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AIA Group Limited
友邦保險控股有限公司
(Incorporated in Hong Kong with limited liability)
Stock Code: 1299

ANNUAL RESULTS FOR THE YEAR ENDED 30 NOVEMBER 2010

The Board of Directors of AIA Group Limited is pleased to announce the Group's consolidated results for the year ended 30 November 2010. The Group's financial information for the year ended 30 November 2010 in this announcement was prepared based on the audited consolidated financial statements for the period.

The main highlights are:

- IFRS Net Profit up 54% year-on-year to US\$2.7 billion (2009: US\$1.8 billion)
- Strong growth in Value of New Business (VONB), up 22% in 2010 to US\$667 million (2009: US\$545 million)
- Embedded value up 18% to US\$24.7 billion (2009: US\$21.0 billion)
- IFRS Operating Profit Before Tax up 18% to US\$2.1 billion (2009: US\$1.8 billion)
- Shareholders' equity grew US\$4.7 billion to US\$19.6 billion (2009: US\$14.9 billion)
- Total assets increased to US\$107.9 billion (2009: US\$90.7 billion)
- Strong capital position with solvency ratio of 337%, and an increase in total available capital of 29% from US\$4.8 billion to US\$6.2 billion
- Free Surplus, a distinguishing feature of AIA, increased 24% to US\$5.0 billion at the end of 2010 (2009: US\$4.0 billion)

Commenting on the results, Mark Tucker, AIA Group Chief Executive and President, said: "2010 was a very successful year for the AIA Group notwithstanding some notable distractions. Our 2010 results are a significant improvement over 2009 on all key measures, with excellent growth in profitability, driven by a strong existing in-force book of business and a material uplift in new business growth, particularly in the fourth quarter.

"Our very successful IPO marked a new beginning for the AIA Group which, together with changes we implemented in the second half of 2010, has helped to unleash the potential of our business and create strong growth momentum going into 2011.

"Our focus for 2011 will be on the key strategic priorities that will deliver sustainable profitable growth and create value for our shareholders. These include strengthening our agency and partnership distribution channels, increasing their productivity, enhancing our products and customer experience and transforming our organisation to be more nimble and customer focused.

“The AIA Group’s outstanding customer franchise, well-respected brand, 100% ownership in 14 of our 15 markets, very strong financial profile, product expertise and distribution reach combine to give us a unique and advantaged platform for future growth.

“We will pursue these growth opportunities with a strengthened leadership team, and more efficient organisational structure in place. As the only pan-Asian listed insurance group focused 100% on this fast-growing region, AIA is very well positioned to win.”

Some market highlights

In China (VONB up 43% over 2009), the Group has secured approval to open eight new sales and services centres in Jiangsu and Guangdong provinces and signed a long term partnership agreement with ICBC, one of China’s largest banks.

In Malaysia (VONB up 39% over 2009), the Group received approval to operate a Family Takaful business, catering to the needs of the majority Muslim community in Malaysia.

AIA built renewed momentum in Hong Kong, which experienced a rapid recovery towards the end of the year (VONB up 56% from Q3 to Q4 2010) supported by a combination of improved operational efficiency and higher new business sales.

AIA Singapore (VONB up 18% from Q3 to Q4 2010) re-energised its agency force, diversified its product portfolio and re-oriented its sales focus towards profitable growth.

We continued to lead the market in Thailand, enhancing VONB (up 44% over 2009) and introducing pioneer products (e.g., the market’s first investment-linked product).

In Korea (VONB up 7% over 2009) we implemented new strategies to refine product offerings and enhance agency productivity, and launched Martassurance, an innovative partnership with Tesco, to diversify channel mix and increase market reach.

In the Group’s Other Markets (Australia, Indonesia, New Zealand, the Philippines, Taiwan and Vietnam), we delivered a strong VONB growth of 28%, demonstrating AIA’s strong position and diversified footprint across the region.

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FINANCIAL AND OPERATING HIGHLIGHTS

AIA Group is the largest, independent listed pan-Asian life insurance group, with extensive operations in 15 markets in Asia Pacific. The Group is a market leader in the Asia Pacific region and holds number one positions in 6 of our 15 geographical markets based on life insurance premiums.

The Group traces its roots in the region back more than 90 years and has total assets of approximately US\$107.9 billion. AIA Group Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code 1299, with a market capitalisation of US\$34.8 billion as of 30 November 2010.

The Group has operations located in Hong Kong, Thailand, Singapore, Malaysia, China, Korea, the Philippines, Australia, Indonesia, Taiwan, Vietnam, New Zealand, Macau, Brunei and India.

Financial Highlights

US\$m	2010	2009	YoY %
TWPI	13,013	11,632	12%
New business – ANP	2,025	1,878	8%
New business – VONB	667	545	22%
Investment income	3,483	3,059	14%
Operating expenses	1,146	981	17%
Operating profit before tax	2,102	1,781	18%
Operating profit after tax attributable to shareholders of AIA Group Limited	1,699	1,438	18%
Net profit attributable to shareholders of AIA Group Limited	2,701	1,754	54%
Total assets	107,865	90,659	19%
Total liabilities	88,230	75,700	17%
Total equity attributable to shareholders of AIA Group Limited	19,555	14,908	31%
Operating return on allocated equity ⁽¹⁾	11.8%	12.0%	0.2 pp
Net return on equity ⁽²⁾	15.7%	14.7%	1 pp
Embedded value	24,748	20,965	18%
Solvency ratio	337%	311%	26 pp
Net funds to Group	1,495	(6)	n/m
Earnings per Share (US cents)			
– Basic	22	15	47%
– Diluted	22	15	47%
– Dividends	–	25	n/m

Note:

- Operating return on allocated equity is calculated as operating profit after tax attributable to shareholders of AIA Group Limited, expressed as a percentage of the simple average of opening and closing total equity attributable to shareholders of AIA Group Limited, less the fair value and foreign currency translation reserves, and adjusted for subordinated intercompany debt.
- Net return on equity is calculated as net profit attributable to shareholders of AIA Group Limited, as a percentage of average total equity attributable to shareholders of AIA Group Limited, which is a simple average of the opening and closing balances.

TWPI ⁽¹⁾ (US\$m)	2010	2009
Hong Kong	3,012	2,861
Thailand	2,742	2,373
Singapore	1,687	1,524
Malaysia	813	707
China	1,137	1,018
Korea	1,951	1,759
Other Markets	1,671	1,390
OPAT (US\$m)	2010	2009
Hong Kong	744	655
Thailand	312	247
Singapore	326	264
Malaysia	117	106
China	69	68
Korea	141	65
Other Markets	137	144
2010 breakdown by geographical market	VONB	ANP⁽²⁾
Hong Kong	28%	22%
Thailand	23%	21%
Singapore	14%	10%
Malaysia	5%	6%
China	9%	10%
Korea	8%	14%
Other Markets	13%	17%

The results attributable to our interest in our joint venture in India are not reflected in TWPI, ANP or VONB for our Other Markets reporting segment because we account for this interest using the equity method of accounting.

Note:

- (1) Total Weighted Premium Income (TWPI) consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums.
- (2) Annualised new premium (ANP) is a measure of new business activity that is calculated as the sum of 100% annualised first year premiums and 10% of single premiums, before reinsurance ceded.

GROUP CHIEF EXECUTIVE AND PRESIDENT'S REPORT

2010 was a momentous year for the AIA Group, and one in which I am pleased to report that we delivered strong profit growth from the Group's operations across the Asia Pacific region.

The highpoint of the year came as the AIA Group Limited completed its Hong Kong IPO on 29 October 2010, which resulted in the Group becoming an independent listed company. At US\$20.5 billion ours was the largest ever IPO on the Hong Kong Stock Exchange, and the third-largest IPO ever globally at the time.

The IPO's success reflected broad market recognition of the quality of the AIA Group's distribution franchise across Asian markets, the scale and operational flexibility we enjoy with 100% owned operations in 14 out of 15 territories, and the tremendous opportunity these give us to capitalise on the economic growth prospects of the region.

In this review I shall give a more detailed account of the successes of our operations in 2010. I shall also explain the steps we are taking to ensure that we exploit our enormous potential for future profitable growth for the benefit of our shareholders.

2010 performance

The AIA Group looks at three broad measures of performance – Profit, Value Creation and Financial Strength. It is testimony to the quality of the businesses that make up the Group that in 2010 we achieved improvements over 2009 on all of these performance measures.

Profit: In 2010, operating profit before tax and operating profit after tax each increased by 18% over 2009 to US\$2.1 billion and US\$1.7 billion, respectively, while net profit after tax grew by 54% to US\$2.7 billion. This was underpinned by growth in TWPI, our broadest measure of premium income, of 12% to US\$13.0 billion, while operating expenses increased by 17% to US\$1.1 billion.

Value Creation: In 2010, EV increased by 18% to US\$24.7 billion and VONB rose by 22% to US\$667 million. This is a very strong position and one that your management will ensure is deployed to generate further value for shareholders within acceptable risk parameters and the overall risk appetite set by the Board.

Financial Strength: The AIA Group has a very strong capital position, with assets in excess of liabilities to policyholders being 337% of defined statutory requirements at the end of 2010 (up from 311% a year earlier). This compares with a minimum regulatory requirement in Hong Kong of 150%. AIA Co is rated AA- by Standard & Poor's, one of the highest ratings of any life insurer in the Asia-Pacific region.

Total shareholders' equity increased by 31% to US\$19.6 billion, and net return on equity was up 1 pp to 15.7%.

In summary, I am happy to report that the Group has delivered significant growth for shareholders in 2010 and, equally important, that the healthy state of our present operations will give us the financial resources to generate positive returns and further growth in the future.

Market highlights

In Hong Kong, OPAT increased 14% from US\$655 million to US\$744 million. ANP were significantly affected in mid-year by one-off external events, and agency sales momentum only recovered in the second half of 2010. VONB increased by 2% because margins were adversely affected by a high level of demand in the second half of the year for relatively low-margin investment-linked products. Agency recruitment picked up markedly in the fourth quarter, up 46% on the equivalent period in 2009.

The AIA Group had a highly successful year in Thailand despite the volatile political conditions in the country, with a new country Chief Executive Officer (CEO), appointed in March 2010, leading a transformation of the business. OPAT was up 26% to US\$312 million from US\$247 million in 2009. VONB increased by 44% over 2009 and VONB margins increased 9 pp year-on-year as a result of proactive management of product mix and margins, including introducing pioneer products such as the first investment-linked product, together with cost efficiency gains from automation.

In Singapore, OPAT of US\$326 million was up 23% over 2009. VONB increased by 8% despite a reduction in VONB margin due to exceptional sales of a one-off short pay product in the third quarter. Major initiatives are underway to expand the size and productivity of the agency force.

In Korea, OPAT increased by 117% from US\$65 million to US\$141 million. VONB and VONB margins grew by 7% and 5 pp respectively. In 2010 our focus was on laying the foundations for future growth in agency distribution, which included the rebranding of our operation from AIG Life to AIA Life. Our direct marketing activities were enhanced by the launch of Martassurance in partnership with the multinational retailer Tesco.

Malaysia delivered a 10% increase in OPAT from US\$106 million to US\$117 million. VONB growth was substantial at 39%. As in other major operations, the main themes were an increased focus on achieving higher margins and the continued expansion of distribution. Twelve-month new agent retention rate increased to 67% from 55% in 2009 and direct marketing sales were up 29% over 2009. During 2010 we obtained permission to operate a Family Takaful business. This commenced operations in January 2011, and will allow the Group to provide Islamic insurance products to a large segment of the Muslim population who were not previously our customers in Malaysia.

In China, while OPAT was virtually unchanged at US\$69 million, VONB was up 43% and VONB margin up 8 pp on prior year. With the management team strengthened during the year, the Group secured approval to open eight new sales and services centres in Jiangsu and Guangdong provinces and our new "All-in-One" product was launched to enhance the product range and improve margins. In 2010 we were proud to have been selected as a bancassurance partner by ICBC, one of China's largest banks. Another focus area was agency distribution, where we launched our Premier Agency initiative designed to deliver market-leading productivity and customer service standards.

The Group's Other Markets also continued to make material progress. In the Philippines we more than tripled VONB as we repositioned the business following the acquisition of PhilamLife; 2010 was also the first year operation of our BPI-Philam joint venture. Indonesia began selling Shariah products to the majority Muslim population. Vietnam focused on agency expansion and productivity increases, resulting in a material increase in VONB. Australia successfully expanded its Group insurance portfolio.

Investment management

A critical aspect of our role as a life insurer is the skill with which we manage policyholders' funds. This involves safeguarding value and matching investment strategy to appropriate risk appetite, while at the same time delivering a superior risk-adjusted return on shareholders' investments.

The Group's financial investments (excluding receivables) and cash and cash equivalents, grew during the year to US\$91.4 billion. In 2010 our investment income grew by 14% to US\$3.6 billion. Much of this growth was attributable to increased investment in debt securities and to higher dividend income from equity portfolios, particularly in China and Thailand.

Our investment management operation, which combines a seasoned central investment team with considerable depth of in-country experience, has demonstrated its ability to provide consistently strong investment performance over time.

Management and structural changes

I have already referred to the transition to independent company status through the IPO that took place in late 2010. This was the culmination of a series of actions that commenced in 2008 to separate the various Asian regional operations of AIG and to distance these businesses from the problems affecting AIG in other parts of the world. The IPO may have marked the conclusion of a process, but it also marked a new and exciting beginning for AIA.

Our opportunities for further growth in the Asia Pacific region are significant, and the performance evident in these 2010 results also points to our prospects of future success. However, successful profitable growth will require us to take long sighted and commercially sound steps to empower the Group's employees and distributors to enhance the business further. The present scale and franchise of the Group reflect the wisdom of strategic development decisions taken in the past. Whilst the quality of our customer service and new business activity remain high, we have much work still to do in building the Group to match the full potential of the dynamic markets in which we participate.

The organisational changes I have implemented have resulted in the CEOs of our country operations being grouped under three newly-appointed Regional Managing Directors, each of whom brings a successful record of delivering profitable growth in the Asian life insurance sector.

Simultaneously we have introduced expert technical support for the rollout of our product and distribution initiatives. For example, we see major opportunities for profitable growth of our A&H protection portfolio across the region, and we are also developing a new generation of investment-linked products.

In our core agency channel the focus is on installing a Premier Agency model that will link the expansion of numbers of agents in the field more closely with agency training and productivity. Similarly in bancassurance and direct marketing, the focus is on building relationships that deliver further value to our business.

The country CEOs, Regional Managing Directors and heads of product and distribution each play well-defined and collaborative roles in an organisation that is both energised and responsible in its understanding of its obligations to customers and shareholders.

Underpinning all these initiatives is the continuation of a major change in operating philosophy in all parts of the Group. Many financial services organisations, and some commentators, are apt to measure success in terms of “market share”, often targeting ANP. Since all life insurance business requires shareholder capital to provide solvency reserves, the pursuit of high-volume, low-margin business is a recipe for underperformance. The Group wants market share as much as anyone, but – and this is a crucial distinction – not for its own sake and not at the expense of profit and satisfactory returns.

The key measure we have adopted to measure our success in achieving our new business growth goals is VONB, as this represents the most reliable measure of new business in terms of risk-adjusted profitability as well as volume. I have already received very positive feedback from our country teams on the impact that this change of focus has had on motivation, prioritisation and commitment to delivery.

Outlook

On the evidence available the world economy has a cautiously optimistic outlook for 2011. Sovereign debt and banking sector stability remain a concern, although there is some reassurance to be gained from the generally proactive approach being taken by central bankers and finance ministers.

Asian economies and banking systems had their own crisis in 1997/98 and, I believe as a consequence, suffered relatively less in the global credit crisis in 2007/08. That said, the interdependence of regions, including Asia’s reliance on strong consumer markets in the West, remains a potent influence: Asian markets’ transition from export dependence to economic models with greater emphasis on growth fuelled by domestic demand has been hampered by the scale of trade imbalances.

The fundamentals for the future economic growth of Asian markets remain firmly in place. If there is scope for regional economic uncertainty it is in the ability of those markets to sustain their present speed of growth without overheating in the near term, rather than in the resilience of the underlying long-term trend.

This is particularly important to the AIA Group because our customers are predominantly individuals. Our opportunity expands with the growth in the numbers of families that, through economic development, achieve levels of income that enable them to save, and to satisfy their protection needs, through the purchase of life and health cover.

It is normal to talk of Asia having favourable demographics, but, in truth, there are few demographic trends that do not benefit our business in one way or another. If a population is aging, then it is keenly appreciative of retirement saving needs. If the population is younger then families require a different mix of protection products. We have the opportunity to cater to the needs of all ages, and shall increasingly be developing techniques that facilitate this multi-generational approach to new business.

2011 will be demanding operationally for the AIA Group because we need to establish a record of out-performance to justify the faith that you as shareholders have placed in us. At the same time we must continue to build the organisational strength and talent that will deliver still better results in the future. It is an exciting prospect.

FINANCIAL AND OPERATING REVIEW

Financial Review

“The AIA Group has delivered a strong operating performance in an eventful year”

The economies in which we operate in Asia have returned to growth faster and more strongly than the rest of the world. Interest rates remained at historically low levels during 2010, which constrained our investment and insurance earnings. In addition, during the year we had a number of important but challenging events including the IPO and the Prudential approach. Set against this backdrop the Group’s performance demonstrated the resilience and strength of its business and distribution channels.

Our objectives are to deliver sustainable IFRS profitability and value generation whilst maintaining our capital strength. Despite the challenges outlined in this report, the Group delivered strong results for 2010, reflecting our relentless drive to optimise performance by realigning product margins and mix to value creation, by enhancing risk management processes and by maintaining cost discipline. As a result we enter 2011 well positioned in markets that offer highly attractive opportunities for strong organic growth.

IFRS Profit

In 2010, the Group delivered impressive growth in our IFRS results, including an 18% increase in both operating profit before tax and operating profit after tax to US\$2.1 billion and US\$1.7 billion, respectively. In addition, our net profit increased 54% in 2010 to US\$2.7 billion during the year. Our TWPI grew 12% to over US\$13.0 billion. Shareholders' equity increased by 31% to US\$19.6 billion as of 30 November 2010.

Value Creation

The Group's ANP grew by 8% to US\$2,025 million in 2010, while the VONB margin increased to 32.6% in 2010 from 28.3% in 2009. This improvement in both volumes and margins resulted in a growth of VONB of 22% in 2010 to US\$667 million. The successful IPO provided clarity to our customers, sales force and other distribution partners, and undoubtedly helped the Group to achieve a marked upturn in performance in the fourth quarter of 2010. ANP in the fourth quarter of 2010 grew 15% over the fourth quarter of 2009 and 26% over the third quarter of 2010. Growth in ANP was particularly strong in November following our listing.

Our VONB margin in the fourth quarter of 2010 of 31.9% exceeded the VONB margin in the fourth quarter of 2009 of 30.3%. This, combined with the ANP growth, resulted in VONB growth of 20% in the fourth quarter of 2010 to US\$204 million over the fourth quarter of 2009.

Our EV increased 18% to US\$24.7 billion as of 30 November 2010. EV growth reflected our current year VONB growth, the expected return on EV, strong equity and property markets in Asia and a strengthening of various Asian currencies against the U.S. dollar in which we report our results. These more than offset the effects of low interest rates on our discount rate and interest assumptions.

Capital

As of 30 November 2010, the total available regulatory capital for our main insurance subsidiary, AIA Co, exceeded US\$6.2 billion, giving us an HKICO solvency ratio of 337%. During the fourth quarter of 2010, AIA Co achieved an AA- rating by Standard & Poor's, and Moody's raised the outlook for AIA-B's 'Aa3' rating to 'Stable', further demonstrating the strength of our balance sheet and the quality of our franchise.

Group results and key metrics

US\$m	2010	2009	%
IFRS Basis			
TWPI	13,013	11,632	12%
Investment income	3,483	3,059	14%
Operating expenses	1,146	981	17%
Operating profit before tax	2,102	1,781	18%
Operating profit after tax	1,708	1,443	18%
Net profit attributable to shareholders of AIA Group Limited	2,701	1,754	54%
Net return on equity	15.7%	14.7%	1 pp
Value Creation			
ANP	2,025	1,878	8%
VONB	667	545	22%
VONB margin	32.6%	28.3%	4.3 pp
Embedded value	24,748	20,965	18%
Capital			
Free surplus	4,992	4,011	24%
Net funds to Group	1,495	(6)	n/m
Solvency ratio	337%	311%	26 pp

During 2010, regulatory orders put in place by a number of our regulators as additional safeguards for our policyholders at the time of the AIG events were lifted. This enabled the free flow of capital and funds around the Group. As a result, nearly US\$1.5 billion of funds were remitted from our business units to group office. This improves the efficiency of our capital, so that it can be deployed to meet growth opportunities and/or meet other Group working capital needs. As of 30 November 2010, we held working capital of over US\$2.2 billion for these purposes.

Our 2010 results demonstrate the quality of our franchise in Asia. We are well positioned to build on these results to deliver strong business momentum in 2011. Our key priorities from a financial perspective include prioritising our opportunities, investing in capabilities including systems, maintaining our cost advantage, continuing to drive profitable business growth with strong product pricing disciplines, and continuing to build capital management capability and awareness. Our focus is on delivering a strong total shareholder return by maximising the power of the AIA franchise.

IFRS Basis

Total Weighted Premium Income (TWPI)

US\$m	2010	2009	%
By reportable segment:			
Hong Kong	3,012	2,861	5%
Thailand	2,742	2,373	16%
Singapore	1,687	1,524	11%
Malaysia	813	707	15%
China	1,137	1,018	12%
Korea	1,951	1,759	11%
Other Markets	1,671	1,390	20%
Total	13,013	11,632	12%

TWPI increased 12% to US\$13,013 million in 2010 from US\$11,632 million in 2009 reflecting growth in all our segments. This was boosted by the strengthening of the currencies of a number of countries in which we operate (particularly China) against the U.S. dollar. Excluding the effects of foreign exchange, TWPI increased by 5% between 2009 and 2010. The Group enjoyed quarterly growth in TWPI throughout the year, with particularly strong growth in the fourth quarter.

Renewal premiums continued to account for the largest portion of TWPI representing 84% and 85% of TWPI in 2009 and 2010, respectively, as average persistency continued to strengthen to 94% in 2010 from 92% in 2009.

Our operations in China, Thailand and Malaysia experienced significant growth in TWPI, driven by growing renewal premiums and new business across all our major product lines as we sustained our business momentum.

TWPI growth was also strong in our Other Markets segment, particularly in Australia, the Philippines and Indonesia, where the prior year included TWPI of US\$72 million in respect of our joint venture operation, PT. Asuransi AIA Indonesia, which we disposed of in October 2009. Excluding the effects of foreign exchange, Australia, the Philippines and Indonesia experienced TWPI growth of 19%, 11% and 14% respectively between 2009 and 2010. TWPI growth in Australia reflected an increase in renewal premiums following the acquisition of two large corporate accounts in 2009. TWPI growth in the Philippines was primarily due to strong performance through our bancassurance channel, reflecting the success from our strategic acquisition of a 51% interest in BPI-Philam in the later part of 2009. TWPI growth in Indonesia reflected improved productivity of our agency and bancassurance distribution channels, which led to a TWPI increase of 41%, or 23% excluding the effects of foreign exchange, in respect of investment-linked insurance products between 2009 and 2010.

