728	-	-	-
Currency exposure	8,569	(15)	2,827	358	318	355	831
5% strengthening of original currency							
Impact on profit before tax	128	(41)	(14)	8	2	8	8
5% strengthening of the US dollar							
Impact on shareholders' equity	(128)	(9)	(141)	(16)	(15)	(14)	(35)

37. Risk management (continued)

Equity market price risk

Equity market price risk arises from changes in the market value of equity securities and equity funds. With the exception of the Group's holding of shares in AIG, the majority of the Group's equity instruments are held to match investment-linked contracts, the investment risk in respect of which is wholly borne by policyholders, or in respect of participating business, where investment risks are shared between the Group and its policyholders. Equity securities form a relatively low proportion of the Group's overall non-linked investment portfolios (including participating funds).

Sensitivity analysis

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in Note 28. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support investment-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholders' participation ratios described in Note 2. Information is presented to illustrate the estimated impact on profits and equity arising from a change in a single variable before taking into account the effects of taxation.

For the purpose of illustrating the sensitivity of profit and total equity to changes in interest rates and equity prices, the impact of possible impairments of financial investments classified as available for sale which may arise in times of economic stress has been ignored, since default events reflect the characteristics of individual issuers. Because the Group's accounting policies lock in interest rate assumptions on policy inception and the Group's assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is no corresponding effect on liabilities.

	30 November 2007		30 November 2008		30 November 2009	
	Impact on profit before tax	Impact on net assets (before the effects of taxation)	Impact on profit before tax	Impact on net assets (before the effects of taxation)	Impact on profit before tax	Impact on net assets (before the effects of taxation)
US\$m						
Interest rate risk						
+ 50 basis points shift in yield curves	(45)	(1,130)	(53)	(1,096)	(64)	(1,492)
- 50 basis points shift in yield curves	45	1,130	53	1,096	64	1,492
Equity risk						
10 per cent increase in equity prices	464	716	204	214	308	314
10 per cent decrease in equity prices	(464)	(716)	(204)	(214)	(308)	(314)

37. Risk management (continued)

Liquidity risk

Liquidity risk refers to the possibility that the Group is unable to meet its obligations to counterparties when falling due. This can arise when internal funds are insufficient to meet cash outflow obligations and where the Group is unable to obtain funding at market rates or liquidate assets at fair value resulting in the forced liquidation of assets at depressed prices. The Group is exposed to liquidity risk in respect of insurance and investment policies that permit surrender, withdrawal or other forms of early termination for a cash surrender value specified in the contractual terms and conditions.

The Group's liquidity position is monitored in compliance with regulatory and internal requirements in combination with maturity gap analyses. To manage liquidity risk, the Group has implemented a variety of measures, including emphasising flexible insurance product design so that it can retain the greatest flexibility to adjust contract pricing or crediting rates. The Group also seeks to match, to the extent possible and appropriate, the duration of its investment assets with the duration of insurance policies issued.

The maturity analysis presented in the tables below presents the estimated maturity of carrying amounts in the consolidated statement of financial position which, for insurance and investment contracts, is based on projections of estimated undiscounted cash flows arising from insurance and investment contracts in force at that date. The Group has made significant assumptions to determine the estimated undiscounted cash flows of insurance benefits and claims and investment contract benefits, which include assumptions in respect of mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. The maturity profile of the Group's borrowings is presented on the presumption that the Group will continue to satisfy loan covenants which, if breached, would cause the borrowings to be repayable on demand. The Group regularly monitors its compliance with these covenants and was in compliance with them at the date of the consolidated statement of financial position and throughout each of the periods presented. Due to the significance of the assumptions used, the maturity profiles presented below could be materially different from actual payments.

A maturity analysis based on the earliest contractual repayment date would present the insurance and investment contract liabilities as falling due in the earliest period in the table because of the ability of policyholders to exercise surrender options. Financial assets and liabilities other than investment contract liabilities are presented based on their respective contractual maturities.

US\$m	Total	No fixed maturity	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
30 November 2009						
Financial assets:						
Loans and receivables	4,648	1,814	1,508	209	626	491
Debt securities	52,201	-	1,624	11,825	14,806	23,946
Equity securities	16,178	16,178	-	-	-	-
Derivative financial instruments	453	-	12	308	133	-
Reinsurance receivables	29	-	29	-	-	-
Cash and cash equivalents	3,405	-	3,405	-	-	-
Total	76,914	17,992	6,578	12,342	15,565	24,437
Financial liabilities and insurance contracts:						
Insurance contract liabilities (net of reinsurance)	63,000	-	(726)	(885)	4,064	60,547
Investment contract liabilities	7,780	-	39	1,807	2,564	3,370
Borrowings	688	139	7	1,542	-	-
Obligations under securities lending and repurchase agreements	284	-	284	-	-	-
Derivative financial instruments	71	-	10	46	14	1
Other liabilities including tax payable	1,800	-	1,800	-	-	-
Total	73,623	139	1,414	1,510	6,642	63,918

US\$m	Total	No fixed maturity	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Note: (1) Includes amounts of US\$542m (2008: US\$542m; 2007: US\$546m) falling due after 2 years through 5 years						

37. Risk management (continued)

US\$m	Total	No fixed maturity	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
30 November 2008						
Financial assets:						
Loans and receivables	4,002	232	2,220	736	637	177
Debt securities	42,323	-	1,842	9,568	13,661	17,252
Equity securities	8,747	8,747	-	-	-	-
Derivative financial instruments	252	-	2	160	90	-
Reinsurance receivables	19	-	19	-	-	-
Cash and cash equivalents	4,164	-	4,164	-	-	-
Total	59,507	8,979	8,247	10,464	14,388	17,429
Financial liabilities and insurance contracts:						
Insurance contract liabilities (net of reinsurance)	52,030	46	(1,278)	(2,039)	2,451	52,850
Investment contract liabilities	4,898	-	126	686	887	3,199
Borrowings	661	4	108	549 ¹	-	-
Obligations under securities lending and repurchase agreements	2,718	-	2,718	-	-	-
Derivative financial instruments	138	-	19	53	58	8
Other liabilities including tax payable	1,407	-	1,407	-	-	-
Total	61,852	50	3,100	(751)	3,396	56,057
30 November 2007						
Financial assets:						
Loans and receivables	5,665	204	4,165	392	427	477
Debt securities	44,404	-	1,925	8,983	15,168	18,328
Equity securities	20,139	20,139	-	-	-	-
Derivative financial instruments	422	-	14	107	301	-
Reinsurance receivables	87	-	87	-	-	-
Cash and cash equivalents	2,583	-	2,583	-	-	-
Total	73,300	20,343	8,774	9,482	15,896	18,805
Financial liabilities and insurance contracts:						
Insurance contract liabilities (net of reinsurance)	54,580	43	(1,318)	(1,352)	3,702	53,505
Investment contract liabilities	6,505	-	179	961	1,244	4,121
Borrowings	1,461	4	911	546 ¹	-	-
Obligations under securities lending and repurchase agreements	5,395	-	5,395	-	-	-
Derivative financial instruments	47	-	1	12	34	-
Other liabilities including tax payable	1,843	-	1,843	-	-	-
Total	69,831	47	7,011	167	4,980	57,626

Note: (1) Includes amounts of US\$542m (2008: US\$542m; 2007: US\$546m) falling due after 2 years through 5 years

38. Employee benefits

Defined benefit plans

	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
US\$m			
Present value of unfunded obligations	40	64	58
Present value of funded obligations	61	37	52
Total present value of obligations	101	101	110
Fair value of plan assets	(56)	(50)	(53)
Present value of net obligations	45	51	57
Unrecognised actuarial (losses)/gains	10	-	9
Unrecognised past service (cost)/benefit	-	(1)	(1)
Net recognised defined benefit obligations	55	50	65
Recognised defined benefit deficits	55	53	70
Recognised defined benefit surpluses	-	(3)	(5)

The Group operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong, Singapore, Malaysia, Thailand, Taiwan, Indonesia, the Philippines and Korea.

Plan assets comprise:

	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
US\$m			
Equity securities	3	2	1
Debt securities	1	-	1
Real estate	40	38	39
Investment contracts issued by third party financial institutions	10	9	12
Bank deposits	2	1	-
Total	56	50	53

Movement in the present value of defined benefit obligations

	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
US\$m			
At 1 December	86	101	101
Benefits paid by the plan	(3)	(6)	(6)
Current service costs and interest (see next page)	15	17	19
Actuarial losses/(gains)	(3)	2	(11)
Plan settlement, curtailment or amendment	-	1	(1)
Foreign exchange movements	6	(14)	8
At 30 November	101	101	110

38. Employee benefits (continued)

Movement in the fair value of plan assets

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
At 1 December	37	56	50
Contributions paid into the plan	6	7	4
Benefits paid by the plan	(3)	(6)	(7)
Expected return on plan assets	3	5	5
Actuarial gains/(losses)	7	(2)	(2)
Foreign exchange movements	6	(10)	4
Asset distributed on settlement	-	-	(1)
At 30 November	56	50	53

Expense recognised in consolidated income statement

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
Current service costs	10	11	13
Interest on obligation	5	6	6
Expected return on plan assets	(3)	(5)	(5)
Settlement/curtailment (gains)/losses recognised	-	-	-
Total	12	12	14

The expense is recognised within the following line items in the consolidated income statement:

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
Operating expenses	12	12	14

Actuarial assumptions

Principal actuarial assumptions at the reporting date are in the following ranges:

	As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
Expected return on plan assets at the start of the reporting period	2.5 – 10.5%	2.75 – 9.75%	2.75 – 12.5%
Future salary increases	3.0 – 9.0%	3.0 – 10.0%	3.0 – 10.0%
Healthcare trend rate:			
Immediate trend rate	4.0 – 12.5%	4.0 – 12.5%	4.0 – 10.5%
Ultimate trend rate	4.0 – 10.5%	4.0 – 10.5%	4.0 – 10.5%
Year in which the ultimate trend rate is reached	2008 – 2013	2009 – 2013	2010 – 2013
Discount rate at the end of the reporting period	2.75 – 11.0%	1.5 – 15.0%	1.5 – 15.0%

The overall expected long-term rate of return is based on the portfolios as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns without adjustment.

38. Employee benefits (continued)

Assumptions regarding future mortality rates are based on published statistics and mortality tables. Average retirement ages and life expectancies are set out below for the principal locations with defined benefit employee benefit.

	Hong Kong	Singapore	Thailand	Malaysia	Philippines
Retirement age	65	62	60	55 – 60	65
Average life expectancy on retirement					
Males	18.5 years	21.5 years	18.1 years	19.2 - 23.3 years	17.3 years
Females	20.4 years	24.1 years	21.2 years	25.5 - 29.9 years	20.8 years

Assumed healthcare cost trend rates affect the amounts recognised in profit or loss. A 1% change in assumed healthcare cost trend rates would have the following effects (expressed as weighted averages):

US\$m	1% increase			1% decrease		
	2007	2008	2009	2007	2008	2009
Effect on the aggregate service and interest cost	-	-	1	-	(1)	(1)
Effect on defined benefit obligation	1	7	4	(1)	(5)	(3)

Historical information

US\$m	As at	As at	As at
	30 November 2007	30 November 2008	30 November 2009
Present value of the defined benefit obligation	101	101	110
Fair value of plan assets	(56)	(50)	(53)
Deficits of the plans	45	51	57
Experience gain/(loss) arising on plan liabilities	(2)	(14)	(7)
Experience gain/(loss) arising on plan assets	6	(2)	(2)

Contributions to funded and unfunded defined benefit plans during the year ended 30 November 2009 are not expected to be material.

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current period was US\$30m (2007: US\$20m; 2008: US\$27m).

The outstanding liability for defined contribution benefit plans is US\$1m (2007: nil; 2008: US\$1m).

39. Share based compensation

Stock compensation plans

The Group's employees have participated in six different stock based compensation arrangements of AIG; the AIG 1999 Stock Option Plan, as amended ('the 1999 plan'), the AIG 1996 Employee Stock Purchase Plan, as amended ('the 1996 plan'), the 2007 AIG Stock Incentive Plan, as amended ('the 2007 plan'), various SICO Plans, the Deferred Compensation Profit Participation Plan ('DCPPP') and the Partners Plan. No future grants are expected under these plans.

Under IFRS, share based compensation is recognised and measured based on the fair value of the equity instruments granted measured at grant date. The Group is required to continue to recognise an expense in respect of share based compensation based on the fair value of the options at grant date.

On 30 June 2009, AIG completed a one-for-twenty reverse stock split. The comparative information presented for number of shares and option exercise prices reflects the reverse stock split. The reverse stock split did not result in any changes to the underlying terms or value of the share awards.

The 1999 plan

Under the 1999 plan, options to purchase a certain number of shares of AIG's common stock have been granted to officers and other key employees of the Group and its subsidiaries at prices not less than the fair market value of those shares at the date of grant. The maximum number of options granted under the Plan in total is 2,250,000 and the maximum number of shares that may be granted to any employee in any one year is 45,000. Under this plan, 25% of the options become exercisable on the anniversary of the date of grant in each of the four years following that grant and expire 10 years from the date of grant. Each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period.