Investment income (excluding investment-linked contracts)

US\$m	2010	2009	%
Interest income	3,201	2,870	12%
Dividend income	220	122	80%
Rental income	62	67	(7)%
Total	3,483	3,059	14%

Investment income increased 14% to US\$3,483 million in 2010 from US\$3,059 million in 2009. Excluding the effects of foreign exchange, the increase was 8%.

Interest income increased to US\$3,201 million in 2010 from US\$2,870 million in 2009, mainly reflecting an increase in holdings of debt securities with the growth of our in-force portfolio, a decrease in cash and cash equivalents, as well as the favourable effects of foreign exchange.

Dividend income from our equity portfolio increased 80% to US\$220 million in 2010, compared with US\$122 million in 2009, driven mainly by Thailand and China, reflecting increased exposure to equity market as well as the favourable effects of foreign exchange.

Operating expenses

US\$m	2010	2009	%
Operating expenses excluding strategic initiative expenses	1,065	919	16%
Strategic initiative expenses	81	62	31%
Total	1,146	981	17%

Operating expenses increased 17% to US\$1,146 million in 2010 from US\$981 million in 2009, or 11% excluding the effects of foreign exchange, mainly due to increased expenditure on strategic initiatives, short-term incentives, and the re-introduction of long-term incentive plans.

Notwithstanding the increase in our expense ratio from 8.4% in 2009 to 8.8% in 2010 as we re-oriented the business towards profitable growth and prepared for listing, the Group has one of the lowest expense ratios in the industry. Continued focus on expense management is a 2011 priority for the Group.

Operating profit before tax

US\$m	2010	2009	%
By reportable segment:			
Hong Kong	791	698	13%
Thailand	450	358	26%
Singapore	394	316	25%
Malaysia	158	138	14%
China	92	89	3%
Korea	151	81	86%
Other Markets	188	189	(1)%
Corporate and Other	(122)	(88)	39%
Total	2,102	1,781	18%

The Group's operating profit before tax increased 18% to US\$2,102 million in 2010 compared with US\$1,781 million in 2009. This excludes market value movements on equities. Excluding the effects of foreign exchange, our operating profit before tax grew 13%.

The increase in operating profit before tax was mainly driven by Hong Kong, Thailand, Singapore and Korea.

Operating profit before tax in Hong Kong grew by 13% to US\$791 million in 2010 from US\$698 million in 2009. Operating profit before tax in 2010 was positively impacted by US\$18 million of changes in actuarial assumptions and methodology as well as increased renewal premiums and investment income. Operating profit before tax in 2009 was boosted by US\$12 million from excess policy surrender profits of US\$28 million, partly offset by a US\$16 million loss from a securities lending program which we subsequently ceased.

Operating profit before tax in Thailand grew by 26% to US\$450 million in 2010 from US\$358 million in 2009, or by 17% excluding the effects of foreign exchange, primarily as a result of strong business growth and investment income.

Operating profit before tax in Singapore grew by 25% to US\$394 million in 2010 from US\$316 million in 2009, or by 17% excluding the effects of foreign exchange, reflecting business growth and the positive impact of US\$29 million due to changes in actuarial estimates.

Operating profit before tax in Korea increased significantly by 86% to US\$151 million in 2010 from US\$81 million in 2009, or by 61% excluding the effects of foreign exchange. Operating profit before tax in 2009 reflected a charge of US\$90 million as we strengthened persistency assumptions for universal life and investment-linked products.

The operating loss before tax attributable to Corporate and Other increased to US\$122 million in 2010 from US\$88 million in 2009, primarily as a result of increased personnel costs as we readied the Group for listing and introduced performance related remuneration and new long term incentive plans.

Operating profit after tax

US\$m	2010	2009	%
By reportable segment:			
Hong Kong	744	655	14%
Thailand	312	247	26%
Singapore	326	264	23%
Malaysia	117	106	10%
China	69	68	1%
Korea	141	65	117%
Other Markets	137	144	(5)%
Corporate and Other	(138)	(106)	30%
Total	1,708	1,443	18%

Operating profit after tax increased 18% to US\$1,708 million in 2010 from US\$1,443 million in 2009 largely attributable to the growth in operating profit as discussed above, while our effective tax rate applicable to operating profit remained stable at 19% in both 2010 and 2009.

Net profit attributable to shareholders of AIA Group

US\$m	2010	2009	%
By reportable segment:			
Hong Kong	939	621	51%
Thailand	964	646	49%
Singapore	404	328	23%
Malaysia	143	121	18%
China	61	90	(32)%
Korea	163	–	n/m
Other Markets	168	94	79%
Corporate and Other	(141)	(146)	(3)%
Total	2,701	1,754	54%

Net profit attributable to shareholders of AIA Group increased by 54% to US\$2,701 million in 2010 from US\$1,754 million in 2009, reflecting the growth in operating profit described above, the increase in the non-operating investment return of US\$1,417 million in 2010 from US\$665 million in 2009 and the decrease in other non-operating items of US\$63 million, primarily as a result of lower separation and restructuring costs.

Our non-operating investment return net of income taxes reflected strong equity market performances in Asia, particularly in Thailand, and the disposal of our legacy holdings of shares in AIG, on which we realised a gain of US\$73 million. In 2009 our non-operating investment return was adversely impacted as we withdrew from a securities lending program.

Net return on equity increased by 1 pp to 15.7% in 2010 reflecting all of the above and a reduction in our effective tax rate applicable to profit before tax attributable to shareholders of AIA Group Limited to 21% in 2010 from 23% in 2009.

The following table shows the change in net profits attributable to shareholders of AIA Group from 2009 to 2010:

	US\$m
2009 Net profit ⁽¹⁾	1,754
Change in operating profit after tax ⁽²⁾	261
Change in non-operating investment return ⁽³⁾	623
Change in other non-operating items ⁽³⁾	63
2010 Net profit⁽¹⁾	2,701

Note:

- (1) Net profit attributable to shareholders of AIA Group Limited
- (2) Operating profit after tax attributable to shareholders of AIA Group Limited
- (3) These are stated after tax and attributable to shareholders of AIA Group Limited

Earnings Per Share (EPS)

EPS increased to US\$0.22 per share in 2010, on a basic and diluted basis, from US\$0.15 per share in 2009. The increase in EPS was the result of the increase in net profit attributable to shareholders of AIA Group as previously described. During 2010, 44 million shares were issued.

Value Creation

ANP

US\$m	2010	2009	%
By reportable segment:			
Hong Kong	449	387	16%
Thailand	420	372	13%
Singapore	210	162	30%
Malaysia	117	108	8%
China	206	188	10%
Korea	282	340	(17)%
Other Markets	341	321	6%
Total	2,025	1,878	8%

ANP increased 8% to US\$2,025 million in 2010 from US\$1,878 million in 2009. ANP experienced strong growth in the fourth quarter of 2010 following the listing of the Group on the Hong Kong Stock Exchange, growing 15% to US\$635 million from US\$553 million in the fourth quarter of 2009.

In Singapore, Hong Kong and Thailand, we grew ANP by 30%, 16% and 13%, respectively. In our Other Markets segment, ANP grew particularly strongly in Indonesia and the Philippines, increasing 81% and 57%, respectively. The growth in ANP was partially offset by a 26% decline in Australia following the exceptional growth in new customers of our group insurance business in 2009, and by a 17% decline in Korea as we repositioned the operation to focus on higher margin businesses.

VONB and VONB margin

US\$m	2010		2009		% VONB growth
	VONB	VONB margin	VONB	VONB margin	
By reportable segment:					
Hong Kong	210	45.1%	206	49.5%	2%
Thailand	174	41.4%	120	32.4%	44%
Singapore	104	49.4%	96	59.6%	8%
Malaysia	39	33.3%	28	26.0%	39%
China	68	33.2%	48	25.5%	43%
Korea	64	22.8%	60	17.6%	7%
Other Markets	99	29.0%	77	23.9%	28%
Total before unallocated group office expenses (local statutory basis)	758		635		19%
Adjustment to reflect Hong Kong reserving and capital requirement	(49)		(50)		
After-tax value of unallocated group office expenses	(42)		(40)		
Total	667	32.6%	545	28.3%	22%

VONB increased by US\$122 million, or 22%, to US\$667 million in 2010 from US\$545 million in 2009, or 16% excluding the effects of foreign exchange. VONB margin improved to 32.6% in 2010 from 28.3% in 2009, reflecting our focus on higher quality new business in 2010. Pricing discipline was maintained throughout 2010 and the VONB margin in every quarter exceeded the equivalent quarter in 2009.

VONB growth was particularly strong in the fourth quarter of 2010. VONB grew 20% to US\$204 million in the fourth quarter of 2010 from US\$170 million in the fourth quarter of 2009. VONB growth exceeded the growth of ANP as the Group focused on delivering sales of higher margin products.

We experienced particularly significant VONB increases in Thailand, China and Malaysia, up 44%, 43% and 39%, respectively, reflecting our renewed focus on new business quality and our drive to optimise the mix of both products and distribution.

VONB margins increased significantly in most markets due to re-pricing and changes in the product mix. In Singapore and Hong Kong, VONB margin declined to 49.4% from 59.6% in 2009 and to 45.1% from 49.5% in 2009, respectively, due mainly to change in product mix. Higher business volumes more than offset the decline in VONB margin in those markets, leading to an overall increase in VONB.

VONB margin in each of our product lines:

	2010	2009
Standalone A&H	50.4%	41.9%
Group insurance	35.3%	32.9%
Traditional individual life	30.6%	20.8%
Investment-Linked	14.7%	9.7%

These figures are for main policies only, and exclude the positive margin impact of attaching higher-margin protection riders to main policies.

EV (2010, unless indicated)

US\$m	ANW	VIF before CoC	CoC	VIF after COc	EV-2010	EV-2009
Hong Kong	4,604	5,655	282	5,373	9,977	9,083
Thailand	3,915	1,863	221	1,642	5,557	4,403
Singapore	1,420	2,175	428	1,747	3,167	2,935
Malaysia	593	596	121	475	1,068	871
China	332	1,212	89	1,123	1,455	1,176
Korea	954	861	185	676	1,630	1,422
Other Markets	1,890	784	191	592	2,482	2,081
Corporate and Other	2,490	(39)	–	(39)	2,451	1,042
Sub-total	16,198	13,107	1,517	11,589	27,787	23,013
Adjustment to reflect Hong Kong reserving and capital requirements	(6,674)	4,444	269	4,175	(2,499)	(1,502)
After-tax value of unallocated group office expenses	–	(540)	–	(540)	(540)	(545)
Group Embedded Value	9,524	17,011	1,786	15,224	24,748	20,965

The Group's EV, including adjustments to reflect Hong Kong reserving and capital requirements and the after-tax value of unallocated group office expenses, increased 18% to US\$24,748 million as of 30 November 2010 compared with US\$20,965 million as of 30 November 2009, or 14% excluding the effects of foreign exchange. This growth was driven by the expected return on EV, VONB growth and improved investment experience.

Our EV operating profit for 2010 was US\$2,412 million, of which US\$1,846 million reflected the expected return on EV, and US\$667 million the VONB generated during the year, offset by US\$105 million of negative operating experience variances and an increase of US\$3 million due to operating assumption changes. The operating return on EV was 11.5%.

Our total growth in EV was boosted by positive investment return variances of US\$1,073 million, reflecting strong capital market performance during the year, particularly in the fourth quarter, and US\$780 million effects of foreign exchange effects, reflecting the appreciation of many of the Asian currencies in which we operate against the US dollar. These more than offset the effects of negative economic assumption changes of US\$333 million, consisting of the effect of changes in long term investment returns of negative US\$615 million offset by the effect of changes in risk discount rate of US\$282 million.

The Group's value of in force (VIF) after the cost of holding the required capital increased 15% to US\$15.2 billion as of 30 November 2010 compared with US\$13.2 billion as of 30 November 2009. Based on current assumptions we expect 56% of the undiscounted projected after-tax distributable earnings from business in-force at 30 November 2010 to emerge within 20 years, with US\$10.2 billion expected to emerge within the next five years. This provides us with a robust pipeline of working capital from which to fund future growth. We continue to focus on achieving VIF realisation through asset-liability management, management of persistency and aggressive expense control.

Capital

Free surplus generation

The Group's free surplus at the end of 2010 represents the excess of adjusted net worth over the required capital, with 150% HKICO required minimum solvency margin for branches of AIA Co and AIA-B, as assumed in the EV. Our free surplus was US\$4,992 million as of 30 November 2010 compared with US\$4,011 million as of 30 November 2009, reflecting higher free surplus of US\$2,107 million generated during the year, US\$958 million of investment in new business growth and US\$168 million of unallocated group office expenses.

US\$m

Year on year free surplus movement

Free surplus at 1 December 2009	4,011
Free surplus generated during the year	2,107
Free surplus used to fund new business	(958)
Unallocated Group Office expenses	(168)
Free surplus at 30 November 2010	4,992

Net funds to Group

Our group office received dividends and capital remittances from our operations of US\$1,495 million in 2010, including repayment of intra-group subordinated loans from Australia and Indonesia, compared with net fund outflow of US\$6 million in 2009. The flow of cash and capital around the Group was largely released from regulatory constraints following our listing on the Hong Kong Stock Exchange, as our regulators lifted regulatory orders put in place at the time of the AIG events.

Our working capital comprises debt and equity securities and cash and cash equivalents held at group office. These liquid assets are available to invest in building the Group's business operations, and are what enable us to invest to grow and enhance our business. Working capital was US\$2,153 million as of 30 November 2010 compared with US\$885 million as of 30 November 2009. Four of our largest and most mature operations remitted working capital of over US\$1.4 billion during the year.

US\$m	2010	2009
Debt securities	1,374	77
Equity securities	151	17
Cash and cash equivalents	628	791
Total	2,153	885

A summary of the movements in working capital position is as follows:

US\$m	2010
Working capital at beginning of year	885
Corporate and Other segment net loss	(140)
Capital flows from business units:	
Hong Kong	585
Thailand	346
Singapore	400
Malaysia	90
China	(25)
Other Markets	99
	<hr/>
Net funds remitted to Group	1,495
Repayment of borrowings from AIG	(50)
Other changes in working capital	(37)
	<hr/>
Working capital at end of year	<u>2,153</u>

Total Shareholder Equity

Our total shareholder equity, based on our 2010 financial statements, increased during the year by US\$4.7 billion to US\$19.6 billion as of 30 November 2010. We deploy minimal financing leverage across the Group. Whilst our successful listing on the Hong Kong Stock Exchange in October 2010 provides us with a solid platform on which to access capital markets should we ever consider this necessary, given the strength of our financial position we have no such plans at the present time.

Regulatory Capital

During 2010, the Group's total available regulatory capital increased 29% to US\$6.2 billion on a HKICO basis. This places AIA Co in a strong capital position with our solvency ratio strengthening by 26 pp to 337% of the minimum regulatory capital requirement.

AIA Co

(US\$m)		
As at 30 November	2010	2009
Total Available Regulatory Capital	6,208	4,811
Regulatory Minimum Required Capital	1,844	1,547
Solvency Ratio	337%	311%

AIA-B

(US\$m)

As at 30 November	2010	2009
Total Available Regulatory Capital	3,341	2,742
Regulatory Minimum Required Capital	1,040	911
Solvency Ratio	321%	301%

The Group's principal operating company is AIA Co, a Hong Kong domiciled insurer. The Group's primary insurance regulator, and the regulator of AIA Co and AIA-B, a subsidiary of AIA Co, is the HKOCI, which requires that AIA Co and AIA-B meet the solvency margin requirements of the HKICO. The Group has given an undertaking to the HKOCI that requires AIA Co and AIA-B to maintain a solvency ratio of not less than 150%.

The Group's individual branches and subsidiaries are also subject to supervision. This means that branches and subsidiaries of AIA Co and AIA-B operating in other jurisdictions must meet the regulatory capital requirements of their local prudential regulators as well as those of the HKOCI. The various regulators overseeing the Group's branches and subsidiaries actively monitor our capital position. AIA Co and AIA-B submit annual filings to the HKOCI of their capital position based on their annual audited accounts, and the Group's other operating units submit similar annual filings to their respective local regulators. Our local operating units were in compliance with the capital requirements of their respective local regulators in each of our geographical markets as of 30 November 2010.

Credit Ratings

One of the Group's capital management objectives is to support its credit rating. Credit ratings assigned by rating agencies are key indicators of financial strength and are an important factor affecting public confidence in our business and products. Rating agencies apply their own proprietary models to evaluate our capital adequacy and these form an integral part of the rating process together with other qualitative factors.

At 30 November 2010, AIA Co had published financial strength ratings of AA- (Strong) from Standard & Poor's and AIA-B had a published financial strength rating of Aa3 (Excellent) from Moody's.

Capital Management

The Group's capital management objectives focus on maintaining a strong capital base to support ongoing business growth, satisfy regulatory capital requirements at all times, and support our credit rating. We recognise the impact on shareholder returns of the level of equity capital employed and seek to maintain an appropriate balance between strength and efficiency. In managing this balance we seek to ensure we have sufficient capital to withstand the normal range of economic cycles and still meet our regulatory capital requirements and other obligations, including those of shareholders.

The Group's capital is managed within a capital management framework that governs all our capital related activities and assists senior management in making capital decisions. It encompasses our capital and solvency management, including maintaining regular dialogue and relationships with our shareholders, regulators and ratings agencies. It also includes decisions concerning asset-liability management exposures, asset-liability proposals and strategic investment asset allocation. We have also incorporated capital management into our budgeting process to ensure capital and dividend policies and programmes are effectively monitored and implemented.

Within the Group's Enterprise Risk Management (ERM) framework, responsibility for capital management resides largely in the Asset Liability Management (ALM) Committee. For detailed information of our risk management framework and the roles of the various committees, the Risk Management section of this document.

Dividends

Our dividend policy is to maintain a prudent and sustainable dividend that enhances shareholder returns whilst meeting a number of requirements that will be taken into account by the Board in setting dividends, including:

- Hong Kong and local regulatory capital requirements
- Results of operations, cash flows and distributable profit
- Business conditions and future business prospects

As indicated in the IPO Prospectus, the Board will not recommend the payment of a dividend for 2010. If conditions remain as at present the Board will consider establishing a semi-annual dividend commencing for the interim period ending 31 May 2011.

Balance Sheet

Consolidated Statement of Financial Position

Year ended 30 November

US\$m	2010	2009
Assets		
Financial investments, excluding receivables	88,798	72,464
Deferred acquisition and origination costs	12,006	10,976
Cash and cash equivalents	2,595	3,405
Assets – other than the above	4,466	3,814
Total assets	107,865	90,659
Liabilities		
Insurance and investment contract liabilities	82,296	71,035
Borrowings	597	688
Obligations under repurchase agreements	1,091	284
Liabilities – other than the above	4,246	3,693
Total liabilities	88,230	75,700
Equity		
Issued share capital and shares yet to be issued, share premium and other reserves	1,841	1,848
Retained earnings	13,924	11,223
Amounts reflected in other comprehensive income	3,790	1,837
Total equity attributable to shareholders of AIA Group Limited	19,555	14,908
Non-controlling interests	80	51
Total equity	19,635	14,959
Total liabilities and equity	107,865	90,659

Invested Assets

Our total assets grew 19% to US\$107,865 million as of 30 November 2010 from US\$90,659 million as of 30 November 2009, primarily reflecting growth in financial investments, excluding receivables, the majority of which are carried at fair value, and favourable currency movements.

Total invested assets comprise assets held in respect of investment-linked contracts and assets held in respect of policyholders and shareholders. The carrying value of our total invested assets, including financial investments (excluding receivables) and cash and cash equivalents, increased to US\$91,393 million as of 30 November 2010 compared with US\$75,869 million as of 30 November 2009. Invested assets held in respect of investment-linked contracts increased to US\$15,946 million as of 30 November 2010 compared with US\$13,678 million as of 30 November 2009.

Financial investments in debt and equities, excluding receivables, held in respect of policyholder and shareholders increased to US\$72,572 million as of 30 November 2010 compared with US\$59,097 million as of 30 November 2009. The following table describes the changes in these assets during 2010:

Financial investments in debt and equities (excluding receivables and derivatives), held in respect of policyholders and shareholders

At start of year	59,097
Foreign exchange	2,445
Market movements	3,091
Net flows and other	7,939
At end of the year	72,572

Financial investments (excluding receivables and derivatives), held in respect of investment-linked products

At start of year	12,914
Foreign exchange	277
Market movements	1,310
Net flows and other	950
At end of the year	15,451

Fixed income investments, including debt securities, loans, and term deposits, held in respect of policyholders and shareholders totalled US\$63,780 million as of 30 November 2010 compared with US\$53,999 million as of 30 November 2009. Consistent with prior periods, government bonds and bonds issued by government agencies comprised a substantial proportion of our fixed income portfolio for policyholders and shareholders, representing 50% of our debt securities as of 30 November 2010 compared with 49% as of 30 November 2009. Investment-grade corporate bonds and investment-grade structured securities accounted for 46% of debt securities as of 30 November 2010, compared with 47% as of 30 November 2009.

Equity securities held in respect of policyholders and shareholders totalled US\$8,792 million as of 30 November 2010, compared with US\$5,098 million as of 30 November 2009. The increase in carrying value was attributable to our strategy of increasing public equities exposure under the Strategic Assets Allocation framework through a disciplined investment process as well as an increase in market value of equity securities.

Cash and cash equivalents held in respect of policyholders and shareholders totalled US\$2,100 million as of 30 November 2010 compared to US\$2,641 million as of 30 November 2009, as the Group increased its asset weighting towards equities.

Deferred acquisition and origination costs increased to US\$12,006 million as of 30 November 2010, compared with US\$10,976 million as of 30 November 2009. The increase resulted primarily from favourable foreign currency movements of US\$457 million and the deferral and amortisation of acquisition costs of US\$635 million.

Assets other than financial investments, excluding receivables, deferred acquisition and origination costs, and cash and cash equivalents increased to US\$4,466 million as of 30 November 2010 from US\$3,814 million as of 30 November 2009, mainly reflecting an increase in reinsurance assets.

Total Liabilities

Total liabilities increased 17% to US\$88,230 million as of 30 November 2010 compared to US\$75,700 million as of 30 November 2009, mainly due to higher insurance and investment contract liabilities and an increase in obligations under repurchase agreements.

Insurance and investment contract liabilities increased to US\$82,296 million as of 30 November 2010 compared to US\$71,035 million as of 30 November 2009, reflecting the growth of the in-force portfolio and foreign currency impacts.

Our borrowings, which comprise mainly bank overdrafts and a term loan facility financing AIA Central, our group headquarters building in Hong Kong, decreased to US\$597 million as of 30 November 2010 compared with US\$688 million as of 30 November 2009. Other than these borrowings, we had no senior or subordinated debt, hybrid capital, loan notes or commercial paper outstanding as of 30 November 2010.

Obligations under repurchase agreements increased to US\$1,091 million as of 30 November 2010 from US\$284 million as of 30 November 2009, as we increased our participation in repurchase activities during 2010.

Liabilities other than insurance and investment contract liabilities, borrowings and obligations under repurchase agreements increased to US\$4,246 million as of 30 November 2010 from US\$3,693 million as of 30 November 2009, mainly reflecting an increase in deferred tax liabilities which resulted primarily from the increase in fair value of our financial investments.

Total equity attributable to shareholders of AIA Group Limited

Total equity attributable to shareholders of AIA Group increased 31% to US\$19,555 million as of 30 November 2010 compared to US\$14,908 million as of 30 November 2009. This increase was made up primarily of net profits of approximately US\$2.7 billion, increases in the fair value reserves of approximately US\$1.4 billion, and increases in foreign exchange reserves of US\$0.6 billion.

Business Review

2010 was a year in which the AIA Group showed remarkable resilience and deployed its deep expertise, regional scale, advantaged distribution and product marketing strengths to achieve a strong operational performance for the year.

Distribution

Agency

The AIA Group's tied agency channel is the cornerstone of our distribution platform and product offering. Despite uncertainty over the IPO plan that lasted until our listing in October 2010, our agency force stayed resolutely focused on serving the needs of our customers during the year and delivered strong results.

The agency channel remained our most significant distribution channel in terms of both ANP and VONB. During 2010, agency accounted for 73% and 77% of the Group's ANP and VONB respectively.

As a Group our key distribution priority has been to improve agent productivity and grow our agency force. In 2010 the Group's ANP per agent was more than US\$5,400 per year, representing a 4% increase over 2009, across the 12 geographical markets where we use agency distribution. Our 12-month new agent retention rate increased to approximately 62% in 2010 from 58% in 2009. There has been a tightening of agent's licensing requirements in certain emerging markets, especially India and Indonesia, in line with global trends. With the enforcement of more stringent requirements in the latter half of 2010, we actively terminated those inactive agents who did not satisfy the licensing requirements. This resulted in a reduction of about 58,000 agents in our Indian joint venture and 5,000 agents in Indonesia. Our Korea operations also terminated around 1,000 less productive agents who could not earn a sustainable income with the AIA Group. As of 30 November 2010 the Group had more than 260,000 tied agents across Asia Pacific, compared with approximately 320,000 one year earlier, while agency ANP and VONB increased 13% and 21% respectively over prior year.

The AIA Group is strongly committed to developing our agents into Million Dollar Round Table (MDRT) members by offering differentiated support, dedicated services and privileges to MDRT members to enhance customer service excellence. MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards. The AIA Group was among the top five life insurance companies globally in terms of number of MDRT registered members in 2010. Amongst the 12 markets where we have agency channels, the AIA Group has the most MDRT members in the industry in Hong Kong, Macau, Thailand and Brunei. As of 31 December 2010, more than 2,000 of our agents had achieved the MDRT requirements, representing an increase of 25% over the previous year.

During 2010, as part of our compliant and customer-friendly culture, the Group continued to foster needs-based selling that anticipates and is responsive to customer requirements while also exploring new agency models to expand our agency force and capture market opportunities.

Bancassurance

Bancassurance is a key part of our distribution channel diversification strategy, complementary to our agency presence and incremental to our new business production. We have established dedicated group-level and country-level teams to focus on bank relationships and expansion of this channel. During 2010 we strengthened group-level capabilities through strategic hires to create a regional centre of excellence, and we enhanced channel management at country level to support local product and customer service demand.

The Group's infrastructure, scale and long record in the region enable us to offer our bancassurance partners and their customers a comprehensive range of services and support.

During 2010, our bancassurance channel generated 58% year-on-year growth in ANP, and 94% increase in VONB. We entered into 13 new bancassurance relationships during the year.

Direct Marketing

Direct marketing was another distribution channel that the AIA Group continued to enhance selectively in 2010. We strengthened our position in those markets that we believe are particularly well suited to the channel and introduced several direct marketing sub-channels to reach new customers. These included broad media advertising, database marketing, outbound calling of affinity customers, and direct marketing agencies, which provide external call centres to distribute our products.

In 2010, direct marketing generated 15% less ANP for the Group than in 2009 due to more stringent regulations of direct marketing in some countries, especially in Korea, and also to our focus on improving the profitability of our direct marketing operations. As a result the total VONB of our direct marketing operations increased 41% year-on-year on the lower ANP base, a most satisfactory and capital efficient development.

Marketing

Focusing on customer requirements

A key element of our product development strategy is to provide relevant solutions to meet our clients' evolving insurance, protection and savings needs at each stage of their lives. We therefore vary our product offerings by geographical market in response to varying stages of economic development and specific market trends.

Enhancing protection for customers

Asian countries follow the global trend away from state provision of welfare to personal responsibility for healthcare. We have seen increasing customer needs for protection insurance products across Asia. With an extensive claims database, continuous experience tracking, proactive remedial actions and economies of scale in operations, the AIA Group is in a strong position to meet these customer needs.

We offer customers accident and health (A&H) insurance products that provide morbidity or sickness benefits and include health, disability, critical illness and accident cover. A&H insurance products are sold both as standalone policies and as riders which are supplemental plans that can be attached to a basic insurance policy.

During 2010 the AIA Group launched a number of innovative A&H products. In Singapore, for example, we were a leader in offering a complete critical cover A&H insurance product that allowed customers to make severity-based multiple claims over the life of their policy with total payouts of up to 200% of the insured amount. The launch of our comprehensive protection product, All-in-One, in China also met with great success. This whole life product provides coverage for embedded critical illness, terminal illness and long-term care benefits.

During the year we introduced various initiatives across Asian markets to improve agency sales of protection products and riders during 2010. In Thailand, we promoted a rider packaged plan and appointed A&H Ambassadors to promote A&H products. In Singapore we organised roadshows for the general public as well as training enhancement courses to build a concept of "total insurance" for our agency force.

The VONB margin of our standalone A&H products increased to 50.4% in 2010 from 41.9%. Approximately 71% of regular premium traditional life insurance products, investment-linked and universal life insurance products distributed by our tied agency force were sold with one or more riders. These figures exclude the Philippines and new riders sold on in-force policies for legacy reasons, and also exclude our joint venture in India.

Deepening the customer relationship

As a result of its long presence in Asian markets, the AIA Group has built a large customer base that includes the holders of more than 23 million in-force policies. This large and varied data set offers the prospect of deepening relationships to diagnose and meet evolving customer needs. Our experience and expertise in customer value management enables us to capitalise on this opportunity by offering our customers a broad range of complementary insurance and financial products and services, such as wealth and asset management and pension products, under our own brands.

During 2010, the AIA Group introduced various initiatives to strengthen and extend customer relationships. In Singapore we used our substantial health policyholder base to implement a successful health plan, upgrading thousands of policyholders and supplying various other health related plans to meet customers' needs. In Hong Kong we launched a well-received campaign to convert term life and term critical illness policyholders to a limited pay whole life and critical illness plan. In Malaysia, we launched a successful campaign targeting healthy whole life customers to offer them guaranteed issued life policies.

Enhancing customer experience

The AIA Group strives to meet customers' different needs at each stage of their lives. During 2010 we rolled out successful programmes to improve customer experience by offering products that are tailored to the needs of specific customer segments.

In June 2010 the Group introduced a membership club called Yeoyu 50+ in Korea targeted at over 50s who are retired or will be retiring shortly. In partnership with businesses, the Group offers medical check-up services, discounted travel packages and newsletters to club members, making their retirement years more enjoyable. We have some 250,000 registered members as of 30 November 2010.

In Hong Kong we rolled out a pilot programme in which we made use of customer value management tools and analysed customers' geo-demographic data to segment our customers into a number of groups which have different insurance needs and varied product preferences. By organising related activities such as a seminar on developing gifted children, the programme enhanced customer experience and increased customer contact.

Group Insurance

The AIA Group served over 100,000 corporate clients with more than 10 million participating members as of 30 November 2010. The Group's group insurance products, including group life and medical, group pension and credit life insurance, are distributed in all 15 of our geographical markets, generally by leveraging our multi-channel distribution network. In 2010 we continued to be the market leader in this field in Australia and Thailand and we were among the market leaders in Hong Kong, Singapore and Malaysia.

Despite the uncertainties of the first half of 2010, our group life and medical business remained successfully on track, with the result that total premiums rose 25% over 2009.

Corporate Pensions

The AIA Group mainly offers its corporate pension products in Hong Kong. As of 30 November 2010, the combined assets under management of our pension management business were approximately US\$7.4 billion, an increase of 14% over 2009.

During the year we added a new fund manager to our existing multi-fund manager platform in Hong Kong to offer more fund choices to our participating members. In order to keep our sales force abreast of developments in the Mandatory Provident Fund (MPF) market, we also re-launched the AIA MPF Academy* in January 2010 to offer a series of professional training courses.

Credit Life

In 2010, the AIA Group partnered with automobile companies and banks in Thailand, Malaysia, Indonesia and India to offer credit life insurance. These are insurance products designed to pay off a borrower's debts in the event of death or disability.

** Note:*

AIA MPF Academy is not a school registered with the Permanent Secretary for Education under the Education Ordinance nor an institution of higher education having authority to award recognised qualifications and degrees under the Post Secondary Colleges Ordinance in Hong Kong.

Investment

The AIA Group's investment management function is an integral component of our business, meeting our objectives for asset-liability and financial management while supporting product development and distribution. We have a group investment management function in Hong Kong that works closely with in-market investment teams of seasoned professionals, leveraging their extensive local knowledge. This enables us to establish best practice, achieve consistency and maximise efficiency. Our investment function participates closely in designing products that meet the evolving protection and investment needs of our customers.

We manage our financial investments in two distinct categories: Policyholder and Shareholder Investments and Investment-linked Investments. Policyholder and Shareholder Investments include all investments other than those held to back investment-linked contracts. As the name suggests, Investment-linked Investments are financial investments that are held to back investment-linked contracts. The investment risk in respect of Investment-linked Investments is generally borne wholly by customers, and so does not directly affect the Group's profit before tax.

Policyholder and Shareholder Investments

For our Policyholder and Shareholder Investments, the primary investment principle is to achieve the optimum risk-adjusted return for policyholders and shareholders and enhance VONB and EV over the long term. At the same time, we preserve capital to write insurance risks, to maintain adequate solvency and liquidity levels, to adhere to our risk management and ALM objectives, and to ensure full compliance with applicable regulations and internal policies.

In 2010 our investment income increased by 14% to approximately US\$3.5 billion, attributable to a sizeable portfolio of debt securities and a rise in dividend income from equity portfolios. Our investment experience, consisting of realised and unrealised investment gains and losses, grew by 23% to approximately US\$2.0 billion in 2010. This result partly reflected our allocation to the equity asset class and the strong performance of our equity investment portfolios.

<i>Investment Return (US\$m)</i>	2010	2009
Interest income	3,201	2,870
Dividend income	220	122
Rental income	62	67
Total investment income	3,483	3,059
Investment experience	1,971	1,602
Total investment return	5,454	4,661

Our investment objective is to generate consistent investment returns, mainly through investing in long dated fixed income instruments complemented by an allocation to other risk assets, predominantly public equities. We strive to achieve these objectives through strategic asset allocation (SAA) and tactical asset allocation (TAA). SAA targets are designed to meet long-term liability requirements while TAA ranges above and below SAA targets are designed to protect value and capture benefit from market opportunities over the short term. The SAA targets and TAA ranges are reviewed annually to reflect changes in our insurance liabilities. This framework enables investment managers effectively to execute their strategies that align with the SAA targets and within TAA ranges. Our prudent approach combined with effective execution has delivered an impressive track record over various cycles, including periods of financial crisis. As of 30 November 2010, debt, including deposits, loans and debt securities, continued to account for the major portion of our invested assets for Policyholder and Shareholder Investments at 85%.

<i>Invested Assets</i> (US\$m)	2010	2009
Debt ⁽¹⁾	63,780	53,999
Equity ⁽²⁾	8,792	5,098
Cash	2,100	2,641
Investment properties	309	244
	<hr/>	<hr/>
Total invested assets	74,981	61,982
	<hr/> <hr/>	<hr/> <hr/>

Note:

- (1) Debt includes term deposits, loans and debt securities.
- (2) Equity includes private and public equities and mutual funds.

During 2010, we pursued two key investment strategies. Firstly, we continued to focus on long-dated Asian local currency debt securities issued by governments and the private sector to match our insurance liabilities. Secondly, we increased our public equity investments under the aforementioned SAA and TAA framework through a disciplined investment process and an emphasis on sector and stock selection.

We continued to use external fund managers to enhance potential returns, achieve a desirable risk profile, and complement our investment styles through an established outsourcing model. This enables us to select best of breed managers and products to meet the needs of both the Policyholder and Shareholder Investments and Investment-linked Investments of our customers.

Our large allocation to debt securities is driven primarily by asset-liability matching and capital efficiency considerations. These assets generally have longer maturities which enable us to better match our liability profiles in a more capital efficient manner relative to other investments such as equity securities. As of 30 November 2010, our fixed income portfolio, including cash and cash equivalents and term deposits, was US\$65.9 billion, mainly comprising government and government agency bonds and corporate bonds. Our corporate bond investments are primarily investment grade rated and are diversified across markets, industries and issuers.

Our investments in equity securities are diversified across different geographical markets and industries. A significant proportion of the portfolio is held to match products with participating features where investment returns are shared between the shareholders and policyholders. The asset allocation strategies used to match these products are generally consistent with the nature of the products, and our allocation to equity securities is guided by the SAA while we also apply TAA to capture market opportunities and/or downside risks. To complement the SAA and TAA framework we emphasise sector and securities selection to generate excess return over benchmark, achieve diversification and manage volatility.

Real estate investment is a component of the risk assets in our SAA. Our real estate portfolio consists of corporate properties for the Group's own use and investment properties held to earn rental income or for capital appreciation or both. We have a dedicated real estate team to source and underwrite real estate investment opportunities, review the performance of our real estate assets and proactively manage the portfolios to achieve the expected productivity of own-use properties, and targeted return of investment properties. Our investment properties (including land) had a fair value of US\$2.0 billion as of 30 November 2010.

Investment-linked Investments

Holders of investment-linked contracts generally select their own investments from the investment options we offer. To ensure the quality of third-party funds underlying our investment-linked products, we have in place a set of quantitative and qualitative criteria that enable us to select and monitor the underlying investment funds on an ongoing basis. We put underperforming funds on a closely-monitored watch list and replace those that do not demonstrate clear signs of improvement. As of 30 November 2010, invested assets of our Investment-linked Investments amounted to US\$15.9 billion, with cash, equity and debt accounting for 3%, 83% and 14% of the total amount respectively.

Operational Management

Despite the AIA Group's overall expense ratio being among the lowest of any life insurer in Asia Pacific, we continue to drive efficiency by leveraging our regional scale. In 2010 our expense ratio was 8.8%, in line with years prior to 2009.

Capturing opportunities for greater operating efficiencies

The AIA Group focuses on enhancing profitability by carefully managing operating expenses and continuing to enhance the efficiency of our operations to benefit our customers. In order to drive operational excellence, the Group does not simply cut costs but seeks to find the right combination of people, process and technology to enhance the productivity and value of our business operations. This improves the quality of our service and drives down the cost of routine operations.

In 2010 we launched a number of strategic initiatives to reduce expenses further across the region and to exploit our significant scale advantage. Such benefits include further development of our shared services centres, system and process improvements, outsourcing of non-core operations, and the use of new technology to drive automation and increase our competitiveness in the market.

Our businesses throughout the region are at varying stages of development. In fast growing markets such as China, Vietnam and Indonesia that are gaining in scale and efficiency, our focus is on managing expenses and leveraging the Group's leading practices. In our scale operations such as Hong Kong, Singapore and Thailand, our focus is on managing costs efficiently by leveraging our captive shared services centre in Malaysia and our information technology (IT) operations located in China.

Some of the most significant operating efficiency initiatives for 2010 were:

- The relocation of the headquarters of our Hong Kong operations to Kowloon East
- The off-shoring of application development, imaging and workflow for our Singapore operations to the Group's shared services centres
- The space rightsizing programme of our office in China
- Starting the migration of key administration processes in Australia to our shared services centre in Malaysia

The Group's low-cost shared services centres currently provide operational support for life and group insurance businesses, information technology, finance, legal, actuarial and administration support services to both the Group and the business units. During 2010 our shared services centre in Malaysia processed over 4.2 million transactions and handled more than 233,000 customer calls for our operations.

To streamline the group office operations, the AIA Group is reducing the scale and expenses of our group office and moving roles to the shared services centres or local operations. At the end of 2010, local operations assumed full accountability for delivery of strategic initiatives and this transfer will continue in 2011.

Leveraging information technology to enhance customer services

The AIA Group recognises the importance of IT to support the future growth ambitions of our businesses and improve the level of services to our existing and potential customers and to our partners across Asia. We continue to invest in upgrading our existing technology, infrastructure and systems, as well as in developing cost efficient new platforms and introducing new technologies.

The AIA Group has adopted an enterprise-wide IT approach by leveraging both in-country and shared services resources to maximise re-use and exploit our significant scale. Shared services centres in low cost countries represent significant cost saving opportunities across the Group.

During 2010 the Group expanded the deployment of straight through processing in Australia, Hong Kong and China to expedite new business underwriting and significantly improve control, consistency, turnaround time and customer and business partner satisfaction. We also made significant progress in the implementation of a uniform group-wide financial system through our financial transformation programme.

The Group also adopted a digital strategy, which aims to expand self-service functions to provide additional convenience to our customers, agents and business partners. In June 2010, we launched the AIA e-Advice Service to our customers in Hong Kong. Registered customers can view and download policy statements, instead of receiving hard copies.

Geographical Markets

The AIA Group has local operating units in 15 geographical markets, which give us a broad geographical footprint in the Asia Pacific region. We consider Hong Kong (including Macau), Thailand, Singapore (including Brunei), Malaysia, China and Korea to be our Key Geographical Markets. We refer to our local operating units in the Philippines, Australia, Indonesia, Vietnam, Taiwan and New Zealand as well as our 26% interest in our joint venture in India as our Other Markets.

The key strategies and initiatives of the Group apply broadly across the region but are customised according to the local market environment. With over 90 years of experience in Asia, we have a deep understanding of the culture, demographical dynamics and insurance needs of each country in which we operate. We tailor our strategies accordingly to each of our geographical markets.

Hong Kong

US\$m	2010	2009	Change
TWPI	3,012	2,861	5%
ANP	449	387	16%
VONB ⁽¹⁾	210	206	2%
VONB margin ⁽²⁾	45.1%	49.5%	(4) pp
Operating profit before tax	791	698	13%
Operating profit after tax	744	655	14%

Note:

(1) Based on local statutory basis, VONB by market includes corporate pension business.

(2) VONB margin excludes corporate pension business.

Hong Kong is the location of our group office and our largest market in terms of life premiums. The uncertainty surrounding the earlier stages of our IPO had a greater impact on our business efforts in Hong Kong than in other markets. We believe that after our listing in October 2010 both customers and distribution channels, including agency and non-agency channels, have fully regained their confidence in our business, reflected in double-digit growth in ANP and operating profit after tax.

As customers responded to a more positive economic outlook in Asia markets and the regaining of confidence in the AIA Group after the listing in the second half of 2010, the Group saw ANP increase 16% to US\$449 million in 2010, largely driven by higher sales of investment-linked and A&H products. The improvement in operating profit after tax was primarily driven by higher investment income and a decline in investment management expenses and finance costs as we wound down securities lending in 2009. In 2010, our operations in Hong Kong remitted approximately US\$585 million of net funds to the Group.

We focused on the following key strategies in Hong Kong during 2010:

- Enhance agency productivity
- Expand and build alternative distribution channels
- Further develop a customer-centric sales approach

The agency channel remains the major distribution platform for the Group in Hong Kong. Despite the uncertainty prior to listing, the total agency number remained relatively stable at approximately 8,500. Among new initiatives to drive agency productivity in 2010, we launched the iAgency Management Platform to help our agency force to manage customer data more effectively. We also introduced a pilot programme to enhance agency sales through the use of customer value management tools and customer engagement activities.

The AIA Group has consistently had the most MDRT members of any insurer in Hong Kong. In 2010, we continued to focus on developing MDRT members and promoting MDRT membership in the agency. At the end of the year, approximately 790 of our agents in Hong Kong had achieved MDRT requirements. This achievement constitutes a strong foundation to reposition the Group as the premier agency in the market.

Bancassurance is a key part of our strategy of developing alternative distribution channels. In March 2010 we formed a strategic alliance with China Construction Bank (Asia) Corporation Limited to offer its customers a selection of AIA Group's insurance products and services through the bank's current extensive network of 40 branches in Hong Kong and 9 branches in Macau. We will continue to drive collaboration with other banking partners.

The AIA Group has adopted a customer-centric approach to serve the insurance needs of the market, increasing customer satisfaction and loyalty, and sales effectiveness. In 2010, we launched a successful new product, CEO Medical, which provides lifelong worldwide medical coverage for the affluent market segment, and the Forever Love Coupon Plans, offering wealth accumulation benefits for customers to their loved ones and themselves.

Other initiatives in 2010 included enhancing our premium advisory capability for high-net-worth individuals by providing a broad range of financial and wealth planning solutions. During 2010, we set up two Wealth Select Centres to provide one-stop insurance and wealth management solutions to high-net-worth customers.

The Group focuses on its customers. Our commitment to customer service excellence and innovation in insurance products earned us many renowned awards. Amongst the numerous praises and recognition from customers in 2010, we won five Customer Services Excellence Awards from the Hong Kong Customer Association for Customer Service Excellence, and the the Brand of the Year Award at the Wealth Management Awards 2010 organised by *Benchmark*.

Operationally, it was a significant year for our operations in Hong Kong. We relocated the operational headquarters to Kowloon East, which will result in cost savings, and migrated the majority of our back office operations to the Group's shared services centre in Malaysia to achieve further operational efficiency.

Thailand

US\$m	2010	2009	Change
TWPI	2,742	2,373	16%
ANP	420	372	13%
VONB ⁽¹⁾	174	120	44%
VONB margin ⁽²⁾	41.4%	32.4%	9 pp
Operating profit before tax	450	358	26%
Operating profit after tax	312	247	26%

Note:

- (1) Based on local statutory basis, VONB by market includes corporate pension business.
- (2) VONB margin excludes corporate pension business.

The AIA Group has a strong foothold in Thailand built on our long history in the market and our extensive nationwide agency force. Despite the political unrest in May 2010, our team in Thailand remained focused on our business and successfully minimised the impact on our operations. Consequently, we saw strong growth in both VONB and operating profits.