	Year ended		Year ended		Year ended	
	30 November 2007		30 November 2008		30 November 2009	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options						
Outstanding at 1 December	47,622	\$1,222.63	46,769	\$1,240.01	47,539	\$1,232.40
Granted	3,800	\$1,413.45	3,750	\$1,132.66	-	-
Transfers in	6,795	\$1,221.91	2,325	\$1,237.60	1,264	\$1,237.04
Exercised	(1,047)	\$1,126.07	-	-	-	-
Transfers out	(8,695)	\$1,221.67	(3,451)	\$1,235.41	(2,411)	\$1,224.94
Forfeited or expired	(1,706)	\$1,238.86	(1,854)	\$1,223.14	(4,873)	\$1,139.50
Outstanding at 30 November	46,769	\$1,239.78	47,539	\$1,232.42	41,519	\$1,232.47
Options exercisable at 30 November	27,459	\$1,194.24	33,678	\$1,216.39	35,742	\$1,226.56
Weighted average fair value per share of options granted during the year		\$468.93		\$415.81		N/A

39. Share based compensation (continued)

Information about options outstanding and options exercisable by the Group's employees and directors as at the end of each reporting period are as follows:

Range of exercise prices	Options outstanding			Options exercisable		
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price US\$	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price US\$
30 November 2009						
Range of exercise prices:						
Less than or equal to US\$1,000	4,728	3.25	940.00	4,728	3.25	940.00
US\$1,000.01 – US\$1,100.00	224	8.25	1,028.39	56	8.25	1,028.39
US\$1,100.01 - US\$1,200.00	8,921	6.65	1,169.69	6,628	6.15	1,179.59
US\$1,200.01 - US\$1,300.00	16,838	4.17	1,267.57	16,838	4.17	1,267.57
US\$1,300.01 – US\$1,400.00	6,902	6.19	1,323.43	5,111	6.15	1,322.24
More than US\$1,400.01	3,906	6.59	1,429.49	2,381	6.28	1,435.57
Total	41,519	5.18	1,232.47	35,742	4.85	1,226.56
30 November 2008						
Range of exercise prices:						
Less than or equal to US\$1,000	5,411	4.25	940.00	5,411	4.25	940.00
US\$1,000.01 – US\$1,100.00	237	8.96	1,029.96	12	3.67	1,058.00
US\$1,100.01 - US\$1,200.00	9,789	7.59	1,171.48	4,821	6.83	1,186.97
US\$1,200.01 - US\$1,300.00	19,938	5.18	1,268.01	17,954	5.09	1,265.70
US\$1,300.01 – US\$1,400.00	8,255	7.17	1,322.85	4,046	7.13	1,321.36
More than US\$1,400.01	3,909	7.59	1,429.55	1,434	6.74	1,446.05
Total	47,539	6.13	1,232.42	33,678	5.52	1,216.39
30 November 2007						
Range of exercise prices:						
Less than or equal to US\$1,000	5,663	5.25	940.00	5,663	5.25	940.00
US\$1,000.01 – US\$1,100.00	12	4.67	1,058.00	12	4.67	1,058.00
US\$1,100.01 - US\$1,200.00	7,104	7.83	1,186.98	3,589	7.83	1,186.97
US\$1,200.01 - US\$1,300.00	21,301	6.19	1,268.20	15,522	5.97	1,261.51
US\$1,300.01 – US\$1,400.00	8,780	8.16	1,322.67	2,164	8.08	1,319.80
More than US\$1,400.01	3,909	8.59	1,429.55	509	5.74	1,492.73
Total	46,769	6.90	1,239.78	27,459	6.22	1,194.24

39. Share based compensation (continued)

AIG Stock Purchase Plans

The 1996 plan

Under the 1996 plan, full time employees of AIG and its subsidiaries who have been employed for one or more years of service at the time of offering are eligible to purchase common stock of AIG at 85% of the fair market value as at the date of grant of the purchase right. Purchase rights of eligible employees are granted quarterly and are limited to the number of whole shares that can be purchased by an amount equal to 10% of their annual basic salary (excluding year end bonus) to a maximum of US\$10,000 payable in 12 monthly instalments and may be cancelled at any time after commencement but before the last instalment date and receive a full return of contribution to date.

For the years ended 30 November 2008 and 2009, nil shares were purchased by employees of the Company (2007: 2,244 shares purchased at prices ranging from US\$1,142.80 to US\$1,190.60). 188 subscribed shares were cancelled during 2007. The weighted average fair value per share of the purchase rights granted in 2007 was US\$222.80.

The subscriptions were cancelled from October 2007 based on the market value of the common stock of AIG.

The 2007 plan

This plan provides equity based or equity related awards to employees of AIG and its subsidiaries. The shares of common stock that can be issued in any one year is up to a maximum of 50,000 shares.

Prior to March 2008, substantially all time-vested RSUs were scheduled to vest on the fourth anniversary of the date of grant. Effective March 2008, the vesting of the December 2005, 2006 and 2007 grants was accelerated to vest on the third anniversary of the date of grant.

SICO plans

Starr International Company Inc ('SICO') provided compensation participation plans ('SICO plans') to certain Group employees. The SICO plans came into being in 1975 when the voting shareholders and the board of directors of SICO, a private holding company whose principal asset consisted of common stock in AIG, decided that a portion of the capital value of SICO should be used to provide an incentive plan for current and succeeding management of all companies in the wider group headed by AIG. Certain directors and employees of the Group participate in the SICO plans. Historically, SICO's board of directors could elect to pay participants cash in lieu of shares of common stock of AIG. On 9 December 2005, SICO notified participants that essentially all subsequent distributions would be made only in shares, and not cash.

DCPPP

Effective from 21 September 2005, AIG adopted the DCP, which provides equity based compensation to key employees of the wider group, including senior executive officers. The DCP was modelled on the SICO plans.

The DCP contingently allocated a fixed number of shares to each participant if AIG's cumulative adjusted earnings per share for 2005 and 2006 exceeded that for 2003 and 2004. The performance period is 21 September 2005 to 31 December 2006, and this goal was met. At the end of the performance period, common shares are contingently allocated. The service period and related vesting consists of three pre-retirement tranches and a final retirement tranche at age 65. Due to a modification in March 2008 the vesting period was shortened to vest in three instalments, with the final instalment vesting in January 2012.

39. Share based compensation (continued)

Partners Plan

On 26 June 2006, AIG's Compensation Committee approved two grants under the Partners Plan. The first grant has a performance period which runs from 1 January 2006 through 31 December 2007. The second grant has a performance period which runs from 1 January 2007 through 31 December 2008.

In December 2007, the Compensation Committee approved a grant with a performance period from 1 January 2008 through 31 December 2009. The Compensation Committee approved the performance metrics for this grant in the first quarter of 2008. The first and the second grants vest 50% on the fourth and sixth anniversaries of the first day of the related performance period. The third grant vest 50% on the third and fourth anniversaries of the first day of the performance period.