VONB increased by 44% to US\$174 million in 2010, driven by our efforts in re-pricing certain existing life products, the attachment of riders that are at a higher margin, and our renewed focus on launching higher margin products. Operating profit after tax increased 26% to US\$312 million in 2010, primarily attributable to strong business growth, higher investment income and lower operating expenses. During the year, a total of US\$346 million net funds were remitted from our operations in Thailand to the Group.

In June 2010 Fitch Ratings assigned our Thailand operations a National Insurer Financial Strength (IFS) rating of “AAA(tha)” with a Stable Outlook. The rating reflects the AIA Group’s strong business position in Thailand, prudent capitalisation as compared to local peers, strong agency force and financial performance.

We focused on the following key strategies in Thailand during 2010:

- Improve agency force productivity and extend our leadership position in provincial cities and the significant rural market
- Capitalise on our leadership in the health segment
- Increase profitability of new business in the life segment

The AIA Group has a significant leadership position in Thailand’s agency distribution channel. The total agency force was approximately 81,000 as of 30 November 2010. We continue to drive agency productivity through focusing on agency segmentation, customer needs analysis, customer analytics, cross-selling and recapturing proceeds from maturing policies and cash coupon payments.

During the year we improved customer service in Thailand by extending our call centre capabilities and implementing a customer relationship management system that helps to engage our customers and extend our cross-selling capabilities. In addition, we leveraged our recent implementation of a document scanning and electronic workflow management system for automatic printing and binding to improve our efficiency and service.

The health segment was a significant contributor to VONB growth during 2010 as we increased A&H rider attachment by deploying a number of initiatives, including packaging riders with selected products, cross-selling, enhancing rider features and benefits, and developing new rider products to meet customer needs. The Group continued to lead the A&H market in Thailand.

During 2010 the AIA Group achieved significant growth in VONB by re-pricing certain existing products and introducing higher margin products. In addition, we launched the first tax deductible annuity in Thailand. In the absence of a centralised pension scheme, the new tax deduction benefits encourage Thai people to plan for their retirement, thus establishing a market for annuity product.

The AIA Group received multiple awards and accolades during 2010, including Thailand's Most Admired Brand Award for the eighth consecutive year from Brand Age's Survey, and the Readers' Digest Trusted Brand Award for the seventh consecutive year.

Singapore

US\$m	2010	2009	Change
TWPI	1,687	1,524	11%
ANP	210	162	30%
VONB ⁽¹⁾	104	96	8%
VONB margin ⁽²⁾	49.4%	59.6%	(10) pp
Operating profit before tax	394	316	25%
Operating profit after tax	326	264	23%

Note:

(1) Based on local statutory basis, VONB by market includes corporate pension business.

(2) VONB margin excludes corporate pension business.

The AIA Group is one of the longest established insurers in Singapore, with the largest market share in terms of TWPI in 2010. The business weathered a challenging year in 2010 created by the announcement of the Prudential transaction. Our Singapore team made significant efforts to stabilise the morale of staff and the agency force, channelling energy into business activity. As a result, the Group achieved strong growth in ANP, VONB and operating profits in 2010.

ANP increased significantly by 30% to US\$210 million in 2010, primarily attributable to a successful short pay product which was well-received and reinvigorated the agency force's sales momentum. Operating profit after tax increased 23% to US\$326 million in 2010, benefiting from a net reserve release of US\$29 million as other provisions were updated to reflect latest estimates. During the year, our operations in Singapore remitted approximately US\$400 million net funds to the Group.

We focused on the following key strategies in Singapore during 2010:

- Grow agency productivity
- Reinforce protection and health proposition to customers
- Deliver enhanced service capability to policyholders

During 2010 the AIA Group encountered significant business disruption following opportunistic agency poaching from competitors. To counter this, the Group redirected the agency force towards business generation. Consequently, we successfully defended our position as one of the largest agency forces with a record of 1,000 new recruits, a 42% increase over 2009. ANP per agent grew 31% compared to 2009.

During the year we increased the focus on protection and health by launching several new protection products for critical illness, term and hospital income strengthening the agency force's ability to address customers' health and protection needs and tackle under-insurance. These products were launched with higher margins, which will contribute to VONB growth in the future.

Service to customers continues to be a priority and we launched a refreshed AIA Customer Service Centre to enhance customer experience via refurbished facilities and self-help terminals.

In 2010 our Singapore business received multiple accolades such as the Reader's Digest Trusted Brand Gold Award for the seventh consecutive year, the Employee Insurance Provider of the Year award sponsored by *Human Resources Magazine*, for the fifth consecutive year, and the Top Insurance Brand award sponsored by *Media*, Asia's leading media, marketing and advertising publication, in conjunction with TNS, Asia's Top 1,000 Brands survey across 10 countries.

Malaysia

US\$m	2010	2009	Change
TWPI	813	707	15%
ANP	117	108	8%
VONB ⁽¹⁾	39	28	39%
VONB margin ⁽²⁾	33.3%	26.0%	7 pp
Operating profit before tax	158	138	14%
Operating profit after tax	117	106	10%

Note:

(1) Based on local statutory basis, VONB by market includes corporate pension business.

(2) VONB margin excludes corporate pension business.

In Malaysia we delivered strong growth in ANP, driven by increasing sales of investment-linked products. Together with the re-pricing of our saving products and the withdrawal of lower margin products, this led to strong growth in VONB. Operating profit after tax also saw healthy improvement, increasing 10% to US\$117 million. During the year our operations in Malaysia remitted approximately US\$90 million net funds to the Group.

We focused on the following key strategies in Malaysia during 2010:

- Secure licence and build infrastructure of Family Takaful operation
- Increase margin of new business through proactive portfolio management
- Rejuvenate agency force and deliver quality customer services

During 2010 our subsidiary in Malaysia, American International Assurance Bhd, acquired one of the four new Family Takaful Operator licences along with its joint venture partner, Alliance Bank Malaysia Berhad, allowing us to start our preparations for this joint venture. This is in addition to the international Takaful licence we received in 2008. In January 2011, the joint venture named AIA AFG Takaful Bhd was formally launched to offer a range of Shariah-compliant Takaful solutions covering savings, protection and investment products in Malaysian Ringgit.

Takaful is insurance that is compliant with Islamic principles and is expected to be an important driver of future growth since 60% of the population in Malaysia are Muslim. This allows us to develop and distribute Takaful in Malaysian Ringgit, opening up a new business arena for the Group.

The Group also focused on rebalancing our product portfolio to focus on higher margin products with investment-linked insurance products accounting for 25% of our ANP in 2010, as compared with 19% in the previous year. We also withdrew several lower margin products and introduced higher margin savings products.

We continued to drive the Generation Next programme, a key project over the last two years to develop a more vibrant and dynamic sales force. We attracted more than 3,700 agents and leaders through enhanced recruitment and sales support in 2010. During the year the Group's telemarketing team in Malaysia won the annual Customer Relationship Management and Contact Centre Awards for outstanding customer service.

China

US\$m	2010	2009	Change
TWPI	1,137	1,018	12%
ANP	206	188	10%
VONB ⁽¹⁾	68	48	43%
VONB margin ⁽²⁾	33.2%	25.5%	8 pp
Operating profit before tax	92	89	3%
Operating profit after tax	69	68	1%

Note:

- (1) Based on local statutory basis, VONB by market includes corporate pension business.
- (2) VONB margin excludes corporate pension business.

The China market offers significant growth opportunities for us. During 2010 we made steady progress in re-balancing the product portfolio and improving distribution productivity, resulting in higher ANP and improved business margin. At the same time we strengthened our senior management team to drive further value creation for the Group.

ANP rose by 10% to US\$206 million in 2010 as we stepped up our expansion into new distribution channels. This resulted in higher sales of traditional life insurance products through our bancassurance and direct marketing channels. With the shift to protection products, such as the newly launched All-in-One product, VONB grew by 43% to US\$68 million. Due to a one-time tax provision of US\$14 million relating to changes in the China accounting standards, operating profit after tax remained flat in 2010.

The Group focused on the following key strategies in China during 2010:

- Further develop product portfolio to improve VONB margin
- Enhance the quality and productivity of our agency force
- Develop bancassurance and scale up the direct marketing channel
- Continue to seek geographical expansion opportunities, including expanding into more tier 2 and 3 cities

During the year we rebalanced our product portfolio by focusing more on protection and long-term saving products, and launched and All-in-One, a comprehensive protection product for middle-income customers, in the second half of 2010. Since its launch All-in-One has attracted media attention, received strong support from distributors and great acceptance from customers. It has received various industry awards and market recognitions, including the 2010 Best Health Insurance Product Award granted by *Beijing Star Daily* and *China Insurance News*. This product generated a considerable share of agency production, and there are plans to adapt the product concept for distribution through other channels.

In pursuit of our ambition to remodel our agency force on Premier Agency lines, and to make it the premier agency in China, we rolled out the Agency 2.0 initiative, our next generation agency management platform, across China. The initiative aims at improving productivity and professionalism, ultimately benefiting our customers and our business. This programme has been well-received by our agents since its launch.

In September 2010 we entered into a long-term strategic partnership agreement with Industrial and Commercial Bank of China Limited (ICBC). Under this agreement the AIA Group and ICBC intend to develop a bancassurance business in China. Since the formation of the partnership in September 2010, we have made steady progress towards the business launch including product development and recruitment of financial consultants. We also continued to strengthen relationships with our other bank partners in China from headquarters to sub-branch level for the distribution of more products, including regular premium products.

In 2010 the Group actively prepared to expand into tier 2 and tier 3 cities in the Jiangsu and Guangdong provinces. Our application for a total of eight new sales and services centres in the two provinces satisfied the regulatory requirements. By November 2010 we received preparatory approval from the regulatory body to set up these sales and services centres.

During the year, the AIA Group won The Best Foreign Insurance Company award in China from *Financial Money* and multiple national awards for customer services. Our call centre in China was awarded the Best China Call Centre 2010 and the Collective Winner in Customer Service 2010 in the 6th Best China Call Centre Awards hosted by Customer Care & Management World Group and co-hosted by Contact Centre Capability Maturity Model Certification Institute.

Korea

US\$m	2010	2009	Change
TWPI	1,951	1,759	11%
ANP	282	340	(17)%
VONB ⁽¹⁾	64	60	7%
VONB margin ⁽²⁾	22.8%	17.6%	5 pp
Operating profit before tax	151	81	86%
Operating profit after tax	141	65	117%

Note:

- (1) Based on local statutory basis, VONB by market includes corporate pension business.
- (2) VONB margin excludes corporate pension business.

While the life insurance industry in Korea has faced strong headwinds over the past few years, our Korea team has remained focused on strategies to re-energise and reform our business. In 2010 we began to see encouraging results with respect to our brand awareness and new business profitability. A brand awareness survey conducted by the Nielsen Company showed that about 70% of respondents were able to recognise the AIA brand when prompted, a significant improvement from June 2009 when we rebranded to AIA. Our initiatives for enhancing new business profitability also delivered a healthy increase in VONB.

During 2010 we continued to re-price our products to deliver higher margins. As a result, ANP reduced to US\$282 million in 2010 from US\$340 million in 2009 despite an increase in the sales of annuity products. VONB grew by 7% to US\$64 million in 2010 driven by the re-pricing. Operating profit after tax increased 117% to US\$141 million in 2010, mainly due to a reduction in deferred acquisition cost amortisation, which in turn resulted from a revision to our persistency assumptions in respect of variable universal life products in 2009.

We focused on the following key strategies in Korea during 2010:

- Continue to expand and enhance our multi-distribution channels
- Grow agency business
- Re-design and reposition our products

Direct marketing has been an important distribution channel for the AIA Group's Korean operations, which contributed over 36% of total new business premiums in 2010. During the year we partnered with Lotte Card and Citibank to fuel the growth of our direct marketing business and revitalised our home shopping sales by resuming airing on the GS Home Shopping Channel. We adopted a dual approach in home shopping sales management by outsourcing part of the sales operations as well as using in-house resources. This approach enables flexible management of sales resources and allows for scalability of business without facing hiring challenges.

Also as part of our initiatives to expand multi-distribution in Korea we embarked on an innovative "Martassurance" business partnership with Tesco, a multinational retailer. Martassurance, a word formed from "mart" and "assurance", is an innovative distribution channel that allows customers to access AIA's insurance products via sales booths set up in Tesco stores. As of 30 November 2010, three Martassurance shops were in operation at Tesco stores in Korea. This new consumer-oriented channel demonstrated steady sales growth in 2010 and further expansion is planned.

In bancassurance we implemented a “select and focus” approach to position the AIA Group as the best business partner with our key banking partners. We focused our resources on strategic banks and branches based on their contribution and potential. The Group has provided added value to the key banks by offering exclusive services such as special marketing campaigns, tailored training programmes, and loyalty programmes to the bank’s VIP customers, to drive business growth.

To grow our agency business in Korea and to complement the sales manager model, we introduced an agency branch manager model in 2010, providing a vision for high performing entrepreneurial sales managers who would like to explore further growth opportunities by managing their own branch. The branch manager oversees and manages his sales managers with the objective of developing them into future branch managers, thereby growing the sales force. A total of 16 branches were opened in 2010 with plans to expand further in 2011.

With our focus on new business profitability we launched a re-pricing programme in Korea, which delivered margin enhancement during 2010. In our A&H business we launched protection products such as a cancer-specialised coverage product to meet customer needs.

We received multiple awards and accolades during 2010. We won brand awards from local news publications such as the Most Trusted Brand Award for the life insurance sector from *Chosun Daily*. We also received the 2011 Customer Satisfaction Management Award in the life insurance category from *Hankyung Newspaper* for the third consecutive year.

Other Markets

US\$m	2010	2009	%
TWPI	1,671	1,390	20%
ANP	341	321	6%
VONB ⁽¹⁾	99	77	28%
VONB margin ⁽²⁾	29.0%	23.9%	5 pp
Operating profit before tax	188	189	(1)%
Operating profit after tax	137	144	(5)%

Note:

(1) Based on local statutory basis, VONB by market includes corporate pension business.

(2) VONB margin excludes corporate pension business.

Other Markets is the term used to indicate our operations in Australia, the Philippines, Indonesia, Vietnam, Taiwan and New Zealand, and our 26% interest in our joint venture in India.

During 2010 our ANP in Other Markets rose 6% to US\$341 million in 2010, and we generated 81% and 57% more ANP in Indonesia and the Philippines respectively. The growth in these countries was partially offset by the ANP decline in our operations in Australia as its ANP in 2009 was boosted by the acquisition of two large corporate customers by our group insurance business.

Other Markets’ VONB increased 28% to US\$99 million in 2010, reflecting our focus on enhancing margins to generate profitable VONB growth. Operating profit before tax remained flat at US\$188 million while operating profit after tax decreased 5% to US\$137 million in 2010 due to an increase in effective tax rate in 2010 compared to 2009 as a result of certain one-time tax items in 2009. During the year a total of US\$99 million net funds were remitted to the Group from Other Markets, mainly from the Philippines and Australia.

Agency

Our subsidiary in the Philippines, PhilamLife, enjoyed a fruitful 2010 successfully improving recruitment capabilities and developing a new agency model in which dedicated managers recruit, develop and retain new agents. We recruited more than 2,500 new agents in 2010, representing an increase of 60%. We had similar success in Vietnam where the number of agents increased by 27% in 2010.

Bancassurance and direct marketing

Our operations in the Philippines formed a joint venture with Bank of the Philippine Islands (BPI), a leading bank in the country, in December 2009. This strategic joint venture, BPI-Philam Life Assurance Corp., provided us with exclusive access to BPI's branch network nationwide. In the first year of operation, the joint venture made good progress including launching a series of products sold in the branches as well as direct marketing products for BPI credit cards that were warmly welcomed by customers.

During 2010 we developed a number of new distribution partnerships. In Australia we secured new five-year distribution agreement with Priceline and Citibank. In Taiwan we launched a telemarketing campaign with ANZ and teamed up with Mega Bank and Taishin Bank to offer insurance products to their mortgage customers.

Products

The AIA Group officially launched Shariah products to the Muslim population in Indonesia in June 2010 upon receiving government approval for our first major Shariah product. In August, we launched our first hospital and surgical (H&S) Shariah rider.

In April 2010 we launched two new business packages to address the insurance needs of the primarily owner-operator business market in New Zealand. The new products are designed for start-up businesses and established businesses respectively. As a result, the number of advisors doing business with the Group increased by more than 400% to 255 as of 30 November 2010.

In India we moved from a focus on scale to one of targeting sustainable growth. We re-launched over ten unit linked products in line with the regulatory changes relating to unit linked products that became effective during 2010.

Risk Management

The core of the AIA Group's business is accepting and managing risk. Effective risk management is a key element in prudent management of any life insurance operation and in driving value-creating growth. All business unit managers and executives are responsible for ensuring their businesses operate within acceptable levels of risk and achieve appropriate returns on capital. All risks undertaken by the Group have to be backed by appropriate capital to ensure that we can manage those risks within a range of outcomes based on our risk tolerance. Therefore, by managing risk we manage our capital and risk adjusted returns to our shareholders. This link between risk and capital is fundamental to the way the Group operates and rewards our people. We discuss below the key risks of the Group and how they are managed but always in the context that each business is held accountable for its return on the capital and therefore for risk management.

Overview

The AIA Group has established an enterprise risk management framework (RMF) with each risk owner across the Group held accountable for the risks within their business and processes. The RMF prescribes the risk governance structure and risk control procedures to be applied throughout the Group.

The key elements of the RMF include:

- Risk management philosophy and objectives;
- Risk governance and committee structure;
- Risk categorisations, management methodologies and tools.

This framework enables us to provide enterprise-wide oversight of risk management, formulate risk management strategies, provide a platform to determine our risk appetite, prioritise risk management activities and drive management accountability and organisational behaviour in order to optimise capital efficiency and risk-adjusted returns.

Risk Management Philosophy and Objectives

The Group’s risk management philosophy and objectives do not seek to eliminate risk but rather to understand and profitably manage risks to optimise our risk-adjusted return from our insurance businesses.

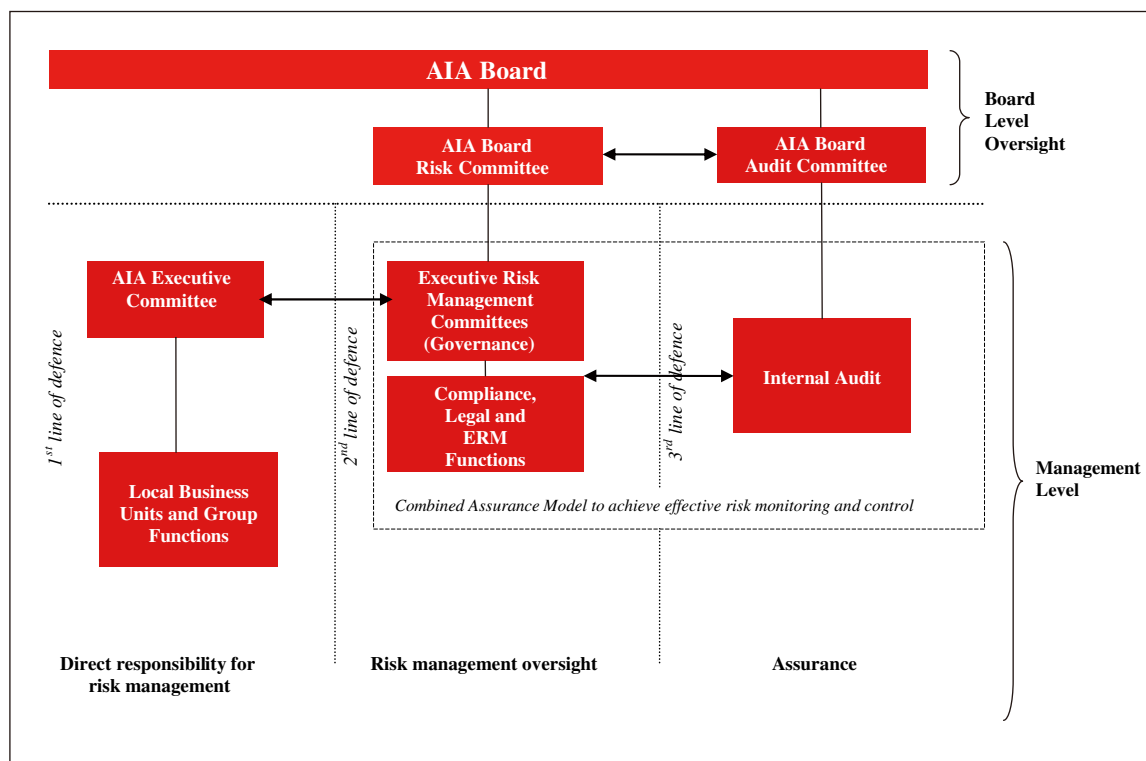
Our risk management philosophy is driven by two key principles:

- Protection of policyholder interests by ensuring the Group’s ability to meet future obligations; and
- Optimisation of shareholder value while limiting the Group’s exposure to potential earnings and capital volatility within acceptable levels.

Risk Governance and Reporting Structure

The AIA Group’s Board has overall responsibility for oversight of the Group’s risk management activities and ensuring we have adequate capital to support our business. The Board Risk Committee focuses on overseeing the Group’s risk management and capital adequacy, and the Board Audit Committee focuses on the maintenance of adequate controls, corporate governance processes and structures.

Our risk governance structure is segregated along “three lines of defence” as illustrated in the chart below:



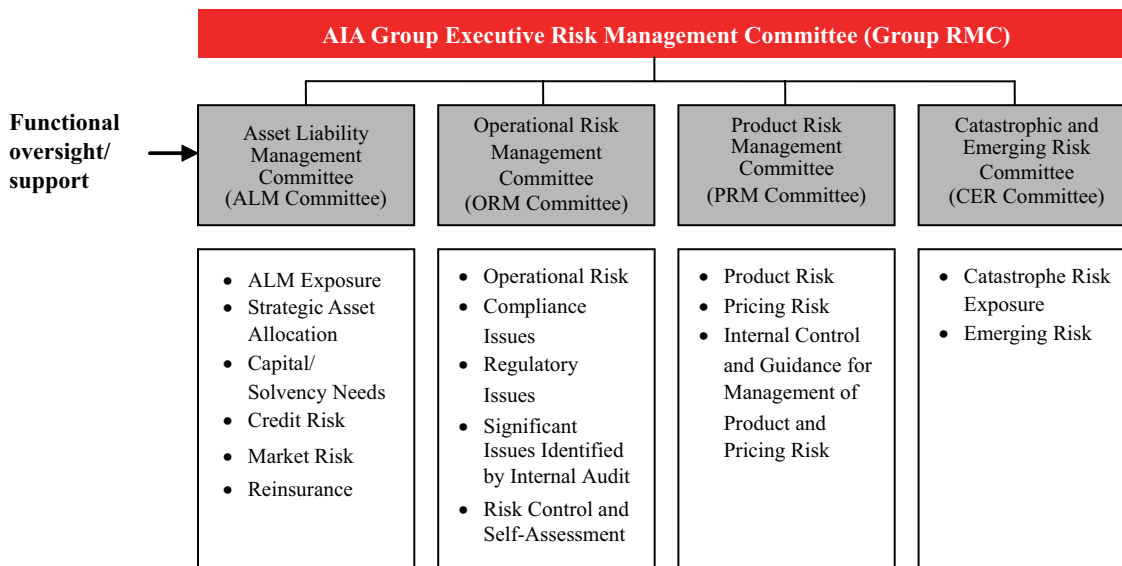
The “first line of defence” consists of all risk owners across the Group and the overarching management structure, including the AIA Group Executive Committee. All risk owners, in particular management, have direct responsibility and are held accountable for the management and control of risk.

The “second line of defence” consists of a number of executive risk management committees and various group-level functions including Compliance, Legal and Enterprise Risk Management (ERM). The primary objective of these committees and functions is to provide oversight of the risk management activities conducted by the “first line of defence”. The ERM team, headed by our Chief Risk Officer, consists of risk

professionals that focus on integrated risk management and oversight. They provide Group wide support to various executive risk committees, set risk management policies and methodologies, and monitor risk management awareness and control procedures. The ERM team works with business units and other Group functions such as Legal and Compliance, to ensure that risk owners manage their own risks appropriately. In particular, Legal and Compliance teams focus on providing an integrated approach to managing the risks of legal, regulation and standards of ethical conduct. The second line also provides support to the Board via the Board Risk Committee to enable the Board to discharge its responsibilities for setting the group’s overall risk appetite, agreeing the risk management framework and monitoring group wide risks.

The “third line of defence” is performed by Internal Audit to provide assurance to the Board, via the Board Audit Committee and to executive management, as to the effectiveness of systems of internal controls in order for the Board to discharge its corporate governance responsibilities. This third line includes reviews of the ERM framework, risk management activities and functions and risk management committees, which collectively are part of the Group’s second line of defence. Internal audit coordinates with the ERM and Compliance functions to ensure risks and their management processes are identified and monitored on a consistent basis, and ensuring there are no overlaps or gaps in our risk assessment and control processes. We refer to this as our Combined Assurance Model.

The Board’s ultimate oversight of risk management is exercised through its Audit and Risk Committees and the day-to-day management oversight is facilitated through a number of executive risk management committees. The executive risk management committee structure comprises the Group Risk Management Committee (the “Group RMC”) and its four principal supporting sub-committees (as illustrated in the chart below): the asset-liability management committee (the “ALM Committee”); the operational risk management committee (the “ORM Committee”); the product risk management committee (the “PRM Committee”); and the catastrophic and emerging risk committee (the “CER Committee”).



In addition to the group-level risk committee structure outlined above, each of our local business units has its own risk management framework that is consistent with the group-level RMF. Operating units in major markets have their own local risk management committees overseeing sub-committees covering asset-liability management, operational risk management and product risk management. However, some of our businesses do not require dedicated sub-committees and operate through a single executive risk management committee. The business unit risk management committees and sub-committees also report to the respective group executive risk management committees.

Risk Committee Structure:

Board Risk Committee

The primary role of the Board Risk Committee is to provide advice and recommendations to the AIA Group's Board of Directors in considering the following:

- Risk Management Framework: Review of its effectiveness, risk exposures and risk mitigation measures
- Risk Appetite and Asset & Liability Management: Review the risk appetite and its earnings and balance sheet impact
- Financial Risk Control: Review of the financial risks arising from significant events or potential transactions, and significant changes in the capital structure

Group Risk Management Committee

The Group Risk Management Committee (Group RMC) is our primary executive risk management body and focuses on managing the AIA Group's overall risk exposure and overseeing the risk sub-committees. This committee reports to the Board Risk Committee and the AIA Group Executive Committee.

The Group RMC has nine members including our Group Chief Executive Officer, Group Chief Financial Officer, Group Chief Actuary, Group Chief Investment Officer, Group Chief Administrative Officer, Group Chief Risk Officer, Group Chief Compliance Officer, a representative from legal and other members of senior management as considered appropriate.

ALM Committee

The ALM Committee focuses on asset-liability management exposure, major asset-liability change proposals, solvency and capital management, strategic asset allocation, credit risk management, market risk management, financial mitigation programmes and reinsurance strategies. The objective of our asset-liability management is to manage the risk exposures of our assets and our liabilities, and the interaction between the two. We also seek to formulate and implement appropriate risk control and mitigation plans and routinely review asset-liability management strategies. A significant aim of our asset-liability management is to focus on matching our assets with our policyholder liabilities as closely as possible. This is to ensure that our obligations arising from policyholder liabilities are met and to minimise duration and currency risk to the extent practicable. In addition, we identify and assess material asset-liability mismatch risks through regular stress-testing of our portfolio. We seek to measure the level of our risk exposures and evaluate the anticipated rewards and costs (e.g. capital, reinsurance, derivatives) associated with the particular risk exposure and mitigation, and adjust as appropriate.

This committee has ten members, including our Group Chief Actuary and Group Chief Investment Officer.

ORM Committee

The purpose of the ORM Committee is to provide oversight of the operational risk management activities within the Group and ensure the related operational risk management policies and programmes are implemented appropriately and consistently within our local operating units. The ORM Committee is responsible for establishing priorities and coordinating the Group's functional operational risk management activities, monitoring operational risk exposures, including reputational risk implications and the status of action plans, developing guidelines for reporting on key operational risks, key risk indicators and risk event data capture. The ORM Committee is also responsible for the review and monitoring of significant operational deficiencies identified by our Internal Audit and Compliance functions or through risk self-assessments. The objective is to ensure that appropriate management focus is being directed toward operational risk mitigation activities and the successful implementation of remedial measures. The ORM Committee shares information and aggregates key risks for senior management review.

This committee has nine members, including our group chief administration officer and group chief human resources officer.

PRM Committee

The PRM Committee focuses on the pricing of insurance product risks, the risk exposure of existing and new products and guidance for internal controls to manage product risks. The objective of the PRM Committee is to provide oversight of the product risk management activities within the Group and ensure that the related product risk management policies and programmes are implemented. The PRM Committee reviews and approves product pricing policies and guidelines, monitors product risks and develops product approval authority limits.

This committee has five members, including our group chief product development actuary and members with actuarial, product management, investment and enterprise risk management experience.

CER Committee

The CER Committee provides oversight and guidance with respect to catastrophic and emerging risks and their potential impact and risk mitigation initiatives. These risks include financial, reputational, operational and insurance related risks.

The CER Committee has seven members, including our group chief underwriter and members with actuarial, product management, investment and enterprise risk management experience.

Risk Categorisations, Management Methodologies and Tools

Under the RMF, we adopt a common language in our description of risks at both the group and the local business unit levels. We proactively manage a wide spectrum of financial and non-financial risks as summarised in the table below.

Risk Category	Risk Type	Description
Financial risks	1. Insurance Risk	The potential loss resulting from inappropriate underwriting, mispricing, adverse expense, lapse, mortality and morbidity experiences
	2. Credit Risk	The failure of third parties to meet their obligations to the Group when falling due
	3. Market risk	The risk of loss from adverse movements in the value of assets, interest rates and foreign exchange rates
	4. Liquidity Risk	The risk of having insufficient cash available to meet the payment obligations to counterparties when they become due
Non-financial risks	5. Operational Risk	The potential direct or indirect loss (including reputational loss) resulting from inadequate or failed internal processes, personnel and systems or from external events
	6. Strategic risk	The risk of unexpected changes in the regulatory, market and competitive environment in which the Group operates

Stress Testing

We manage risks, not in isolation, but enterprise-wide based upon their interaction, correlation and dynamic impact on the Group. The risks identified above result in uncertainty or variability in the financial position of the Group. We seek to understand how risks behave individually but also collectively. To this end we assess the correlation between financial risks including insurance risk, and use stress-testing to assess the adequacy of available capital to satisfy regulatory capital requirements and business strategic needs. We perform regular stress-testing to monitor the potential impact of changing investment and economic environments on the capital and solvency position across the Group. This process also helps us to understand the inherent financial risks on a dynamic basis, identifies the critical risks and the correlation between key risks. It also provides increased assurance that the Group and the operating entities are adequately capitalised during adverse situations, and that the pursuit of business strategies remains within the acceptable limits.

Key risks

The key individual risks and our management of them are discussed below with further information provided in note 37 to the consolidated financial statements.

Insurance Risk

The Group considers insurance risk to be a combination of the following component risks:

- (i) Product design risk;
- (ii) Pricing and underwriting risk;
- (iii) Lapse risk; and
- (iv) Claims volatility risk.

The Group manages its exposure to insurance risk across a spectrum of components. We have significant underwriting and actuarial resources and have implemented well-defined underwriting and actuarial guidelines and practices. We have accumulated substantial experience which assists in the evaluation, pricing and underwriting of our products. Our PRM and CER Committees play an important oversight role in relation to these insurance related risks, as discussed below. Our insurance risk exposure is also considered when our ALM Committee reviews our strategic asset allocation plan and asset-liability management strategies. Note 26 to the Financial Statements details our insurance contract liabilities and the nature of insurance products and their key risks.

Product Design Risk

Product design risk refers to potential defects in the development of a particular insurance product. Our product development process is overseen by our PRM Committee, which sets pricing guidelines. We seek to manage this risk by completing pre-launch reviews of a new product by both group and local operating unit functional departments, including product management, actuarial, legal and underwriting. These departments have substantial experience and have developed significant expertise in identifying potential flaws in product development that could expose the Group to excessive risks. We monitor closely the performance of new products and focus on actively managing each part of the actuarial control cycle to minimise risk in both in-force policies and new products.

Pricing and Underwriting Risk

Pricing and underwriting risk refer to the possibility of product related income being inadequate to support future obligations arising from an insurance product. We seek to manage pricing and underwriting risk by adhering to our Group underwriting guidelines. Each of our local operating units maintains a team of professional underwriters who review and select risks consistent with our acceptable risk profile and underwriting strategy. A second layer of underwriting review is conducted at the group level for complex and large risks.

In certain circumstances, such as when we enter new lines of business, products or markets and do not have sufficient experience data, we make use of reinsurance to obtain product pricing expertise. The use of reinsurance subjects us to the risk that our reinsurers become insolvent or fail to make any payment when due to us.

We allow for an appropriate level of expenses in our product pricing that reflects a realistic medium to long term view of our cost structure. In our daily operations, we adhere to a disciplined expense budgeting and management process that controls expenses within the product pricing allowances over the medium to long term.

Lapse Risk

Lapse risk refers to the possibility of actual lapse experience that diverges from the anticipated experience assumed when products were priced. It includes the potential financial loss incurred due to early termination of policies or contracts in circumstances where the acquisition costs incurred are no longer recoverable from future revenue. We carry out regular reviews of persistency experience and the results are assimilated into new and in-force product management. In addition, many of our products include surrender charges that entitle us to additional fees upon early termination by policyholders, thereby reducing our exposure to lapse risk.

Claims Volatility Risk

Claims volatility risk refers to the possibility that the frequency or severity of claims arising from insurance products exceed the levels assumed when the products were priced. Firstly, we seek to mitigate claims risk by conducting regular experience studies, including reviews of mortality and morbidity experience, reviewing internal and external data, and considering the impact of such information on reinsurance needs, product design and pricing. Secondly, the Group has a broad geographical footprint across the Asia Pacific region, and thus provides a degree of natural geographical diversification of claims experience. Thirdly, we mitigate this risk by adhering to the underwriting and claims management policies and procedures that have been developed based on our extensive historical experience. Fourthly, our broad product offering and large in-force product portfolio also reduces our exposure to concentration risk. Finally, we use reinsurance solutions to help reduce concentration risk.

Credit Risk

Credit risk arises from the possibility of financial loss arising from default by borrowers and transactional counterparties and the decrease in value of 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:

- (i) cash and cash equivalents;
- (ii) investments in debt securities;
- (iii) loans and receivables (including insurance receivables); and
- (iv) reinsurance receivables.

Note 21 to the Financial Statements provides further details of financial investments of the Group in debt instruments, their credit rating and the nature of their exposure in the Financial Statements. Our approach to managing credit risk is a bottom-up process based on fundamental research. The process typically includes a review of macro-economic outlooks, industry trends and financial information, an analysis of issuer credit fundamentals, an assessment of the quality of collateral, dialogue with issuers, third-party checks and on-going monitoring of fixed income and equity values. We maintain a credit risk management (CRM) team, reporting to the Group Chief Risk Officer, to analyse each obligor's financial and competitive position. Internal credit ratings and credit limits are reviewed and approved by our CRM team on a regular basis. Each analyst is responsible for reviewing and revising internal ratings of their portfolio of assigned credits. Cross-border investment exposures are controlled through the assignment of individual country counterparty risk limits by the CRM team.

Market Risk

Market risk arises from the possibility of financial loss caused by changes in financial instruments' fair values or future cash flows due to fluctuations in key variables, including interest rates, foreign exchange rates, equity market prices and real estate property market prices. Note 37 to the Financial Statements provides further detail relating to the market risks discussed below.

We manage our market risk exposure in a variety of ways. Our ALM Committee oversees activities to evaluate market risk exposure and considers each component of market risk when formulating our strategic asset allocation. The Group ERM function uses quantitative models to assess market risks. These models include sensitivity analyses, value-at-risk models and stress test scenarios, which are common tools in the investment and insurance industries. We routinely conduct sensitivity analyses on our fixed income and equity portfolios in an effort to estimate our exposure to broad movements in interest rates or equity indices. We also conduct stress test scenarios to check compliance with regulatory solvency requirements under varying circumstances and market conditions including equity market declines, interest-rate risks due to potential shifts in the yield curves and credit spreads, and currency movements.

Interest Rate Risk

The Group's exposure to interest rate risk predominantly arises from the Group's duration gap between the liabilities and assets for interest rate sensitive products, especially those providing interest rate guarantees. Exposure to interest rate risks is summarised in note 37 to the Financial Statements which shows the financial assets and liabilities and the nature of interest rate commitment.

In managing interest rate risk, the Group pursues an ALM-driven investment strategy by investing in financial instruments with tenors that match the duration of its liabilities as much as practicable and appropriate. We also consider the effect of interest rate risk in our overall product strategy. For new products, we emphasise flexibility in product design and we generally design products to avoid excessive long-term interest rate guarantees. For in-force policies, we regularly adjust the policyholder bonus payout and credit interest rates applicable to policyholder account balances considering, among others, the earned yields and policyholders' communications and reasonable expectations.

Foreign Exchange Rate Risk

At the group level, foreign exchange rate risk arises mainly from our operations in multiple geographical markets in the Asia Pacific region and the translation of multiple currencies to U.S. dollars for financial reporting purposes. Note 37 to the Financial Statements shows the currency exposures of the Group and the sensitivity of shareholders' equity and profit to movements in those currencies.

On a local operating unit level, to the extent possible and appropriate, we have invested in assets denominated in currencies that match the relevant liabilities to avoid currency mismatches. In certain portfolios we hold investments in currencies that are different from the underlying liabilities in order to achieve yield enhancements as well as diversification benefits. We generally hedge the related foreign exchange risk through derivatives such as swaps, futures and forwards.

Equity Price Risk

Equity price risk arises from changes in the market value of equity securities and equity funds. Note 37 to the Financial Statements indicates the sensitivity of profit and net assets to changes in equity prices. The investment in equity assets on a long-term basis is expected to provide diversification benefits and return enhancements which can improve the risk adjusted return of the portfolios. Equity securities represent approximately 12% of our Policyholder and Shareholder Investments. The ALM Committee closely monitors the level of investment in equities through the strategic asset allocation process to ensure the risks remain at acceptable levels.

Property Price Risk

Property price risk arises from our interests in real estate assets, which form a part of our investment portfolios and are subject to market value changes. The ALM Committee oversees all major investment activities in real estate to ensure they are appropriate. Real estate assets form a small portion of our investment portfolio and are expected to provide useful diversification benefits and a long-term return with some inflation protection.

Liquidity Risk

Liquidity risk primarily refers to the possibility that we have insufficient cash available to meet our payment obligations to counterparties as they become due. We are subject to liquidity risk on insurance products that permit surrender, withdrawal or other forms of early termination for a cash surrender value. Note 37 to the Financial Statements provides a maturity analysis of the Group's financial assets and financial liabilities and insurance contracts.

We seek to manage liquidity risk by emphasising flexible insurance product design and by matching, to the extent possible and appropriate, the duration of our investment assets with the duration of our insurance policies. As disclosed in note 21 to the Financial Statements, most of our assets are in the form of marketable securities, which we can typically convert to cash quickly should the need arise. We develop cash flow forecasts and maturity gap analyses to quantify and monitor liquidity needs to minimise the risk that unexpected cash obligations may arise.

At the AIA Group level, the ability to pay dividends and meet other obligations depends on dividends and other distributions and payments from our operating subsidiaries and branches. The payment of dividends and other distributions and payments by the Group's subsidiaries and branches is regulated by applicable insurance, foreign exchange and tax laws, and rules and regulations. The Group monitors subsidiaries and branches to ensure they maintain sufficient cash and other liquid resources to meet expected outflows. In addition we hold sufficient cash and liquid assets at the group holding entities' level to cover current Group obligations including those for group office expenses and shareholder commitments.

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, personnel and systems or from external events. Under the Group's RMF, the risk owners in our businesses are responsible for managing their business risks. The primary tool for the risk owners to manage operational risk is the Group's Risk and Control Self Assessment (RCSA) process. The objective of the RCSA is to identify, evaluate, measure and monitor operational risks. This assessment is performed by each risk owner in the local business units or functional department and is subject to oversight by each local operating unit's operational risk management sub-committees (or in smaller countries by the Risk Management Committee) and the ORM Committee at the group level.

The ORM Committee and other operational risk management personnel share lessons learned from operational incidents and losses, as well as fraud and internal audit reporting issues with all local operating units to increase overall risk awareness and proactively strengthen our control environment. The ORM Committee and operational risk management personnel provide guidance, training and assistance to our local operating units in implementing risk management programmes and ongoing risk management.

Reputation Risk

Reputation risk cuts across a number of risk areas, significantly operational risk, and is about the trust, perception, and image of a company from the external perspective. Reputation risk is the potential risk that negative publicity regarding a company's business practices, whether true or not, could have adverse consequences including but not limited to a loss of customers, brand damage, financial loss and litigation. Reputation risk is often caused by various types of operational and strategic issues that negatively impact the trust and perception of the company. All operational risks identified are assessed through the established RCSA framework to evaluate their severity across a defined set of consequences or criteria, including the damage to reputation.

Strategic risk

Strategic risk refers to adverse impacts from unexpected changes to the operating and market environment in which the Group exists. This includes, but is not restricted to, unexpected changes in regulations, competitor actions and the loss of key personnel. Frequent monitoring and the strategic planning processes are the primary tools utilised by the Group to manage strategic risk. We monitor market and competitor developments, as well as, possible changes in regulations, accounting standards and corporate law to understand the potential impact on our business. Where necessary we seek to manage risk by active engagement in regulatory and other reform processes to ensure all our stakeholders' interests are fully considered.

FINANCIAL STATEMENTS

Consolidated Income Statement

US\$m	<i>Notes</i>	Year ended 30 November 2010	Year ended 30 November 2009
Revenue			
<i>Turnover</i>			
Premiums and fee income		11,557	10,433
Premiums ceded to reinsurers		(478)	(331)
Net premiums and fee income		11,079	10,102
Investment return	8	7,240	8,843
Other operating revenue	8	75	71
Total revenue		18,394	19,016
Expenses			
Insurance and investment contract benefits		12,483	13,814
Insurance and investment contract benefits ceded		(403)	(251)
Net insurance and investment contract benefits		12,080	13,563
Commission and other acquisition expenses		1,438	1,648
Operating expenses		1,146	981
Restructuring and separation costs		42	89
Investment management expenses		106	89
Finance costs		9	50
Change in third party interests in consolidated investment funds		15	164
Total expenses	9	14,836	16,584
Profit before share of loss from associates		3,558	2,432
Share of loss from associates	15	(9)	(21)
Profit before tax		3,549	2,411
Income tax expense attributable to policyholders' returns		(135)	(137)
Profit before tax attributable to shareholders' profits		3,414	2,274
Tax expense	10	(839)	(654)
Tax attributable to policyholders' returns		135	137
Tax expense attributable to shareholders' profits		(704)	(517)
Net profit		2,710	1,757
<i>Net profit attributable to:</i>			
Shareholders of AIA Group Limited		2,701	1,754
Non-controlling interests		9	3
Earnings per share (US\$)			
Basic and diluted	12	0.22	0.15

Consolidated Statement of Comprehensive Income

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Net profit	2,710	1,757
Fair value gains/(losses) on available for sale financial assets (net of tax of: 2009: US\$(139)m; 2010: US\$(290)m)	1,543	2,915
Fair value (gains)/losses on available for sale financial assets transferred to income on disposal and impairment (net of tax of: 2009: US\$6m; 2010: US\$4m)	(145)	223
Foreign currency translation adjustments	571	764
	<hr/>	<hr/>
Other comprehensive income	1,969	3,902
	<hr/>	<hr/>
Total comprehensive income	4,679	5,659
	<hr/> <hr/>	<hr/> <hr/>
<i>Total comprehensive income attributable to:</i>		
Shareholders of AIA Group Limited	4,654	5,611
Non-controlling interests	25	48

Consolidated Statement of Financial Position

US\$m	Notes	30 November 2010	30 November 2009
Assets			
Intangible assets	14	252	233
Investments in associates	15	69	53
Property, plant and equipment	16	318	326
Investment property	17, 18	309	244
Reinsurance assets	19	614	284
Deferred acquisition and origination costs	20	12,006	10,976
Financial investments:			
Loans and receivables	21, 23	4,862	4,648
Available for sale			
Debt securities		45,829	37,722
Equity securities – shares in AIG		–	62
At fair value through profit or loss			
Debt securities		16,378	14,479
Equity securities		22,054	16,116
Derivative financial instruments	22	775	453
		89,898	73,480
Deferred tax assets	10	2	–
Current tax recoverable		29	–
Other assets	24	1,773	1,600
Cash and cash equivalents	25	2,595	3,405
Assets of disposal groups held for sale	11	–	58
Total assets		107,865	90,659
Liabilities			
Insurance contract liabilities	26	73,205	63,255
Investment contract liabilities	27	9,091	7,780
Borrowings	29	597	688
Obligations under repurchase agreements	30	1,091	284
Derivative financial instruments	22	29	71
Provisions	32	200	280
Deferred tax liabilities	10	1,754	1,087
Current tax liabilities		287	185
Other liabilities	33	1,976	2,012
Liabilities of disposal groups held for sale	11	–	58
Total liabilities		88,230	75,700

Consolidated Statement of Financial Position (Continued)