Similar to the stock option plan, each vesting tranche is accounted for as a separate grant for the purpose of recognising the expense over the vesting period.

All grants were modified in March 2008. In 2007 and 2008 no compensation cost was recognised as the performance targets for these awards were not met, and the compensation cost recognised in 2006 was reversed as a result.

Valuation methodology

The Company utilises a binominal lattice model to calculate the fair value of AIG stock option grants. A more detailed description of the valuation methodology is provided below.

The following weighted average assumptions were used for stock options granted for the following periods:

	Year ended 30 November 2007	Year ended 30 November 2008	Year ended 30 November 2009
%			
Expected annual dividend yield	1.39%	3.77%	N/A
Expected volatility	32.82%	53.27%	N/A
Risk free interest rate	4.08%	4.43%	N/A
Expected term	7 years	4 years	N/A

The dividend yield is determined at the grant date. The expected volatility is the average of historical volatility (based on seven years of daily stock price changes) and the implied volatility of actively traded options on AIG's shares and the interest rate curves used in the valuation model were the US Treasury STRIP rates with terms from three months to 10 years. In 2008, the expected term is four years based on the average time to exercise which is derived from the output of the valuation model. In 2007 and 2006, the contractual term of the option is generally 10 years with an expected term of seven years calculated based on an analysis of historical employee exercise behaviour and employee turnover (post vesting terminations). The early exercise rate is a function of time elapsed since the grant. 15 years of historical data was used to estimate the early exercise rate.

The fair value of each award granted under the 1996, 1999 and 2007 plans, the DCP, the Partners Plan and the SICO Plans considers, as required, the above factors as well as the closing price of the former ultimate parent company's stock on the date of grant.

39. Share based compensation (continued)

A summary of shares relating to outstanding awards to the Group's employees and directors unvested under the 2007 Plan, SICO plans, DCPPP and Partners Plan is presented below:

	<i>Number of shares</i>				<i>Weighted average grant date fair value (US\$)</i>			
	<i>2007 plan</i>	<i>SICO</i>	<i>DCPPP</i>	<i>Partners Plan</i>	<i>2007 plan</i>	<i>SICO</i>	<i>DCPPP</i>	<i>Partners Plan</i>
Year ended 30 November 2009								
At 1 December	22,776	5,560	12,217	21,248	1,198.80	1,248.80	1,173.60	1,125.60
Granted	-	-	2,851	-	-	-	1,131.95	-
Transfers in	1,705	220	448	1,010	1,193.62	1,175.27	1,147.78	1,097.40
Issued/exercised	(4,054)	(750)	(8,310)	(395)	1,252.97	1,277.28	1,157.70	1,132.78
Transfers out	(1,948)	(400)	(647)	(1,645)	1,206.05	1,235.13	1,159.08	1,101.89
Forfeited	(3,520)	(1,240)	(1,779)	(9,134)	1,243.14	1,189.50	1,146.87	1,129.60
At 30 November	14,959	3,390	4,780	11,084	1,182.33	1,208.53	1,142.31	1,107.19
Year ended 30 November 2008								
At 1 December	12,935	6,102	12,307	13,164	1,329.51	1,259.98	1,148.09	1,149.65
Granted	13,654	-	-	10,532	1,082.54	-	-	1,085.36
Transfers in	1,039	1,648	1,030	1,054	1,315.40	1,217.33	1,154.07	1,138.48
Issued/exercised	(390)	(1,325)	-	-	1,286.67	1,294.40	-	-
Transfers out	(1,084)	(345)	(360)	(878)	1,321.62	1,198.53	1,152.27	1,108.50
Forfeited	(3,378)	(520)	(760)	(2,624)	1,215.81	1,193.07	1,151.25	1,113.34
At 30 November	22,776	5,560	12,217	21,248	1,198.77	1,248.82	1,173.52	1,125.62
Year ended 30 November 2007								
At 1 December	5,614	10,388	13,100	13,409	1,256.03	1,241.63	1,103.68	1,138.25
Granted	7,779	-	1,288	838	1,387.28	-	1,122.44	1,295.85
Transfers in	1,741	-	-	2,210	1,280.74	-	-	1,127.80
Issued/exercised	(282)	(1,775)	-	-	1,233.02	1,291.07	-	-
Transfers out	(645)	(2,361)	(1,901)	(2,865)	1,324.91	1,230.00	1,089.60	1,128.41
Forfeited	(1,272)	(150)	(180)	(428)	1,315.55	1,209.00	1,093.80	1,126.12
At 30 November	12,935	6,102	12,307	13,164	1,329.51	1,259.98	1,148.09	1,149.65

39. Share based compensation (continued)

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to share based compensation awards granted under the 1999 plan, the 2007 plan, the DCPPP, the Partners Plan and the SICO Plans are as follows:

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
1999 plan	3	2	1
2007 plan	4	10	7
DCPPP	3	3	-
Partners Plan	-	4	-
SICO Plans	1	-	-
Total	11	19	8

The increase in the recognised compensation expense for the 2007 plan in 2008 of US\$10m (2007: US\$4m) relates to the reduction of vesting periods and additional share grants during 2008.

Unrecognised compensation cost

The total unrecognised compensation costs (net of expected forfeitures) related to non-vested share based compensation awards granted under the 1999 and 2007 plans, the DCPPP, the Partners Plan and the SICO Plans are as follows:

	Remaining weighted average vesting period at 30 November 2009	Unrecognised compensation costs at 30 November 2009
US\$m		
1999 plan	3 years	-
2007 plan	Within 1 year	6
DCPPP	Within 1 year	1
Partners Plan	Within 1 year	1
Total AIG plans	3 years	8
SICO plans	5 years	2
Total		10

40. Remuneration of directors and key management personnel

Directors' remuneration

The Executive Directors receive compensation in the form of salaries, bonuses, contributions to pension schemes, long term incentives, housing and other allowances, and benefits in kind subject to applicable laws, rules and regulations. Bonuses and long term incentives represent the variable components in the Executive Directors' compensation and are linked to the performance of the AIA Group and the individual Executive Directors. The share and share option awards presented relate to the AIG schemes described in note 39.

The Group's remuneration of individuals that were directors of the Company at 30 November 2009 is included for all years presented in the tables below. There were no other directors of the Company between the date of its incorporation on 24 August 2009 and 30 November 2009.

US\$	Directors' fees	Salaries, allowances and benefits in kind	Bonuses ¹	Pension scheme contributions	Post employment benefits	Share based payments	Inducement fees	Termination fees	Total
30 November 2009									
<i>Executive directors</i>									
Mark Wilson	-	1,647,180	1,594,000	28,680	5,665	489,569	-	-	3,765,094
Steve Roder	-	998,949	800,779	31,500	7,669	197,645	-	-	2,036,542
Total	-	2,646,129	2,394,779	60,180	13,334	687,214	-	-	5,801,636

Note: (1) Bonuses for 2009 are presented on an estimated basis as they are subject to approval by the Special Master for TARP Executive Compensation. The actual bonuses to be awarded may therefore differ from the amounts presented above

US\$	Directors' fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Post employment benefits	Share based payments	Inducement fees	Termination fees	Total
30 November 2008									
<i>Executive directors</i>									
Mark Wilson	-	867,792	275,000	28,580	5,526	510,932	-	-	1,687,830
Steve Roder	-	548,115	200,000	31,500	7,481	181,242	-	-	968,338
Total	-	1,415,907	475,000	60,080	13,007	692,174	-	-	2,656,168

US\$	Directors' fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Post employment benefits	Share based payments	Inducement fees	Termination fees	Total
30 November 2007									
<i>Executive directors</i>									
Mark Wilson	-	1,009,373	300,000	27,480	5,412	126,035	-	-	1,468,300
Steve Roder ¹	-	417,335	840,000	18,381	4,274	-	-	-	1,279,990
Total	-	1,426,708	1,140,000	45,861	9,686	126,035	-	-	2,748,290

Note: (1) Mr. Roder joined the Group on 1 May 2007 and amounts presented relate to the period 1 May 2007 to 30 November 2007

40. Remuneration of directors and key management personnel (continued)

Remuneration of five highest paid individuals

The aggregate remuneration of the five highest paid individuals employed by the Group in each of the three years ended 30 November 2009 is presented in the table below.

US\$	Salaries, allowances and benefits in kind	Bonuses ¹	Pension scheme contributions	Post employment benefits	Share based payments	Inducement fees	Termination fees	Total
30 November 2009	6,142,871	3,723,783	196,954	20,931	2,075,004	-	-	12,159,543
30 November 2008	5,429,952	1,047,409	283,843	5,835	4,937,231	-	-	11,704,270
30 November 2007	4,950,027	6,876,053	231,254	9,686	7,363,993	-	-	19,431,013

Note: (1) Bonuses to certain individuals relating to 2009 are presented on an estimated basis as they are subject to approval by the Special Master for TARP Executive Compensation. The actual bonuses to be awarded may therefore differ from the amounts presented above

The total remuneration of Mr. Tse described above is included in the remuneration of the five highest paid individuals in each of the periods presented.

40. Remuneration of directors and key management personnel (continued)

Remuneration of five highest paid individuals (continued)

The emoluments of the five individuals with the highest emoluments are within the following bands:

HK\$	Year ended 30 November 2009	Year ended 30 November 2008	Year ended 30 November 2007
9,00,001 to 9,500,000	-	-	1
9,500,001 to 10,000,000	-	-	1
11,000,001 to 11,500,000	-	1	1
11,500,001 to 12,000,000	-	1	-
12,000,001 to 12,500,000	-	1	-
13,000,001 to 13,500,000	-	1	1
14,500,001 to 15,000,000	1	-	-
15,000,001 to 15,500,000	1	-	-
15,500,001 to 16,000,000	1	-	-
19,000,001 to 19,500,000	1	-	-
29,000,001 to 29,500,000	1	-	-
42,500,001 to 43,000,000	-	1	-
107,000,001 to 107,500,000	-	-	1

Key management personnel remuneration

Key management personnel have been identified as the members of the AIA Group's Exco and members of the Company's Board as at 30 November 2009. The remuneration of these individual has been included for all periods presented.

US\$	Year ended 30 November 2009	Year ended 30 November 2008	Year ended 30 November 2007
Key management compensation and other expenses			
Salaries and other short term employee benefits ¹	14,900,774	7,793,734	7,108,733
Termination benefits	-	-	-

Post employment benefits – defined contribution	315,858	372,026	277,866
Post employment benefits – defined benefit	29,517	12,511	10,676
Post employment benefits – medical & life	40,159	38,981	30,100
Other long term benefits	2,864,052	-	-
Share based payment	1,541,169	1,967,126	1,406,197
Total	19,691,529	10,184,378	8,833,572

Note: (1) Bonuses to certain individuals relating to 2009 are presented on an estimated basis as they are subject to approval by the Special Master for TARP Executive Compensation. The actual bonuses to be awarded may therefore differ from the amounts presented above

41. Related party transactions

Transactions with related parties

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
Transactions with related parties			
Reinsurance related parties (income)/expense			
Premiums assumed	(9)	(64)	(63)
Premiums ceded to reinsurers	607	171	21
Claims recovered from reinsurers	(324)	(75)	(5)
Claims paid on inwards reinsurance	-	35	48
Recapture fee (see Note 5)	-	190	-
Commissions and fee income	(41)	(13)	-
	233	244	1
Non-insurance related party income			
Interest income	(36)	(30)	(3)
Income from services provided	(45)	(46)	(39)
	(81)	(76)	(42)
Non-insurance related party expenses			
Interest expense	9	7	1
Purchases of services	57	68	34
Corporate service fees	29	33	23
	95	108	58
Total	247	276	17
Term deposits held with related parties	47	78	-
Amounts due from related parties			
Insurance related amounts receivable	83	9	1
Loans receivable	1,589	29	87
Other amounts receivable	95	33	1
Total	1,767	71	89
Amounts due to related parties			
Insurance related amounts payable	76	7	3
Loans payable	812	20	50
Other amounts payable	12	29	51
Total	900	56	104

41. Related party transactions (continued)

Transactions with related parties are transactions with fellow subsidiaries of AIG with the exception of premiums assumed from joint ventures and associates of US\$nil (2007: US\$1m; 2008: US\$1m). Certain group companies receive amounts on behalf of and pay amounts on behalf of fellow subsidiaries. These amounts are included within other amounts receivable/payable. Refer to Note 1 for transactions relating to the Group reorganisation.

The recapture fee of US\$190m in 2008 relates to an amount paid by the Group to its then immediate parent, AIRCO, in full and final settlement of the recapture of the reinsurer's share of certain risks ceded. Refer to Note 5 for additional information.

The above amounts receivable from and due to related parties are all balances with fellow subsidiaries of AIG. Insurance related and other amounts due from/to related parties are unsecured, non-interest bearing balances which are expected to be settled within one year.

The Group has entered into securities lending agreements with related parties. During 2009, the Group sold certain debt securities for proceeds of US\$864m to related parties, resulting in a recognised realised loss of US\$91m. These debt securities were purchased with collateral received from the securities lending program. See Note 30 for further information.

Remuneration of directors and key management personnel is disclosed in Note 40.

Derivative financial instruments are disclosed in Note 22.