US\$m	Notes	30 November 2010	30 November 2009
Equity			
Issued share capital and shares yet to be issued	34	12,044	12,044
Share premium	34	1,914	1,914
Other reserves		(12,117)	(12,110)
Retained earnings		13,924	11,223
Fair value reserve		2,914	1,528
Foreign currency translation reserve		876	309
		<hr/>	<hr/>
Amounts reflected in other comprehensive income		3,790	1,837
		<hr/>	<hr/>
<i>Total equity attributable to:</i>			
Shareholders of AIA Group Limited		19,555	14,908
Non-controlling interests	35	80	51
		<hr/>	<hr/>
Total equity		19,635	14,959
		<hr/>	<hr/>
Total liabilities and equity		107,865	90,659
		<hr/> <hr/>	<hr/> <hr/>

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 2008		13,914	(12,480)	9,494	(1,565)	(455)	10	8,918
Net profit		-	-	1,754	-	-	3	1,757
Fair value gains on available for sale financial assets		-	-	-	2,870	-	45	2,915
Fair value losses on available for sale financial assets transferred to income on disposal and impairment		-	-	-	223	-	-	223
Foreign currency translation adjustments		-	-	-	-	764	-	764
Capital contributions		44	364	-	-	-	-	408
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	(12,110)	11,223	1,528	309	51	14,959
Net profit		-	-	2,701	-	-	9	2,710
Fair value gains on available for sale financial assets		-	-	-	1,531	-	12	1,543
Fair value gains on available for sale financial assets transferred to income on disposal and impairment		-	-	-	(145)	-	-	(145)
Foreign currency translation adjustments		-	-	-	-	567	4	571
Dividends	13	-	-	-	-	-	-	-
Acquisition of subsidiary		-	-	-	-	-	4	4
Share based compensation		-	(7)	-	-	-	-	(7)
Balance at 30 November 2010		13,958	(12,117)	13,924	2,914	876	80	19,635

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	<i>Notes</i>	Year ended 30 November 2010	Year ended 30 November 2009
Cash flows from operating activities			
Profit before tax		3,549	2,411
Financial instruments	21	(11,615)	(11,044)
Insurance and investment contract liabilities		7,590	10,132
Obligations under repurchase agreements	30	779	(2,505)
Other non-cash operating items, including investment income		(3,833)	(2,619)
Operating cash items:			
Interest received		3,093	2,798
Dividends received		223	147
Interest paid		(7)	(50)
Tax paid		(413)	(371)
Net cash used in operating activities		(634)	(1,101)
Cash flows from investing activities			
Payments for investments in associates	15	(15)	(24)
Disposals of investments in associates	15	9	1
Acquisitions of subsidiaries, net of cash acquired	4	(15)	(28)
Disposal of a subsidiary, net of cash disposed		-	(2)
Payments for investment property and property, plant and equipment	16, 17	(109)	(39)
Proceeds from sale of investment property and property, plant and equipment		-	8
Payments for intangible assets	14	(19)	(36)
Proceeds from sale of intangible assets		-	22
Net cash used in investing activities		(149)	(98)
Cash flows from financing activities			
Dividends paid during the year	13	-	(25)
Proceeds from borrowings	29	66	21
Repayment of borrowings	29	(173)	(49)
Capital contributions		-	401
Net cash (used in)/provided by financing activities		(107)	348
Net decrease in cash held		(890)	(851)
Cash and cash equivalents at beginning of the financial year		3,405	4,164
Effect of exchange rate changes on cash		80	92
Cash and cash equivalents at the end of the financial year	25	2,595	3,405

Notes to the Consolidated Financial Statements and Significant Accounting Policies

1. CORPORATE INFORMATION

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 a series of steps in the reorganisation of the Asia Pacific life insurance operations of American International Group, Inc. ('AIG') in 2009 at which time the equity interests of the Group were wholly owned by AIG. Prior to 29 October 2010, the immediate controlling party of the Group was AIA Aurora LLC, a company incorporated in the United States of America which was wholly-owned by AIG, an insurance and financial services group in the United States of America. AIG's ultimate controlling party was the AIG Credit Facility Trust (for the sole benefit of the U.S. Treasury). As of 29 October 2010, AIG divested approximately a 67 percent stake of AIA Group Limited (which it held through AIA Aurora LLC) through an initial public offering of AIA Group Limited on The Stock Exchange of Hong Kong Limited.

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. 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.

The consolidated financial statements have been approved for issue by the Board of Directors on 25 February 2011.

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.

- i) The following new standards and amendments have been adopted by the Group for the financial year ended 30 November 2010:
- revised IFRS 3, Business Combinations, has been adopted from 1 December 2009 without restatement of previously completed transactions; and
 - Amendments to IAS 27, Consolidated and Separate Financial Statements, has been adopted prospectively for transactions with non-controlling interest from 1 December 2009. Other changes arising from the amendment to IAS 27, which for the Group are limited to presentation and disclosure matters, have been reflected retrospectively in these financial statements.

- ii) The following amendments and interpretations are effective for the year ended 30 November 2010 and have no material impact for the Group:
- Amendments to IFRS 2, Shared-Based payment – Vesting conditions and cancellation and Scope of IFRS 2 and IFRS 3;
 - Amendments to IAS 1, Presentation of Financial Statements – Disclosure of puttable instruments and obligations arising on liquidation and Current and Non-Current classification of derivatives;
 - Amendments to IAS 16, Property, Plant and Equipment – Recoverable amounts and Sale of assets held for rental;
 - Amendments to IAS 19, Employee Benefits – Curtailment and negative past service cost; Plan administration cost; Replacement of term ‘fall due’; and guidance on contingent liabilities;
 - Amendments to IAS 28, Investments in Associates – Consequential amendments arising from amendments to IFRS 3 and Impairment of investments in associates;
 - Amendments to IAS 36, Impairment of Assets – Disclosure of estimates used to determine recoverable amount of cash-generating units containing goodwill or intangible assets with indefinite useful lives;
 - Amendments to IAS 38, Intangible Assets – Measuring the fair value of an intangible asset acquired in a business combination; and
 - Amendments to IFRIC 9, Reassessment of Embedded Derivatives.
- iii) The following standards and amendments are issued but are not yet effective for the year ended 30 November 2010 and have not been adopted by the Group:
- IFRS 9, Financial Instruments;
 - IAS 24, Related Party Disclosures, Revised definition of related parties;
 - 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 8, Operating Segments: Disclosure of information about segment assets;
 - 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;
 - Amendments to IAS 36, Impairment of Assets: Unit of accounting for goodwill impairment test;
 - Amendments to IFRS 3, Business Combinations, Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS, Measurement of non-controlling interests, Un-replaced and voluntarily replaced share-based payment awards;

- Amendment to IFRS 7, Financial Instruments: Disclosures, Clarification of disclosures;
- Amendment to IAS 1, Presentation of Financial Statements, Clarification of statement of changes in equity;
- Amendment to IAS 27, Consolidated and Separate Financial Statements, Transition requirements for amendments arising as a result of IAS 27;
- Amendments to IAS 34, Interim Financial Reporting, Significant Events and Disclosure;
- Amendments to IFRS 2, Share-based payments, Group cash-settled share-based payment transactions;
- Amendments to IAS 12, Income Taxes, Recovery of underlying assets; and
- Amendments to IFRS 7, Financial Instruments: Disclosures, Enhancing disclosures about transfers of financial assets.

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.

All key terms are highlighted upon the first time they are used and defined in the glossary.

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 contracts and participating funds (see note 2.3) and changes in third party interests in consolidated investment funds resulting from the above;
- policyholders' share of tax relating to changes in insurance and investment contract liabilities; 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.

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.

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 based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. 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.

Liability adequacy testing

The Group evaluates the adequacy of its insurance and investment contract liabilities with DPF 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 with DPF, 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 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.

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.

The Group utilises 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. 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 the balance sheet date.

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.

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 are accounted for using the equity method of accounting. Under this method, the cost of the investment in an associate, 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 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. The Group accounts for investments in joint ventures that are subject to joint control using the proportionate consolidation method.

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.

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.

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

Policy type	Description of benefits payable	Basis of accounting for:	
		Insurance contract liabilities	Investment contract liabilities
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)

In the notes to the financial statements, investment-linked contracts are presented together with pensions contracts for disclosure purposes.

The basis of accounting for insurance and investment contracts is discussed in Notes 2.5.1 and 2.5.2 below.

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 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.

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 based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. 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.

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, 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.

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.

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.

2.5.3 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.

2.6 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 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). 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 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.

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.

2.6.3. 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; and
 - 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.

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 Board of Directors.

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.

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.

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 20-50 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.

The fair value of investment properties and property held for use is disclosed under note 18. It is the Group's policy to perform external property valuation annually except in the case a discrete event occurs in the interim that has a significant impact on the fair value of the properties.

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. With effect from the date of adoption of IFRS 3 (Revised) from 1 December 2009, all acquisition related costs are expensed as incurred.

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 '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 has been 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.

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.

2.16 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.

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 sponsored by AIG. In connection with AIG's divestiture of more than 50% of the Group on 29 October 2010, all unvested incentive awards were considered to be forfeited.

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.

Under cash settled based compensation plans, the fair value of the employee services in exchange for the grant of cash settled award is recognised as an expense in profit or loss, with a corresponding amount recorded in liability. At the end of each reporting period, any unsettled award is remeasured based on the change in fair value of the underlying asset and the liability and expense are adjusted accordingly.

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.

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, 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.

2.25 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.

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 2010	Year ended 30 November 2009
Hong Kong	7.77	7.75
Thailand	31.94	34.47
Singapore	1.37	1.46
Malaysia	3.24	3.53
China	6.79	6.83
Korea	1,156.07	1,287.00

Assets and liabilities have been translated at the following year end rates:

	US dollar exchange rates	
	As at 30 November 2010	As at 30 November 2009
Hong Kong	7.77	7.75
Thailand	30.22	33.24
Singapore	1.32	1.38
Malaysia	3.16	3.39
China	6.68	6.83
Korea	1,160.09	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 years ended 30 November 2009 and 2010, 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\$50m, including the purchase price adjustment that was finalised and settled in May 2010 and acquisition costs.

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.

Details of the finalised fair value of the assets and liabilities acquired and the goodwill arising to reflect the additional information that became available in the measurement period are set out as follows:

US\$m	Carrying amount	Provisional fair values reported at 30 November 2009	Adjustments in the year ended 30 November 2010 ⁽¹⁾	Revised fair values at 30 November 2010
BPLAC				
Intangible assets	–	15	13	28
Deferred acquisition costs (value of business acquired)	–	31	6	37
Property, plant and equipment	9	8	–	8
Investment property	13	13	1	14
Loans and receivables	65	67	–	67
Investment securities	246	246	(1)	245
Other assets	5	5	–	5
Cash and cash equivalents	2	2	–	2
Insurance and investment contract liabilities	(281)	(281)	–	(281)
Deferred tax assets/(liabilities)	3	(17)	(7)	(24)
Other liabilities	(6)	(6)	–	(6)
Total net assets acquired	56	83	12	95
Less: non-controlling interests acquired		(44)	(6)	(50)
Net assets acquired		39	6	45
Fair value of purchase consideration		46	3	49
Acquisition costs		1	–	1
Total purchase consideration		47	3	50
Goodwill arising on acquisition		8	(3)	5
Fair value of purchase consideration		47	3	50
Less: deferred consideration		(17)	12	(5)
Less: cash and cash equivalents in acquired subsidiary		(2)	–	(2)
Net cash outflow		28	15	43

Note: (1) The adjustments in the year ended 30 November 2010 arise from the update of fair value information in the measurement period and the effect of the finalisation of the purchase price adjustment which was based on net worth of BPLAC at the date of acquisition.

Disposals

On 31 October 2010, the Group disposed its 51% interest in Shanghai B & A Property Management Company, Limited for Rmb6m (approximately US\$1m). The gain on disposal was not material.

On 27 January 2010, the Group disposed of AIA Bermuda Services Inc. and completed the transfer of a block of life insurance policies by way of a business transfer to American Life Insurance Company ('ALICO') for an aggregate consideration of US\$1. The loss on disposal of these assets which were reported as held-for-sale as of 30 November 2009, was not material.

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.

5. OPERATING PROFIT BEFORE TAX

Operating profit before tax may be reconciled to net profit as follows:

US\$m	<i>Note</i>	Year ended 30 November 2010	Year ended 30 November 2009
Operating profit before tax	7	2,102	1,781
Non-operating investment return:			
Investment experience		3,683	5,716
Investment income related to investment-linked contracts		74	68
Investment management expenses related to investment-linked contracts		(14)	(16)
Corresponding changes in insurance and investment contract liabilities for investment-linked contracts		(1,772)	(4,166)
Corresponding changes in insurance contract liabilities for participating funds		(539)	(773)
Corresponding changes in third party interests in consolidated investment funds		(15)	(164)
Non-operating investment return		1,417	665
Other non-operating items:			
Changes in insurance and investment contract liabilities for policyholders' tax on operating profit before tax		72	54
Restructuring and separation costs		(42)	(89)
Non-operating items		1,447	630
Profit before tax		3,549	2,411
Tax on operating profit before tax		(394)	(338)
Tax on non-operating items		(373)	(262)
Other non-operating tax items:			
Policyholders' tax on operating profit before tax		(72)	(54)
Tax expense		(839)	(654)
Net profit		2,710	1,757
Operating profit before tax		2,102	1,781
Tax on operating profit before tax		(394)	(338)
Operating profit after tax		1,708	1,443
<i>Operating profit after tax attributable to:</i>			
Shareholders of AIA Group Limited		1,699	1,438
Non-controlling interests		9	5

Non-operating items consist of restructuring and separation costs of US\$42m (2009: US\$89m) for the year ended 30 November 2010. 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.

6. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS

For management decision making and internal performance management purposes, the Group measures business volumes during the period using a performance measure referred to as total weighted premium income ('TWPI'), while the Group measures new business activity using a performance measure referred to as annualised new premiums ('ANP'). Both measures are reported gross of reinsurance ceded.

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.

Annualised new premiums is a key internal measure of new business activities, which consists of 100% of annualised first year premium and 10% of single premium. Annualised new premiums excludes renewal premiums and first year premiums are reported on an annualised basis.

TWPI US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Total weighted premium income by geography		
Hong Kong	3,012	2,861
Thailand	2,742	2,373
Singapore	1,687	1,524
Malaysia	813	707
China	1,137	1,018
Korea	1,951	1,759
Other Markets	1,671	1,390
Total	13,013	11,632
First year premiums by geography		
Hong Kong	428	357
Thailand	389	337
Singapore	175	111
Malaysia	113	93
China	192	166
Korea	278	322
Other Markets	315	358
Total	1,890	1,744

TWPI US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Single premiums by geography		
Hong Kong	98	175
Thailand	134	121
Singapore	291	400
Malaysia	39	32
China	113	166
Korea	158	77
Other Markets	171	119
Total	1,004	1,090
Renewal premiums by geography		
Hong Kong	2,574	2,487
Thailand	2,340	2,024
Singapore	1,483	1,373
Malaysia	696	611
China	934	835
Korea	1,657	1,429
Other Markets	1,339	1,020
Total	11,023	9,779
ANP US\$m		
	Year ended 30 November 2010	Year ended 30 November 2009
Annualised new premiums by geography⁽¹⁾		
Hong Kong	449	387
Thailand	420	372
Singapore	210	162
Malaysia	117	108
China	206	188
Korea	282	340
Other Markets ⁽²⁾	341	321
Total	2,025	1,878

Note: (1) ANP excludes new business of our corporate pension business, personal lines and motor insurance.

(2) ANP for Other Markets excludes the new business activities of PT. Asuransi AIA Indonesia which was disposed in October 2009.

7. SEGMENT INFORMATION

The Group's operating segments, based on the reporting received by the Group's Board of Directors 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:

- annualised new premiums;
- total weighted premium income;
- investment income (excluding investment income in respect of investment-linked contracts);
- operating expenses;
- operating profit before tax (see Note 5);
- expense ratio, measured as operating expenses divided by total weight premium income;
- operating margin, measured as operating profit before tax (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.

US\$m	Key markets						Other Markets	Corporate and Other	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea			
Year ended 30 November 2010									
Annualised new premiums	449	420	210	117	206	282	341	–	2,025
Total weighted premium income	3,012	2,742	1,687	813	1,137	1,951	1,671	–	13,013
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	2,245	2,776	1,658	754	1,116	1,462	1,143	–	11,154
Investment income ¹	845	753	645	254	247	282	455	2	3,483
Total revenue	3,090	3,529	2,303	1,008	1,363	1,744	1,598	2	14,637
Net insurance and investment contract benefits ²	1,844	2,502	1,640	705	1,002	1,235	906	7	9,841
Commission and other acquisition expenses	271	404	129	84	78	222	250	–	1,438
Operating expenses	180	145	122	62	185	133	216	103	1,146
Investment management expenses and finance costs ³	4	28	18	3	6	3	25	14	101
Total expenses	2,299	3,079	1,909	854	1,271	1,593	1,397	124	12,526
Share of profit/(loss) from associates	–	–	–	4	–	–	(13)	–	(9)
Operating profit/(loss) before tax	791	450	394	158	92	151	188	(122)	2,102
Tax on operating profit before tax	(47)	(138)	(68)	(41)	(23)	(10)	(51)	(16)	(394)
Operating profit/(loss) after tax	744	312	326	117	69	141	137	(138)	1,708
<i>Operating profit/(loss) after tax attributable to:</i>									
Shareholders of AIA Group Limited									
Limited	741	312	326	117	69	141	132	(139)	1,699
Non-controlling interests	3	–	–	–	–	–	5	1	9
Key operating ratios:									
Expense ratio	6.0%	5.3%	7.2%	7.6%	16.3%	6.8%	12.9%	–	8.8%
Operating margin	26.3%	16.4%	23.4%	19.4%	8.1%	7.7%	11.3%	–	16.2%
Operating return on allocated equity	17.1%	9.7%	21.3%	22.1%	9.8%	10.8%	9.8%	–	11.8%
Operating profit before tax includes:									
Finance costs	4	1	7	–	1	–	1	(5)	9
Depreciation and amortisation	5	12	10	8	23	10	9	4	81
Strategic initiative expenses	15	3	8	1	6	6	21	21	81

- Note:* (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

Operating profit before tax 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 2010									
Operating profit/(loss) before tax	791	450	394	158	92	151	188	(122)	2,102
Non-operating items	198	931	184	70	(10)	28	40	6	1,447
Profit/(loss) before tax	989	1,381	578	228	82	179	228	(116)	3,549
Tax on operating profit before tax	(47)	(138)	(68)	(41)	(23)	(10)	(51)	(16)	(394)
Policyholders' tax on operating profit before tax	-	-	(54)	(14)	-	-	(4)	-	(72)
Tax on non-operating items	-	(279)	(52)	(30)	2	(6)	-	(8)	(373)
Tax expense	(47)	(417)	(174)	(85)	(21)	(16)	(55)	(24)	(839)
Net profit/(loss)	942	964	404	143	61	163	173	(140)	2,710
<i>Net profit/(loss) attributable to:</i>									
Shareholders of AIA									
Group Limited	939	964	404	143	61	163	168	(141)	2,701
Non-controlling interests	3	-	-	-	-	-	5	1	9

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 2010									
Assets before investments in associates	27,171	20,955	23,504	7,434	7,657	8,849	9,660	2,566	107,796
Investments in associates	-	1	2	8	-	-	58	-	69
Total assets	27,171	20,956	23,506	7,442	7,657	8,849	9,718	2,566	107,865
Total liabilities⁴	21,555	16,041	21,528	6,782	6,899	7,392	7,461	572	88,230
Total equity	5,616	4,915	1,978	660	758	1,457	2,257	1,994	19,635
Non-controlling interests	5	-	-	-	-	-	73	2	80
Amounts reflected in other comprehensive income:									
Fair value reserve	1,093	837	202	37	(59)	222	693	(111)	2,914
Foreign currency translation reserve	-	541	246	66	71	(155)	106	1	876
Allocated equity	4,518	3,537	1,530	557	746	1,390	1,385	2,102	15,765
Net capital in/(out) flows	(585)	(346)	(400)	(90)	25	-	(99)	1,488	(7)

Note: (4) Corporate and Other and Other Markets adjusted for subordinated intercompany debt provided to Other Markets of US\$18m

Segment information may be reconciled to the consolidated income statement as shown below:

US\$m	Segment information	Related changes in insurance and investment contract benefits						Total revenue	
		Investment experience	Investment income related to investment-linked contracts	Investment management expenses related to investment-linked contracts	Participating funds	Third party interests in consolidated investment funds	Other non-operating items		Consolidated income statement
	30 November 2010								
	Total revenue	14,637	3,683	74	-	-	-	-	18,394
	Of which:								
	Net premiums, fee income and other operating revenue	11,154	-	-	-	-	-	-	11,154
	Investment return	3,483	3,683	74	-	-	-	-	7,240
	Total expenses	12,526	-	-	14	1,772	539	15	14,836
	Of which:								
	Net insurance and investment contract benefits	9,841	-	-	-	1,772	539	-	12,080
	Restructuring and separation costs	-	-	-	-	-	-	42	42
	Investment management expenses and finance costs	101	-	-	14	-	-	-	115
	Change in third party interests in consolidated investment funds	-	-	-	-	-	-	15	15
	Share of loss of associates	(9)	-	-	-	-	-	-	(9)
	Operating profit before tax	2,102	3,683	74	(14)	(1,772)	(539)	(15)	3,549

Other non-operating items in 2010 consist of restructuring and separation costs of US\$42m (see Note 5).

US\$m	Key markets						Other Markets	Corporate and Other	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea			
Year ended 30 November 2009									
Annualised new premiums	387	372	162	108	188	340	321	–	1,878
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	1,535	609	872	1,027	845	(17)	8,678
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	1,799	742	1,111	1,503	1,244	62	11,430
Share of profit/(loss) from associates	–	–	–	1	–	–	(22)	–	(21)
Operating profit/(loss) before tax	698	358	316	138	89	81	189	(88)	1,781
Tax on operating profit before tax	(43)	(111)	(52)	(32)	(21)	(16)	(45)	(18)	(338)
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%	20.7%	19.5%	8.7%	4.6%	13.6%	–	15.3%
Operating return on allocated equity	16.9%	9.4%	21.1%	22.5%	11.2%	5.3%	10.9%	–	12.0%
Operating profit before tax 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
(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

Operating profit before tax 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) before tax	698	358	316	138	89	81	189	(88)	1,781
Non-operating items	(32)	563	179	47	30	(80)	(38)	(39)	630
Profit/(loss) before tax	666	921	495	185	119	1	151	(127)	2,411
Tax on operating profit before tax	(43)	(111)	(52)	(32)	(21)	(16)	(45)	(18)	(338)
Policyholders' tax on operating profit before tax	-	-	(40)	(12)	-	-	(2)	-	(54)
Tax on non-operating items	-	(168)	(75)	(20)	(8)	15	(3)	(3)	(262)
Tax expense	(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	23,761	16,530	20,690	6,337	6,510	7,498	7,829	1,451	90,606
Investments in associates	-	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	725	75,700
Total equity	4,738	3,577	1,783	554	682	1,120	1,779	726	14,959
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	755	13,071
Net capital (out)/in flows	(30)	(175)	220	(54)	16	11	18	383	389

Note: (4) Corporate and Other and Other Markets adjusted for subordinated intercompany debt provided to Other Markets of US\$63m

Segment information may be reconciled to the consolidated income statement as shown below:

US\$m	Segment information	Related changes in insurance and investment contract benefits						Total revenue	
		Investment experience	Investment income related to investment-linked contracts	Investment management expenses related to investment-linked contracts	Investment-linked contracts	Participating funds	Third party interests in consolidated investment funds		Other non-operating items
	30 November 2009								
	Total revenue	<u>13,232</u>	<u>5,716</u>	<u>68</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,016</u>
	Of which:								
	Net premiums, fee income and other operating revenue	10,173	-	-	-	-	-	-	10,173
	Investment return	3,059	5,716	68	-	-	-	-	8,843
	Total expenses	<u>11,430</u>	<u>-</u>	<u>16</u>	<u>4,166</u>	<u>773</u>	<u>164</u>	<u>35</u>	<u>16,584</u>
	Of which:								
	Net insurance and investment contract benefits	8,678	-	-	4,166	773	-	(54)	13,563
	Restructuring and separation costs	-	-	-	-	-	-	89	89
	Investment management expenses and finance costs	123	-	16	-	-	-	-	139
	Change in third party interests in consolidated investment funds	-	-	-	-	-	164	-	164
	Share of loss of associates	(21)	-	-	-	-	-	-	(21)
	Operating profit before tax	<u>1,781</u>	<u>5,716</u>	<u>68</u>	<u>(4,166)</u>	<u>(773)</u>	<u>(164)</u>	<u>(35)</u>	<u>2,411</u>

Other non-operating items in 2009 consist of restructuring and separation costs of US\$89m (see Note 5).