42. Commitments and contingencies

Commitments under operating leases

Total future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
Properties and others expiring			
Not later than one year	64	69	76
Later than one and not later than five years	121	136	102
Later than five years	117	101	94
Total	302	306	272

The Group is the lessee in respect of a number of properties and items of office equipment held under operating leases. The leases typically run for an initial period of one to seven years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased at the end of the lease term to reflect market rates. None of the leases include contingent rentals.

Investment commitments

	Year ended 30 November	Year ended 30 November	Year ended 30 November
US\$m	2007	2008	2009
Not later than one year	-	107	90
Later than one and not later than five years	143	51	36
Later than five years	-	131	138
Total	143	289	264

Investment commitments consist of commitments to invest in private equity partnerships.

Contingencies

The Group is subject to regulation in each of the geographical markets in which it operates from insurance, securities, capital markets, pension, data privacy and other regulators and is exposed to the risk of regulatory actions in response to perceived or actual non-compliance with regulations relating to suitability, sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties. The Group believes that these matters have been adequately provided for in these financial statements.

The Group is exposed to legal proceedings, complaints and other actions from its activities including those arising from commercial activities, sales practices, suitability of products, policies and claims. The Group believes these matters are adequately provided for in these financial statements.

42. Commitments and contingencies (continued)

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. Due to a change in law, further cessions under this contract ended in July 2008. This reinsurance is fully retroceded to a subsidiary of AIG. The Group is exposed to the risk of losses in the event of the failure of the counterparty retrocessionaire to honour its obligations. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US\$3,588m at 30 November 2009 (2008: US\$3,147m, 2007 US\$4,507m). The liabilities and related reinsurance assets, which totalled US\$24m (2008: US\$32m and 2007: US\$31m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover any losses arising from this agreement from the retrocessionaire.

The Group provided reinsurance and retrocession of general insurance business which was primarily underwritten in the 1970s and 1980s. In the absence of any claim notifications in the three years ended 30 November 2009, the Group does not expect any further material liabilities to arise. At the time AIA-B was transferred to the AIA Group pursuant to the Reorganisation, AIRCO, the former owner of AIA-B, provided AIA with an uncapped indemnification for losses with respect to claims made before 1 November 2010 that result from the underwriting activities of the Bermuda office of AIA-B prior to 28 February 2009.

The Group has issued capital guarantees and minimum guaranteed rates of return ranging from 0% to 5% to holders of units of pension funds that have an accumulation value of approximately US\$1,260m (2008: US\$1,232m, 2007: US\$1,272m). The Group has the ability to reduce the guaranteed rates of return, subject to obtaining approvals of applicable regulators

43. Subsidiaries

The principal subsidiary companies which materially contribute to the net income of the Group or hold a material element of its assets and liabilities are:

	Place of incorporation and operation	Principal activity	Issued share capital	Group's interest %		
				As at 30 November 2007	As at 30 November 2008	As at 30 November 2009
American International Assurance Company Limited ¹ ("AIA")	Hong Kong	Insurance	805,902,610 shares of US\$5 each	100%	100%	100%
American International Assurance Company (Bermuda) Limited ("AIA-B")	Bermuda	Insurance	3,000,000 shares of US\$1.20 each	100%	100%	100%
American International Assurance Company (Australia) Limited	Australia	Insurance	1,972,800 shares of AUD 1 each and 95,500 redeemable preference shares	100%	100%	100%
AIA Pension and Trustee Company Limited	British Virgin Islands	Trusteeship	1,300,000 ordinary shares of US\$1 each	100%	100%	100%
American International Assurance Berhad	Malaysia	Insurance	241,706,000 ordinary shares of RM1 each	-	100%	100%
PT AIA Financial (formerly known as PT AIG Life)	Indonesia	Insurance	477,711,032 shares of Rp1,000 each	100%	100%	100%
PT Asuransi AIA Indonesia ²	Indonesia	Insurance	450 shares of Rp10 million each	60%	60%	-
The Philippine American Life & General Insurance Company	Philippines	Insurance	200,000,000 shares of P\$10 each	99.78%	99.78%	99.78%
AIA Life Insurance (Vietnam) Company Limited (formerly known as AIG Life Insurance (Vietnam) Company Limited)	Vietnam	Insurance	Contributed capital of VND 960,902,899,000	100%	100%	100%
Grand Design Development Limited	British Virgin Islands	Investment holding company	10,000 shares of US\$100 each	100%	100%	100%
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 shares of US\$1 each	90%	90%	90%
BPI-Philam Life Assurance Corporation (formerly known as Ayala Life Assurance Inc.)	Philippines	Insurance	749,993,979 shares of PHP\$1 each	-	-	51%

Note: (1) *The Company's subsidiary*

(2) *Disposed of during 2009*

All subsidiaries are unlisted.

44. Immediate and ultimate controlling party

Prior to 30 November 2009, the immediate controlling party of AIA was AIRCO, a Bermuda company whose ultimate parent company was AIG, an insurance and financial services group in the United States of America.

In September 2008, AIG entered into a US\$85 billion revolving credit agreement (the 'Credit Agreement') and a guarantee and pledge agreement with the FRBNY. In conjunction with the Credit Agreement, AIG agreed to issue a series of convertible participating preferred stock ('the Series C Preferred Stock') to a trust to be established for the sole benefit of the United States Treasury (the 'AIG Credit Facility Trust'). The Series C Preferred Stock was issued to the AIG Credit Facility Trust on 4 March 2009. The Series C Preferred Stock is entitled to vote with the AIG common stock on all matters, and holds approximately 79.8% of the aggregate voting power of AIG shareholders entitled to vote, on an as converted basis. The AIG Credit Facility Trust has three independent trustees. Pursuant to the terms of the Trust Agreement, the trustees have absolute discretion and ultimate control over the preferred stock, subject to the terms of the Trust Agreement, and exercise all rights, powers and privileges of a shareholder of AIG.

The direct shareholders of AIA did not change as a result of the actions described above. However, a change of control occurred at the level of AIG, the ultimate parent of AIA. Through its ownership of the Series C Preferred Stock, the Trust owns an indirect interest in all domestic and international subsidiaries owned directly or indirectly by AIG, and is the ultimate controlling party of AIG.

On 2 March 2009, AIG and the FRBNY announced their intent to enter into certain transactions that would, amongst other things, reduce AIG's obligations under the Credit Agreement mentioned above. Accordingly, the FRBNY Agreement was entered into on 25 June 2009. The following transactions were effected in accordance with the FRBNY Agreement:

- on 11 August 2009, AIG Life Holdings (International) LLC ('AIG Life') formed a special purpose vehicle, AIA Aurora LLC;
- on 24 August 2009, AIA Aurora LLC formed AIA Group Limited;
- on 8 October 2009, AIG Life transferred AIA Aurora LLC to AIRCO;
- on 30 November 2009, AIRCO transferred AIA to AIA Group Limited;
- on 1 December 2009, AIRCO transferred to the FRBNY a preferred interest, with a US\$16 billion liquidation preference, in AIA Aurora LLC;
- AIG retained 100% of the common interest of AIA Aurora LLC (1% directly and 99% indirectly through AIRCO) as at 1 December 2009; and
- as consideration for the preferred interests in AIA Aurora LLC received by the FRBNY, the outstanding balance owed by AIG under the Credit Agreement was reduced by US\$16 billion.

Accordingly, with effect from 30 November 2009, AIA Group Limited became the immediate controlling party of AIA, after AIRCO, the former immediate parent company of AIA, transferred AIA to AIA Group Limited.

45. Events after the reporting period

On 22 December 2009 the Ministry of Finance of the People's Republic of China issued a new standard on accounting for insurance contracts. The Group is in the process of evaluating the impact of this standard and whilst it will not impact the valuation of insurance and investment contract liabilities as presented in the Group's IFRS financial statements, it may have an impact on the recognition of deferred tax assets for net operating losses.

On 27 January 2010, the sale of the disposal group held for sale (see note 11) was completed.

On 4 February 2010, the Company issued 44 million shares to its immediate parent company, AIA Aurora LLC. As of 30 November 2009, these shares were reflected as shares yet to be issued as consideration had been received prior to that date.

Financial statements of the Company

Statement of financial position as at 30 November 2009

		30 November
US\$m	<i>Notes</i>	2009
Assets		
Investments in subsidiaries	2	13,964
Cash and cash equivalents		44
Total assets		14,008
Liabilities		
Borrowings	4	50
Total liabilities		50
Equity		
Issued share capital and shares yet to be issued	5	12,044
Share premium	5	1,914
Retained earnings		-
Total equity		13,958
Total liabilities and equity		14,008

Note: (1) *Financial statements for the Company are presented for the period from initial formation on 24 August 2009 to 30 November 2009. The financial information of the Company should be read in conjunction with the consolidated financial statements of the Group.*

(2) *Net profit of the Company for the period ended 30 November 2009 was US\$nil.*

Notes to financial statements of the Company

1. Accounting policies

Where applicable, the accounting policies of the Company are the same as for the Group as set out on pages 11 to 35. These are the Company's initial financial statements and comply with both IFRS and HKFRS.

2. Investments in subsidiaries

Movements in the Company's investments in its subsidiaries are as follows:

	Period ended 30 November 2009
US\$m	
On formation	-
Acquisitions	13,964
Disposals	-
At 30 November	13,964

See note 43 of the Group's consolidated financial information for further information of the Company's subsidiaries.

3. Cash and cash equivalents

The cash and cash equivalents balance consists of cash of US\$44m and cash equivalents of US\$nil.

4. Borrowings

Borrowings represent a loan from AIG. The balance is non-interest bearing with no fixed maturity.

5. Share capital and share premium

Details of share capital and share premium are presented in note 34 of the Group's consolidated financial information.

6. Risk management

Risk management in the context of the Group is discussed in note 37 of the Group's consolidated financial information.

The business of the Company is managing its investments in subsidiaries, associates and joint venture operations. Its risks are considered to be the same as those described in the context of the consolidated group. Such investments are held by the Company at cost in accordance with accounting policy 2.4.

Financial assets, other than investments in subsidiaries, associates and joint ventures, largely consist of cash and cash equivalents.

Financial liabilities owed by the Company as at 30 November 2009 consist of borrowings from AIG.

7. Related party transactions

The Company receives dividend and interest income from subsidiaries and pays interest and expenses to those subsidiaries in the normal course of business.

Except as disclosed elsewhere in the financial statements, there are no other material related party transactions.

Glossary - unaudited

This glossary of terms is provided to help users in understanding these consolidated financial statements. Most of these terms are either technical accounting terms defined in IFRS, or reflect specialised terminology relating to life assurance business or are defined terms used consistently throughout these consolidated financial statements.

Term	Explanation
Acquisition cost (of a financial instrument)	The amount of cash or cash equivalents paid or the fair value of other consideration provided, in order to acquire an asset at the date of its acquisition.
Active market	<p>A market in which all the following conditions exist:</p> <ul style="list-style-type: none">• the items traded within the market are homogeneous;• willing buyers and sellers can normally be found at any time; and• prices are available to the public. <p>A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.</p>
Amortised cost	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.
Available for sale financial investments	Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value recorded in other comprehensive income.
Common control	A business combination involving entities under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination.
Corridor	A range around an entity's best estimate of post employment benefit obligations.
Credit risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Currency risk	The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates.
Deferred acquisition costs	Deferred acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance policies. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed to the consolidated income statement on a systematic basis over the life of the policy. At least annually such assets are tested for recoverability.
Defined benefit employee benefit plans	Post employment benefit plans under which amounts to be paid or services to be provided as post retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.

Term	Explanation
Defined contribution employee benefit plans	Post employment benefit plans under which amounts to be paid as post retirement benefits are determined by contributions to a fund together with earnings thereon. AIA has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay the post retirement benefits.
Deferred origination costs	Origination costs are expenses which are incurred in connection with the origination of new investment contracts or the renewal of existing investment contracts. For contracts that involve the provision of investment management services these include commissions and other incremental expenses directly related to the issue of each new contract. Origination costs on contracts with investment management services are deferred and recognised as an asset in the consolidated statement of financial position and expensed to the consolidated income statement on a systematic basis in line with the revenue generated by the investment management services provided.
Discontinued operations	A component of an entity that either has been disposed of or is classified as held for sale and: <ul style="list-style-type: none"> • represents a separate major line of business or geographical area of operations • is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or • is a subsidiary acquired exclusively with a view to resale.
Discretionary participation features (DPF)	A contractual right to receive, as a supplement to guaranteed benefits, additional benefits: <ul style="list-style-type: none"> • that are likely to be a significant portion of the total contractual benefits • whose amount or timing is contractually at the discretion of the issuer or • the profit or loss of the company, fund or other entity that issues the contract.
Effective interest method	A method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying value of the financial asset or financial liability.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Fair value through profit or loss	A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year.
First year premiums	First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold.
Functional currency	The currency of the primary economic environment in which the entity operates.
Held for sale	A non current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use. On the date that a non-current asset meets the criteria as held for sale it is measured at the lower of its carrying amount and fair value less costs to sell.
IFRS	Standards and interpretations adopted by the International Accounting Standards Board ('IASB') comprising: <ul style="list-style-type: none"> • International Financial Reporting Standards; • International Accounting Standards; and • Interpretations developed by the International Financial Reporting Interpretations Committee ('IFRIC') or the former Standing Interpretations Committee ('SIC').