8. REVENUE

Investment return

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Interest income	3,243	2,913
Dividend income	252	147
Rental income	62	67
Investment income	3,557	3,127
Available for sale		
Net realised gains/(losses) from debt securities	76	(162)
Net realised gains/(losses) from equity securities	74	–
Impairment of debt securities	(1)	(67)
Net gains/(losses) of available for sale financial assets reflected in the consolidated income statement	149	(229)
At fair value through profit or loss		
Net gains of debt securities	424	635
Net gains of equity securities	3,138	5,506
Net fair value movement on derivatives	343	273
Net gains in respect of financial assets at fair value through profit or loss	3,905	6,414
Net foreign exchange losses	(373)	(426)
Other realised gains/(losses)	2	(43)
Investment experience	3,683	5,716
Investment return	7,240	8,843

Other realised losses 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 recognised in the income statement (other than gains and losses arising on items measured at fair value through profit or loss):

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Foreign exchange losses	(244)	(140)
Other operating revenue		

The balance of other operating revenue largely consists of asset management fees.

9. EXPENSES

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Insurance contract benefits	5,988	5,375
Change in insurance contract liabilities	5,730	6,275
Investment contract benefits	765	2,164
Insurance and investment contract benefits	12,483	13,814
Insurance and investment contract benefits ceded	(403)	(251)
Insurance and investment contract benefits, net of ceded reinsurance	12,080	13,563
Commissions and other acquisition expenses incurred	2,099	1,855
Deferral and amortisation of acquisition costs	(661)	(207)
Commission and other acquisition expenses	1,438	1,648
Employee benefit expenses	720	610
Depreciation	70	57
Amortisation	11	9
Operating lease rentals	103	90
Other operating expenses	242	215
Operating expenses	1,146	981
Restructuring costs	3	11
Separation costs	39	78
Restructuring and separation costs	42	89
Investment management expenses	106	89
Finance costs	9	50
Change in third party interests in consolidated investment funds	15	164
Total	14,836	16,584

Other operating expenses include auditors' remuneration of US\$8m (2009: US\$8m). Operating expenses include strategic initiative expenses of US\$81m (2009: US\$62m). Strategic initiative expenses consist of expenses for enhancing distribution capability and operational efficiency and are approved by the Group's Strategic Initiative Office.

Investment management expenses may be analysed as:

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Investment management expenses including fees paid to related parties	105	87
Depreciation on investment property	1	2
Total	106	89

Finance costs may be analysed as:

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Securities lending and repurchase agreements (see Note 30 for details)	4	44
Bank and other loans	5	5
Related party borrowings (see Note 41)	–	1
Total	9	50

Interest expense includes US\$5m (2009: US\$5m) on bank loans, overdrafts and related party loans wholly repayable within five years.

Employee benefit expenses consist of:

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Wages and salaries	602	477
Share based compensation	8	8
Pension costs – defined contribution plans	34	30
Pension costs – defined benefit plans	11	14
Other employee benefit expenses	65	81
Total	720	610

10. INCOME TAX

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Tax charged/(credited) in the consolidated income statement		
Current income tax – Hong Kong Profits Tax	36	34
Current income tax – overseas	442	287
Deferred income tax on temporary differences	361	333
Total	839	654

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\$135m charge (2009: US\$137m charge).

The provision for Hong Kong Profits Tax is calculated at 16.5%. 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.

	Year ended 30 November 2010	Year ended 30 November 2009
Thailand	30%	30%
Singapore	17%	17%
Korea	24.2%	24.2%
Malaysia	25%	25%
China	25%	25%
Hong Kong	16.5%	16.5%
Other	20% – 30%	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. Enacted prospective rate changes in corporate tax rates which are not reflected in the table above include Korea (tax rate reduces from 24.2% to 22% from April 2012 onwards) and Taiwan (tax rate reduces from 25% to 17% from December 2010 onwards).

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Income tax reconciliation		
Profit before income tax	3,549	2,411
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	800	549
Reduction in tax payable from:		
Exempt investment income	(61)	(38)
Amounts over provided in prior years	–	(4)
Unrecognised deferred tax assets	(12)	–
Other	(4)	–
	<u>(77)</u>	<u>(42)</u>
Increase in tax payable from:		
Life insurance tax ⁽¹⁾	8	70
Withholding taxes	25	12
Disallowed expenses	17	43
Changes in tax rate and law	31	–
Amounts under provided in prior years	1	–
Unrecognised deferred tax assets	–	4
Provisions for uncertain tax positions	34	3
Other	–	15
	<u>116</u>	<u>147</u>
Total income tax expense	<u>839</u>	<u>654</u>

Note: (1) 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.

The movement in net 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 year end
			Fair value reserve	Foreign exchange	
30 November 2010					
Revaluation of financial instruments	(282)	(338)	(286)	(53)	(959)
Deferred acquisition costs	(1,472)	(127)	–	(21)	(1,620)
Insurance and investment contract liabilities	1,041	301	–	48	1,390
Withholding taxes	(63)	(19)	–	(3)	(85)
Provision for expenses	59	(72)	–	(11)	(24)
Losses available for offset against future taxable income	4	(2)	–	–	2
Life surplus ⁽¹⁾	(399)	(26) ³	–	(6)	(431)
Other	25	(43)	–	(7)	(25)
Total	(1,087)	(326)	(286)²	(53)	(1,752)
30 November 2009					
Revaluation of financial instruments	77	(185)	(133)	(41)	(282)
Deferred acquisition costs	(1,244)	(187)	–	(41)	(1,472)
Insurance and investment contract liabilities	833	170	–	38	1,041
Withholding taxes	(48)	(12)	–	(3)	(63)
Provision for expenses	68	(7)	–	(2)	59
Losses available for offset against future taxable income	4	–	–	–	4
Life surplus ⁽¹⁾	(255)	(118)	–	(26)	(399)
Other	18	6	–	1	25
Total	(547)	(333)	(133)²	(74)	(1,087)

Note: (1) 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.

(2) Of the fair value reserve deferred tax charge of US\$286m (2009: US\$133m) for 2010, US\$290m (2009: US\$139m) relates to fair value gains and losses on available for sale financial assets and US\$(4)m (2009: US\$(6)m) relates to fair value gains and losses on available for sale financial assets transferred to income on disposal and impairment.

(3) The amount of US\$(26)m includes a US\$35m one-time adjustment in respect of deferred tax liability attributable to policyholders' return.

Deferred tax assets are recognised to the extent that sufficient future taxable profits will be available for realisation. The Group has not recognised deferred tax assets on tax losses and the temporary difference on insurance and investment contract liabilities arising from different accounting and statutory/tax reserving methodology for certain branches and subsidiaries on the basis that they have histories of tax losses and there are insufficient evidence that future profits will be available.

Temporary differences not recognised in the consolidated statement of financial position are:

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Tax losses	92	148
Insurance and investment contract liabilities	75	52
Total	<u>167</u>	<u>200</u>

The Group has not provided deferred tax liabilities of US\$47.7m (2009: US\$47.7m) in respect of unremitted earnings of operations in one jurisdiction from which a withholding tax charge would be incurred upon distribution as the Group does not consider it probable that this portion of accumulated earnings will be remitted in the foreseeable future.

The Group has unused income tax losses carried forward in Hong Kong, the Philippines, China and Indonesia. The tax losses of Hong Kong can be carried forward indefinitely. The tax losses of the Philippines, China and Indonesia are due to expire within the periods ending 2013 (the Philippines) and 2015 (China and Indonesia).

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	<u>58</u>
Insurance contract liabilities	57
Other liabilities	1
Total liabilities	<u>58</u>

The sale of the disposal group was completed on 27 January 2010.

12. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the net profit attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the period.

	Year ended 30 November 2010	Year ended 30 November 2009
Net profit attributable to shareholders of AIA Group Limited (US\$m)	2,701	1,754
Weighted average number of ordinary shares in issue (million)	12,044	12,000
Basic earnings per share (cents per share)	<u>22</u>	<u>15</u>

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. As of 30 November 2009, the Group had potentially dilutive instruments which were the shares yet to be issued as described in note 34. As of 30 November 2010, the Group has no potential dilutive instruments in issue.

	Year ended 30 November 2010	Year ended 30 November 2009
Net profit attributable to shareholders of AIA Group Limited (US\$m)	2,701	1,754
Weighted average number of ordinary shares for diluted earnings per share (million)	12,044	12,000
Diluted earnings per share (cents per share)	<u>22</u>	<u>15</u>

Operating profit per share

Operating profit (see Note 5) per share is calculated by dividing the operating profit before tax by the weighted average number of ordinary shares in issue during the year. As of 30 November 2009, the Group had potentially dilutive instruments which were the shares yet to be issued as described in note 34. As of 30 November 2010, the Group has no potential dilutive instruments in issue.

	Year ended 30 November 2010	Year ended 30 November 2009
Basic and fully diluted (cents per share)	<u>17</u>	<u>15</u>

13. DIVIDENDS

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Ordinary dividends declared and charged to equity in the period	–	25

Dividends declared and charged to equity for the year ended 30 November 2009 reflected 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 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
Additions	–	14	5	19
Acquisition of a subsidiary	(3)	–	13	10
Disposals	–	(6)	–	(6)
Foreign exchange movements	–	7	2	9
At 30 November 2010	126	151	44	321
Accumulated amortisation				
At 1 December 2008	(6)	(39)	–	(45)
Amortisation charge for the year	–	(8)	(1)	(9)
Disposal of a subsidiary	–	1	–	1
Foreign exchange movements	–	(3)	–	(3)
At 30 November 2009	(6)	(49)	(1)	(56)
Amortisation charge for the year	–	(10)	(1)	(11)
Disposals	–	2	–	2
Foreign exchange movements	–	(4)	–	(4)
At 30 November 2010	(6)	(61)	(2)	(69)
Net book value				
At 30 November 2009	123	87	23	233
At 30 November 2010	120	90	42	252

Of the above, US\$241m (2009: US\$224m) 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

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Group		
At beginning of financial year	53	47
Additions	15	24
Disposals	(6)	(1)
Share of net loss	(9)	(21)
Others	14	–
Foreign exchange movements	2	4
At end of financial year	69	53

The Group's interest in its principal associates is as follows:

	Country of incorporation	Type of shares held	Principal activity	As at 30 November 2010	As at 30 November 2009
Beacon Property Ventures, Inc	Philippines	Ordinary	Property management	40%	40%
Chelshire Investments Private Limited	Singapore	Ordinary	Property management	0%	50%
Chelville Investments Private Limited	Singapore	Ordinary	Property management	0%	50%
Deeptro Private Limited	Singapore	Ordinary	Property management	50%	50%
ICCP Holdings Inc	Philippines	Ordinary	Investment holding	20%	20%
Manila Exposition Complex, Inc	Philippines	Ordinary	Hotel	10%	10%
NaiLert Park Hotel Co. Limited	Thailand	Ordinary	Property management	20%	20%
Panareno Sendrian Berhad	Malaysia	Ordinary and preference	Property management	35%	35%
Philam Realty	Philippines	Ordinary	Property management	40%	40%
Science Park of the Philippines	Philippines	Ordinary	Property management	17%	17%
Tata AIG Life Insurance Company Limited	India	Ordinary	Insurance	26%	26%
Winfame Investments Private Limited	Singapore	Ordinary	Property management	50%	50%
Winwave Investments Private Limited	Singapore	Ordinary	Property management	50%	50%

Chelshire Investments Private Limited and Chelville Investments Private Limited were disposed during the year ended 30 November 2010. All associates are unlisted.

Aggregated financial information of associates

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Share of income	146	146
Share of expenses	(155)	(167)
Share of loss	(9)	(21)
	As at 30 November 2010	As at 30 November 2009
Share of current assets	511	425
Share of long term assets	348	186
Share of current liabilities	(21)	(30)
Share of long term liabilities	(769)	(528)
Share of net assets	69	53

Investments in associates 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 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
Additions	2	29	19	50
Disposals	(8)	(15)	(8)	(31)
Transfers from investment property	2	–	–	2
Foreign exchange movements	21	11	7	39
At 30 November 2010	402	265	184	851
Accumulated depreciation				
At 1 December 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)
Depreciation charge	(14)	(39)	(17)	(70)
Disposals	8	12	7	27
Transfers from investment property	(1)	–	–	(1)
Foreign exchange movements	(8)	(9)	(7)	(24)
At 30 November 2010	(171)	(210)	(152)	(533)
Net book value				
At 30 November 2009	229	66	31	326
At 30 November 2010	231	55	32	318

The Group holds freehold land in the form of property, plant and equipment outside Hong Kong of US\$77m (2009: US\$73m).

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 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
Additions	59
Disposals	(6)
Transfers to property, plant and equipment	(2)
Foreign exchange movements	16
	<hr/>
At 30 November 2010	361
	<hr/> <hr/>
Accumulated depreciation	
At 1 December 2008	(46)
Charge for the year	(2)
Transfers from property, plant and equipment	(1)
Foreign exchange movements	(1)
At 30 November 2009	(50)
Charge for the year	(1)
Disposals	2
Transfers to property, plant and equipment	1
Foreign exchange movements	(4)
	<hr/>
At 30 November 2010	(52)
	<hr/> <hr/>
Net book value	
At 30 November 2009	244
At 30 November 2010	309

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.

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\$62m (2009: US\$68m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US\$10m (2009: US\$12m).

The Group owns investment property in the form of freehold land outside Hong Kong of US\$116m (2009: US\$50m). 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:

US\$m	As at 30 November 2010	As at 30 November 2009
Leases of investment property		
Expiring no later than one year	55	56
Expiring later than one year and no less than five years	83	104
Expiring after five years or more	9	12
	<u>147</u>	<u>172</u>
Total	<u>147</u>	<u>172</u>

18. FAIR VALUE OF INVESTMENT PROPERTY AND PROPERTY HELD FOR USE

US\$m	As at 30 November 2010	As at 30 November 2009
Carrying value¹		
Investment properties	309	244
Property held for use (classified as property, plant and equipment)	231	229
Leasehold land (classified as prepayments in other assets)	690	690
	<u>1,230</u>	<u>1,163</u>
Total	<u>1,230</u>	<u>1,163</u>
Fair value¹		
Investment properties (including land)	2,018	1,593
Properties held for use (including land)	1,059	870
	<u>3,077</u>	<u>2,463</u>
Total	<u>3,077</u>	<u>2,463</u>

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

US\$m	As at 30 November 2010	As at 30 November 2009
Amounts recoverable from reinsurers	46	29
Ceded insurance and investment contract liabilities	568	255
	<u>614</u>	<u>284</u>
Total	<u>614</u>	<u>284</u>

20. DEFERRED ACQUISITION AND ORIGINATION COSTS

US\$m	As at 30 November 2010	As at 30 November 2009
Carrying amount		
Deferred acquisition costs on insurance contracts	11,195	10,123
Deferred origination costs on investment contracts	811	853
	<hr/>	<hr/>
Total	12,006	10,976
	<hr/> <hr/>	<hr/> <hr/>
	Year ended 30 November 2010	Year ended 30 November 2009
Movements in the period		
At beginning of financial year	10,976	10,047
Deferral and amortisation of acquisition costs	635	308
Foreign exchange movements	457	827
Impact of assumption changes	26	(101)
Acquisition of a subsidiary	–	31
Disposal of a subsidiary	–	(70)
Other movements	(88)	(66)
	<hr/>	<hr/>
At end of financial year	12,006	10,976
	<hr/> <hr/>	<hr/> <hr/>

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 certain 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			
Standard and Poor's	Moody's	Internal ratings	Reported as
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 ⁽¹⁾

Note: (1) Unless otherwise identified individually.

Debt securities by type comprise the following:

US\$' m	Rating	Policyholder and shareholder			Sub-total	Investment-linked FVTPL	Total
		Participating funds	Other policyholder and shareholder				
		FVTPL	FVTPL	AFS			
30 November 2010							
Government bonds – issued in local currency							
Singapore	AAA	1,436	–	925	2,361	71	2,432
Thailand	A	–	–	9,597	9,597	–	9,597
Philippines	BB	–	–	1,884	1,884	90	1,974
Malaysia	A	1,100	–	223	1,323	6	1,329
China	A	310	–	946	1,256	42	1,298
Indonesia	BB	–	–	669	669	133	802
Korea	A	–	–	2,084	2,084	13	2,097
Other ⁽¹⁾		1	13	343	357	–	357
Sub-total		2,847	13	16,671	19,531	355	19,886
Government bonds – foreign currency							
Mexico	BBB	10	21	172	203	2	205
South Africa	BBB	1	4	161	166	2	168
Philippines	BB	1	13	599	613	61	674
Malaysia	A	10	–	72	82	1	83
Indonesia	BB	54	12	227	293	2	295
Korea	A	17	1	247	265	4	269
China	A	–	–	31	31	2	33
Other ⁽¹⁾		64	132	411	607	18	625
Sub-total		157	183	1,920	2,260	92	2,352
Government agency bonds²							
AAA		469	–	578	1,047	125	1,172
AA		–	–	237	237	15	252
A		743	–	3,752	4,495	160	4,655
BBB		1,091	–	1,977	3,068	26	3,094
Below investment grade		–	–	291	291	–	291
Not rated		–	–	–	–	1	1
Sub-total		2,303	–	6,835	9,138	327	9,465

Note: (1) Of the total government bonds listed as 'Other' at 30 November 2010, 89% is rated as investment grade and a further 10% is rated BB- and above. The balance is rated below BB- or unrated

(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

US\$' m	Rating	Policyholder and shareholder			Sub-total	Investment-linked FVTPL	Total
		Participating funds	Other policyholder and shareholder				
		FVTPL	FVTPL	AFS			
30 November 2010							
Corporate bonds							
AAA		588	–	606	1,194	71	1,265
AA		1,394	73	2,068	3,535	233	3,768
A		3,043	228	9,481	12,752	542	13,294
BBB		2,071	324	6,642	9,037	265	9,302
Below investment grade		311	34	933	1,278	41	1,319
Not rated		31	74	9	114	145	259
Sub-total		7,438	733	19,739	27,910	1,297	29,207
Structured securities³							
AAA		4	16	4	24	–	24
AA		–	5	11	16	–	16
A		17	–	492	509	–	509
BBB		319	37	93	449	10	459
Below investment grade		102	97	58	257	16	273
Not rated		10	–	6	16	–	16
Sub-total		452	155	664	1,271	26	1,297
Total		13,197	1,084	45,829	60,110	2,097	62,207

Note: (3) Structured securities include collateralised debt obligations, mortgage backed securities and other asset backed securities

US\$' m	Rating	Policyholder and shareholder			Sub-total	Investment-linked FVTPL	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
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

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

(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

US\$'m	Policyholder and shareholder			Sub-total	Investment-linked FVTPL	Total
	Participating funds	Other policyholder and shareholder				
	FVTPL	FVTPL	AFS			
30 November 2009						
Structured securities³						
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 collateralised debt obligations, mortgage backed securities and other asset backed securities

Equity securities

Equity securities by type comprise the following:

US\$'m	Policyholder and shareholder			Sub-total	Investment-linked FVTPL	Total
	Participating funds	Other policyholder and shareholder				
	FVTPL	FVTPL	AFS			
30 November 2010						
Ordinary shares	2,469	3,827	-	6,296	3,556	9,852
Securities held by consolidated mutual funds	124	319	-	443	1,204	1,647
Interests in investment funds						
AIA Group managed	-	8	-	8	218	226
Third party managed	626	1,419	-	2,045	8,284	10,329
	626	1,427	-	2,053	8,502	10,555
Total	3,219	5,573	-	8,792	13,262	22,054

US\$' m	Policyholder and shareholder			Sub-total	Investment-linked FVTPL	Total
	Participating funds	Other policyholder and shareholder				
	FVTPL	FVTPL	AFS			
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						
AIA Group managed	-	4	-	4	144	148
AIG managed	116	128	-	244	1,088	1,332
Third party 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	As at 30 November 2010	As at 30 November 2009
Debt securities		
Listed		
Hong Kong	953	394
Overseas	31,957	30,663
	32,910	31,057
Unlisted	29,297	21,144
Total	62,207	52,201
Equity securities		
Listed		
Hong Kong	597	399
Overseas	10,236	6,606
	10,833	7,005
Unlisted	11,221	9,173
Total	22,054	16,178

Loans and receivables

US\$m	As at 30 November 2010	As at 30 November 2009
Policy loans	1,786	1,644
Mortgage loans on residential real estate	459	527
Mortgage loans on commercial real estate	21	48
Intercompany loans to subsidiaries of AIG (see Note 41)	–	87
Other loans	618	446
Allowance for loan losses	(28)	(12)
	<hr/>	<hr/>
Loans	2,856	2,740
Due from insurance and investment contract holders	591	546
Due from agents, brokers and intermediaries	49	39
	<hr/>	<hr/>
Insurance receivables	640	585
Related party receivables	1	1
Receivables from sales of investments	112	34
Other receivables	347	396
	<hr/>	<hr/>
Receivables	1,100	1,016
Term deposits	906	892
	<hr/>	<hr/>
Total	4,862	4,648
	<hr/> <hr/>	<hr/> <hr/>

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\$113m (2009: US\$104m).

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 2010 the carrying value of such receivables is US\$36m (2009: US\$69m).

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 2010			
Foreign exchange contracts:			
Forwards	107	1	–
Cross currency swaps	8,501	756	(25)
Total foreign exchange contracts	8,608	757	(25)
Interest rate contracts			
Interest rate swaps	1,318	14	(4)
Other			
Warrants	21	4	–
Total	9,947	775	(29)
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)

Note: (1) Derivative assets and liabilities are classified as at fair value through profit or loss as they are held for trading.