Term	Explanation
Insurance contract	A contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if specified uncertain future events adversely affect the policyholder.
Insurance risk	Risk, other than financial risk, transferred from the holder of a contract to the issuer.
Investment contract	An investment contract is an insurance policy that, whilst structured and regulated as a contract of insurance, does not meet the accounting definition of an insurance contract because it does not transfer significant insurance risk.
Investment experience	Realised and unrealised investment gains and losses recognised in the consolidated income statement.
Investment income	Investment income comprises interest income, dividends and rental income.
Investment property	Property (land and/or a building or part of a building) held to earn rentals or for capital appreciation or both rather than for use by the AIA Group.
Investment return	Investment return consists of investment income plus investment experience.
Investment-linked products	Investment-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the policy, subject to surrender charges.
Lapse risk	The risk that, having purchased an insurance policy from AIA Group, customers either surrender the policy or cease paying premiums on it and so the expected stream of future premiums ceases. Lapse risk is taken into account in formulating projections of future premium revenues, for example when testing for liability adequacy and the recoverability of deferred acquisition costs.
Liability adequacy test	An assessment of whether the carrying amount of an insurance liability needs to be increased or the carrying amount of related deferred acquisition costs or related intangible assets decreased based on a review of future cash flows.
Liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with liabilities.
Market risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.
Monetary items	Units of currency held and asset and liabilities to be received or paid in a fixed or determinable number of units of currency.
Non-controlling interests	The equity in a subsidiary not attributable, directly or indirectly, to a parent. Also referred to as 'minority interests'.
Non-participating life assurance	Contracts of insurance where the policyholder has a guaranteed right to the benefit, which is not at the contractual discretion of the insurer.

Term	Explanation
Operating profit	The Group defines operating profit as profit before tax excluding investment experience; investment income related to investment-linked contracts; corresponding changes in insurance and investment contract benefits in respect of investment-linked contracts and participating fund; changes in third party interests in consolidated funds, and other significant items of non-operating income and expenditure.
Operating segment	A component of an entity that: <ul style="list-style-type: none"> • engages in business activities from which it may earn revenues and incur expenses • whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and • for which discrete financial information is available.
Other comprehensive income	Items of income and expense that form part of total comprehensive income but, as required or permitted by IFRS, do not form part of profit or loss for the year, such as fair value gains and losses on available for sale financial assets.
Participating funds	Participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. AIA may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits.
Participating policies	Participating policies are contracts of insurance where the policyholders have a contractual right to receive, at the discretion of the insurer, additional benefits based on investment performance, as a supplement to any guaranteed benefits. AIA Group may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits. Participating policies may either be written within participating funds (see above) or may be written within the Company's general account, whereby the investment performance is determined for a group of assets or contracts, or by reference to the Company's overall investment performance and other factors. This is referred to by the Group as 'other participating business,' Whether participating policies are written within a separate participating fund or not largely depends on matters of local practice and regulation.
Policyholder dividends	Policyholder dividends are the means of participating policyholders receiving the non-guaranteed element of the discretionary benefits, through which they participate in the investment return of the reference portfolio or pool of assets.
Property held for use	Property held for use in the AIA Group's business.
Puttable liabilities	A puttable financial instrument is one in which the holder of the instrument has the right to put the instrument back to the issuer for cash (or another financial asset). Units in investment funds such as mutual funds and open ended investment companies are typically puttable instruments. As these can be put back to the issuer for cash, the non-controlling interest in any such funds which have to be consolidated by AIA Group are treated as financial liabilities.
Recapture	The voluntary termination of a contract of life reinsurance.

Term	Explanation
Related parties	<p>Related parties, as disclosed in Note 41, may be related to AIA Group for any of the following reasons:</p> <ul style="list-style-type: none"> • they are directly or indirectly controlled by an AIA Group entity; • an AIA Group entity has significant influence of the party; • they are in a joint venture arrangement with an AIA Group entity; • they are part of the Group's key management or a close member of the family of any key management or any entity that is controlled by these persons; or <p>they are a post-retirement benefit plan for the employees of AIA Group.</p>
Renewal premiums	Premiums receivable in subsequent years of a multi-year insurance policy
Repurchase agreements (repos)	A repurchase transaction involves the sale of financial investments by the AIA Group to a counterparty, subject to a simultaneous agreement to repurchase those securities at a later date at an agreed price. Accordingly, for accounting purposes, the securities are retained on the AIA Group's consolidated statement of financial position for the life of the transaction, valued in accordance with the Group's policy for assets of that nature. The proceeds of the transaction are reported in the caption 'Obligations under securities lending and repurchase agreements'. Interest expense from repo transactions is reported within finance costs in the consolidated income statement.
Reverse repurchase agreements (reverse repos)	A reverse repurchase transaction (reverse repo) involves the purchase of financial investments with a simultaneous obligation to sell the assets at a future date, at an agreed price. Such transactions are reported within 'Loans and Receivables' in the consolidated statement of financial position. The interest income from reverse repo transactions is reported within investment return in the consolidated income statement.
Securities lending	Securities lending consists of the loan of certain of the group's financial investments to third parties securities on a short term basis. The loaned securities continue to be recognised within the appropriate financial investment classifications in the Group's consolidated statement of financial position.
Single premiums	Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.
Shadow accounting	Investment experience (realised and unrealised investment gains and losses) has a direct effect on the measurement of insurance contract liabilities and related deferred acquisition costs and intangible assets, such as VOBA (see below). Shadow accounting permits adjustments to insurance contract liabilities and the related assets to be reflected in other comprehensive income to match the extent to which unrealised investment gains and losses are recognised in other comprehensive income.
Statement of financial position	Formerly referred to as the balance sheet.
Total weighted premium income ('TWPI')	Total weighted premium income consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums. As such it provides an indication of AIA Group's longer term business volumes as it smoothes the peaks and troughs in single premiums.
Unit linked	Unit linked contracts may combine savings with an element of protection, the cash value of the policy depending on the value of unitised funds. The Group includes unit linked products within investment-linked products.
Universal life	A type of insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account balance which are credited with interest at a rate either set by the insurer or reflecting returns on a pool of matching assets. The customer may vary the death benefit and the contract may permit the policyholder to withdraw the account balance, typically subject to a surrender charge.

Term	Explanation
Value of business acquired ('VOBA')	The VOBA in respect of a portfolio of long term insurance and investment contracts acquired is recognised as an asset, calculated using discounted cash flow techniques, reflecting all future cash flows expected to be realised from the portfolio. VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the additional value of the business acquired. The carrying value of VOBA is reviewed annually for impairment and any impairment is charged to the consolidated income statement.
Withholding tax	When a payment is made to a party in another country, the laws of the payer's country may require withholding tax to be applied to the payment. International withholding tax may be required for payments of dividends or interest. A double tax treaty may reduce the amount of withholding tax required, depending upon the jurisdiction in which the recipient is tax resident.