(2) The notional amount of derivative financial instruments with related parties amounted to US\$nil (2009: US\$58m).

For swap transactions, both legs of the transaction have been disclosed in the column 'notional amount'.

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 2010						
Financial investments:	21					
Loans and receivables		–	–	4,862	4,862	4,898
Debt securities		16,378	45,829	–	62,207	62,207
Equity securities		22,054	–	–	22,054	22,054
Derivative financial instruments	22	775	–	–	775	775
Reinsurance receivables	19	–	–	46	46	46
Cash and cash equivalents	25	–	–	2,595	2,595	2,595
Financial assets		39,207	45,829	7,503	92,539	92,575

	<i>Notes</i>	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities:					
Investment contract liabilities	27	7,786	1,305	9,091	9,091
Borrowings	29	–	597	597	597
Obligations under securities lending and repurchase agreements	30	–	1,091	1,091	1,091
Derivative financial instruments	22	29	–	29	29
Other liabilities and current tax liabilities ¹		–	2,001	2,001	2,001
Financial liabilities		7,815	4,994	12,809	12,809

Note: (1) Excludes third party interests in consolidated investment funds

US\$m	<i>Notes</i>	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	–	–	4,648	4,648	4,688
Loans and receivables		–	–	–	–	–
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

	<i>Notes</i>	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

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 judgment 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 judgment 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 judgment. 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.

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.

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 values 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

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.
- **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 2010				
Financial assets				
Available for sale				
Debt securities	–	45,603	226	45,829
Equity securities – shares in ultimate parent	–	–	–	–
At fair value through profit or loss				
Debt securities				
Participating funds	–	12,978	219	13,197
Investment-linked	–	2,003	94	2,097
Other policyholder and shareholder	–	778	306	1,084
Equity securities				
Participating funds	3,016	90	113	3,219
Investment-linked	12,583	676	3	13,262
Other policyholder and shareholder	5,203	198	172	5,573
Derivative financial assets	3	771	1	775
Total	20,805	63,097	1,134	85,036
<i>Total %</i>	24.5	74.2	1.3	100.0
Financial liabilities				
Investment contract liabilities	–	–	7,786	7,786
Derivative financial instruments	–	29	–	29
Total	–	29	7,786	7,815
<i>Total %</i>	–	0.4	99.6	100.0

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>

The tables below set out a summary of changes in the Group's Level 3 financial assets and liabilities for the year ended 30 November 2009 and 2010. The tables reflect gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 30 November 2009 and 2010.

Level 3 financial assets and liabilities

US\$m	Debt securities	Equity securities	Derivative financial assets	Derivative financial liabilities	Investment contracts
At 1 December 2009	650	235	–	(2)	(6,669)
Realised gains/(losses)	11	2	1	1	–
Net movement on investment contract liabilities	–	–	–	–	(1,117)
Unrealised gains/(losses) relating to instruments still held at the reporting date					
Reported in the consolidated income statement	22	30	–	–	–
Reported in the consolidated statement of comprehensive income	48	7	–	–	–
Purchases, issues and settlements	37	14	–	–	–
Transfers in to/(out of) Level 3	77	–	–	1	–
At 30 November 2010	845	288	1	–	(7,786)

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	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 November 2009	<u>650</u>	<u>235</u>	<u>-</u>	<u>(2)</u>	<u>(6,669)</u>

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.

24. OTHER ASSETS

US\$m	As at 30 November 2010	As at 30 November 2009
Prepayments		
Operating leases of leasehold land	690	690
Other	105	51
Accrued investment income	970	854
Pension scheme assets		
Defined benefit pension scheme surpluses (Note 38)	8	5
	<u> </u>	<u> </u>
Total	<u>1,773</u>	<u>1,600</u>

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 below.

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.

US\$m	As at 30 November 2010	As at 30 November 2009
Land held in Hong Kong		
Long-term leases (>50 years)	633	635
Medium-term leases (10 – 50 years)	–	–
Short-term leases (<10 years)	–	–
Land held outside Hong Kong		
Freehold	–	–
Long-term leases (>50 years)	57	53
Medium-term leases (10 – 50 years)	–	2
Short-term leases (<10 years)	–	–
Total	690	690

25. CASH AND CASH EQUIVALENTS

Cash and deposits

US\$m	As at 30 November 2010	As at 30 November 2009
Cash	931	1,217
Cash equivalents	1,664	2,188
Total	2,595	3,405

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

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
At beginning of financial year	63,255	52,158
Valuation premiums	9,265	8,522
Liabilities released for death or other termination and related expenses	(5,251)	(4,639)
Fees deducted from account balances	(417)	(542)
Accretion of interest	2,396	2,080
Foreign exchange movements	2,958	4,005
Change in asset values attributable to policyholders	1,086	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	(87)	22
At end of financial year	73,205	63,255

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 by 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

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			
		Direct exposure		Indirect exposure	Significant insurance and lapse risks
		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. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

Valuation interest rates

As at 30 November 2009 and 2010, the range of applicable valuation interest rates for traditional insurance contracts, which vary by territory, year of issuance and products, within the first 20 years are as follows:

Hong Kong	3.50% – 7.50%
Thailand	2.60% – 9.00%
Singapore	2.00% – 10.00%
Malaysia	3.70% – 8.90%
China	2.75% – 7.00%
Korea	3.33% – 6.50%
Philippines	4.40% – 9.20%
Indonesia	3.37% – 10.80%
Vietnam	5.07% – 12.25%
Australia	3.83% – 7.11%
New Zealand	3.83% – 5.75%
Taiwan	1.75% – 6.50%

27. INVESTMENT CONTRACT LIABILITIES

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
At beginning of financial year	7,780	4,898
Effect of foreign exchange movements	107	102
Investment contract benefits	765	2,164
Fees charged	(285)	(326)
Net deposits and other movements	724	942
At end of financial year	9,091	7,780

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 2010	As at 30 November 2009
(Increase)/decrease in insurance contract liabilities, equity and profit before tax		
Interest rates + 0.5%	6	4
Interest rates – 0.5%	(6)	(4)
Expenses +10%	(2)	(2)
Mortality +10%	(11)	(10)
Lapse rates +5%	(23)	(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\$15m decrease in profit (2009: US\$86m).

29. BORROWINGS

US\$m	As at 30 November 2010	As at 30 November 2009
Bank loans	496	549
Bank overdrafts	97	85
Loans from subsidiaries of AIG	–	50
Other loans	4	4
Total	597	688

Properties with a book value of US\$760m at 30 November 2010 (2009: US\$758m) and a fair value of US\$1,675m at 30 November 2010 (2009: US\$1,315m) and cash and cash equivalents with a book value of US\$63m (2009: US\$75m) 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 REPURCHASE AGREEMENTS

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 repurchase agreements at each period end:

US\$m	As at 30 November 2010	As at 30 November 2009
Debt securities:		
Repurchase agreements	1,545	315
Total	1,545	315

The following table shows the obligations under repurchase agreements at each period end:

US\$m	As at 30 November 2010	As at 30 November 2009
Repurchase agreements	1,091	284
Total	1,091	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 could only borrow under this facility if the collateral investment account maintained on behalf of the Group did 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 accrued on the outstanding borrowings at three months US\$ LIBOR-BBA plus 1% per annum. Either party was allowed to terminate the agreement at any time upon 30 business days prior written notice to the other party.

The Group did not draw 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 were no outstanding loans under the programme, the Group no longer had the ability to draw down under this agreement. Effective 5 March 2010 and 26 April 2010, the agreement was terminated by AIA Co and AIA-B, respectively.

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 year ended 30 November 2010, impairment losses of US\$1m (2009: US\$67m) were recognised in respect of available for sale debt securities.

The carrying amounts of available for sale debt securities that are individually determined to be impaired at 30 November 2010 was US\$57m (2009: US\$95m).

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 portfolio of 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 carrying amounts of loans and receivables that are individually determined to be impaired at 30 November 2010 was US\$30m (2009: US\$32m).

The Group has a 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 2008	53	113	166
Charged to the consolidated income statement ¹	16	131	147
Incurred in connection with acquisition of a subsidiary	–	30	30
Exchange differences	3	9	12
Contributions	(2)	–	(2)
Utilised during the year	–	(73)	(73)
At 30 November 2009	70	210	280
Charged to the consolidated income statement ¹	11	57	68
Exchange differences	2	5	7
Released during the year	–	(24)	(24)
Utilised during the year	(2)	(129)	(131)
	<u>81</u>	<u>119</u>	<u>200</u>
At 30 November 2010	81	119	200

Note: (1) Of the provisions charged to the consolidated income statement as “Other” during the year ended 30 November 2010, US\$42m (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 2010	As at 30 November 2009
Trade and other payables	1,438	1,162
Third party interests in consolidated investment funds	262	397
Payables from purchases of investments	186	396
Reinsurance payables	90	57
Total	1,976	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 2010		As at 30 November 2009	
	Million shares	US\$m	Million shares	US\$m
Authorised				
Ordinary shares of US\$1 each	20,000	20,000	20,000	20,000
Issued and fully paid				
At start of the financial year	12,000	12,000	12,000	12,000
Shares issued during the year	44	44	–	–
At end of the financial year	12,044	12,044	12,000	12,000
Shares yet to be issued	–	–	44	44
Share premium		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.

35. NON-CONTROLLING INTERESTS

US\$m	As at 30 November 2010	As at 30 November 2009
Equity shares in subsidiaries	54	51
Share of earnings	11	–
Share of other reserves	15	–
Total	80	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.

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 Co and AIA-B levels is the Hong Kong Office of the Commissioner of Insurance ('HK OCI'), which requires that AIA Co 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 HK OCI requires AIA Co and AIA-B to maintain an excess of assets over liabilities of not less than the required minimum solvency margin. The amount required under the Hong Kong Insurance Companies Ordinance as the minimum solvency margin can be determined and may be treated as 100% of that amount. The excess of assets over liabilities to be maintained by AIA Co and AIA-B required by the HK OCI is not less than 150% of that amount.

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 Co and AIA-B submit annual filings to the HK 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. 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 Co, 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 Co is subject to the oversight of the HK OCI. In addition, surplus capital may not be remitted out of Thailand in particular, including by AIA Thailand Branch to its Head Office in Hong Kong, without the consent of the Office of the Insurance Commission in Thailand. More generally, 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.

Capital and Regulatory Orders Specific to the Group

Since September 2008, certain regulators of the Group imposed additional requirements or restrictions on certain of its branches and subsidiaries. These requirements and restrictions may be or may have been amended or revoked at the relevant regulator's discretion. As of 30 November 2010, the requirements and restrictions summarised below remain in effect unless otherwise stated. Please also refer to Note 44 for events after the reporting period in relation to AIA Singapore Branch.

Hong Kong Office of the Commissioner of Insurance

Following the AIG Events, letters dated 17 September 2008 were issued from the Insurance Authority to each of AIA Co and AIA-B ("Section 35 Ring-fencing Orders").

Among other consequences, the Section 35 Ring-fencing Orders placed restrictions on the ability of AIA Co and AIA-B and all of their branches to engage in capital related transactions with specified persons (including their branches, directors, controllers, shareholders and associates or group companies). Accordingly, the Section 35 Ring-fencing Orders restricted the ability of AIA Co and AIA-B to pay dividends to their parent companies, and limited their ability to engage in intercompany transactions with specified persons, such as payment of intercompany service fees, without first obtaining written consent from the Insurance Authority.

By further letters dated 18 September 2008 to AIA Co and AIA-B ("Section 35 Controller Orders"), the Insurance Authority required AIA Co and AIA-B not to acquire a new controller who, alone or with any associate or through a nominee, is entitled to exercise, or control the exercise of, 15% or more of the voting power at their general meetings or the general meetings of their parent companies without first obtaining written consent from the Insurance Authority.

On 29 October 2010, in consideration of the undertakings described below, the Section 35 Ring-fencing Orders were rescinded and the Insurance Authority varied the Section 35 Controller Orders such that prior consent of the Insurance Authority is not required where any person becomes a controller (within the meaning of section 9(1)(c)(ii) of the ICO) of AIA Co and AIA-B through the acquisition of shares traded on The Stock Exchange of Hong Kong Stock Limited ("HKSE").

The Section 35 Ring-fencing Orders require each of AIA Co or AIA-B, including all of their branches, as appropriate:

- 1) to ensure that all insurance business and all transactions with any "specified person" are on normal commercial terms;
- 2) to ensure that AIA Co or AIA-B do not place any deposit with or transfer assets (except for normal insurance transactions) or provide financial assistance to any "specified person" without first obtaining written consent from the Insurance Authority; and
- 3) to inform the Insurance Authority as soon as practicable of any circumstances which may put the interest of policyholders or potential policyholders at risk.

AIG has given the Insurance Authority an undertaking that, with effect from the date of the rescission of the Section 35 Ring-fencing Orders and for so long as AIG directly or indirectly holds a legal or beneficial interest in AIA Group Limited in excess of 10% of the outstanding or issued share capital of AIA Group Limited (or AIG directly or indirectly is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of AIA Group Limited), AIG will ensure that, except with the prior written consent of the Insurance Authority:

- (i) any AIG Group holder of AIG's interest in AIA Group Limited that is controlled by AIG will abstain from voting in any shareholder vote of AIA Group Limited for the approval of a dividend distribution to AIA Group Limited's shareholders; and

- (ii) AIG will not, either directly or indirectly or through a member of the AIG Group that AIG controls: (a) accept any deposit from any member of the AIA Group; (b) be the recipient of any assets transferred from any member of the AIA Group except for (x) normal insurance transactions or any arrangements on normal commercial terms in place as of the date of the undertaking (including renewals thereof), and (y) dividends distributed to shareholders of AIA Group Limited that have been approved by the other shareholders of AIA Group Limited; or (c) accept any financial assistance (i.e., the granting of credit, lending of money, providing of security for or the guaranteeing of a loan) from any member of the AIA Group.

AIA Group Limited has given to the Insurance Authority an undertaking that AIA Group Limited will:

- (i) ensure that (a) AIA Co and AIA-B will at all times maintain a solvency ratio of not less than 150%, both on an individual insurer basis and on an AIA Co/AIA-B consolidated basis; (b) it will not withdraw capital or transfer any funds or assets out of either AIA Co or AIA-B that will cause AIA Co's or AIA-B's solvency ratio to fall below 150%, except with, in either case, the prior written consent of the Insurance Authority; and (c) should the solvency ratio of either AIA Co or AIA-B fall below 150%, AIA Group Limited will take steps as soon as possible to restore it to at least 150% in a manner acceptable to the Insurance Authority;
- (ii) ensure that, for so long as AIG directly or indirectly holds a legal or beneficial interest in AIA Group Limited in excess of 10% of the outstanding or issued share capital of AIA Group Limited (or AIG directly or indirectly is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of AIA Group Limited), AIA Co and AIA-B shall not, without first obtaining written consent from the Insurance Authority: (a) place any deposit with AIG and/or any member of the AIG Group that AIG controls (excluding the Company, its subsidiaries and their branches); (b) transfer any assets to AIG and/or any member of the AIG Group that AIG controls (excluding the Company, its subsidiaries and their branches), except for normal insurance transactions or any arrangements on normal commercial terms in place as of the date of the undertaking (including renewals thereof); or (c) provide any financial assistance to AIG and/or any member of the AIG Group that AIG controls (excluding the Company, its subsidiaries and their branches);
- (iii) notify the Insurance Authority in writing as soon as the Company becomes aware of any person (a) becoming a controller (within the meaning of Section 9(1)(c)(ii) of the ICO) of AIA Co and AIA-B through the acquisition of our Shares traded on the HKSE; or (b) ceasing to be a controller (within the meaning of Section 9(1)(c)(ii) of the ICO) of AIA Co and AIA-B through the disposal of our Shares traded on the HKSE;
- (iv) comply with the guidance from the Insurance Authority to AIA Group Limited that the AIA Group will be subject to the supervision of the Insurance Authority and AIA Group Limited will be required to continually comply with the Insurance Authority's guidance on the "fit and proper" standards of a controller pursuant to Section 8(2) of the ICO. The Insurance Authority is empowered by the ICO to raise objection if it appears to it that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company's financial resources; the viability of a holding company's business plan for its insurance subsidiaries which are regulated by the Insurance Authority; the clarity of the group's legal, managerial and operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors or controllers is subject to receivership, administration, liquidation or other similar proceedings or failed to satisfy any judgment debt under a court order or the subject of any criminal convictions or in breach of any statutory or regulatory requirements; the soundness of the group's corporate governance; the soundness of the group's risk management framework; the receipt of information from its insurance subsidiaries which are regulated by the Insurance Authority to ensure that they are managed in compliance with applicable laws, rules and regulation; and its role in overseeing and managing the operations of its insurance subsidiaries which are regulated by the Insurance Authority; and

- (v) fulfil all enhancements or improvements to the guidance referred to in sub-paragraph (iv) above, as well as administrative measures issued from time to time by the Insurance Authority or requirements that may be prescribed by the Insurance Authority in accordance with the ICO, regulations under the ICO or Guidance Notes issued by the Insurance Authority from time to time.

Monetary Authority of Singapore

Since October 2008, the Monetary Authority of Singapore (“MAS”) has issued certain directions to the Singapore Branch of AIA Co (“AIAS”) specifying that it comply with increased capital adequacy requirements. In addition, the directions provide that prior MAS consent be sought in respect of certain transactions including transfers or disposals of certain assets (including land or buildings) and financing and guarantee arrangements. The directions also impose certain additional reporting requirements on AIAS. Please refer to Note 44 in relation to the cancellation of these directions after the reporting period.

Bermuda Monetary Authority

On 2 August 2010, the BMA and AIA-B entered into a Letter of Agreement. This required prior approval from the BMA of certain transactions, prior notifications of other transactions and a daily report to be submitted.

By letter dated 21 October 2010, the BMA agreed to release AIA-B from all obligations under the Letter of Agreement once confirmation has been provided by AIA-B that dealings in shares of AIA Group Limited commenced on The Stock Exchange of Hong Kong Limited (the “IPO”) and upon confirmation of certain conditions.

The conditions were fulfilled by letters dated 25 and 29 October 2010 sent from AIA-B to the BMA. By letter dated 1 November 2010, the BMA acknowledged the confirmation of the conditions set out in the letter dated 21 October 2010 to the release of the obligations under the Letter of Agreement and released AIA-B from all its obligations under the Letter of Agreement.

China Insurance Regulatory Commission

Notices issued by the China Insurance Regulatory Commission (“CIRC”) ordered AIA Shanghai Branch, Guangdong Branch, Jiangsu Branch, Beijing Branch, Shenzhen Branch, Suzhou Central Sub-Branch, Dongguan Sub-Branch and Jiangmen Sub-Branch to:

- 1) maintain sufficient funds to provide for possible cancellations and to prevent liquidity risks and monitor liquidity daily; and
- 2) enhance capital stability by: (a) not entering into any mortgage, guarantee or letter of credit or incurring any debt other than in the normal course of business; (b) not transferring any assets or funds outside of the PRC; and (c) obtaining approval from the CIRC on any affiliated transaction with AIG including reinsurance transactions (so as to prevent the flow of capital or assets out of the PRC).

By notice issued on 3 November 2010, the CIRC revoked the regulatory measures stipulated in the notices described above. The notice also requires that AIA Co should report major matters and major transactions to the CIRC.

Other Orders

Correspondence has also been issued to the Group by the Mandatory Provident Fund Schemes Authority in Hong Kong and the regulators in Taiwan, Brunei and Vietnam. Pursuant to this correspondence, regular updates are to be provided to the regulators, and certain regulators must provide their consent before assets are transferred or transactions are entered into with connected parties. The Group is in discussions with the regulators in Taiwan, Brunei and Vietnam in relation to rescission of the remaining orders as soon as possible.

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 measured 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 Co, and on 3 November 2009, the Group acquired Philam.

In January 2009, the HK OCI introduced temporary relief measures to all Hong Kong regulated long-term and composite insurers in response to the unprecedented level of volatility in global capital markets and low interest rate environment. These measures apply to financial years running from 2008 to 2010, after which a review will be conducted.

The capital positions of the Group's two principal operating companies as of 30 November 2009 and 2010 are illustrated in the table:

US\$m	Total available capital	Required capital	30 November	Total available capital	Required capital	30 November
			2010			2009
			Solvency margin ratio			Solvency margin ratio
AIA Co	6,207	1,844	337%	4,811	1,547	311%
AIA-B	3,341	1,040	321%	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 financial, operational and strategic risks.

Financial risk exposures

As an insurance group, the Group is exposed to a range of financial risks, including insurance risk, credit risk, market risk, and liquidity risk. 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:

- Product design risk
- Pricing and underwriting risk
- Lapse risk; and
- Claims volatility risk

Product design risk

Product design risk refers to potential defects in the development of a particular insurance product. The Group manages product design risk by completing pre-launch reviews and approval of products by local and the Group functional departments, including product management, actuarial, legal and underwriting. These departments have substantial experience and have developed significant expertise in identifying potential flaws in product development that could expose the Group to excessive risk.

The Group monitors closely the performance of new products and focuses on actively managing each part of the actuarial control cycle to minimise risk in the in-force book as well as for new products. 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.

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 at the group level for complex and large insurance risks. Any exceptions require specific approval and may be subject to separate risk management actions.

In certain circumstances, such as when entering a new line of business, products or markets for which insufficient experience data is available the Group makes use of reinsurance to obtain product pricing expertise.

In pricing insurance products the Group allows for an appropriate level of expenses that reflects a realistic medium to long term view of the underlying cost structure. A disciplined expense budgeting and management process is followed that controls expenses within product pricing allowances over the medium to long term.

Lapse risk

Lapse risk refers to the possibility of actual lapse experience that diverges from the anticipated experience assumed when products were priced. It includes the potential 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 reviews 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. In addition, many of the Group's products include surrender charges that entitle the Group to additional fees on early termination by the policyholder, thereby reducing exposure to lapse risk.

Claims volatility risk

Claims volatility risk refers to the possibility that the frequency or severity of claims arising from insurance contracts exceeds the level assumed when the products were priced.

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 volatility risk by conducting regular experience studies, including reviews of mortality and morbidity experience, reviewing internal and external data, and considering the impact of these on product design, pricing and reinsurance needs. 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.

Mortality and morbidity risk in excess of the respective retention limits are ceded to reduce volatility in claims experience for the Group. 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.

Concentration of insurance risk can be a cause of elevated claims volatility risk and 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 breadth of the Group's geographical spread and product portfolio creates natural diversification and reduces the extent to which concentrations of insurance risk arise. 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.

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.

Concentrations of risk are managed within each market through the monitoring of product sales and size of the in-force book by product group. The Group mitigates this risk by adhering to the underwriting and claims management policies and procedures that have been developed based on extensive historical experience. Lastly, reinsurance solutions are also used to help reduce concentration risk.

Credit risk

Credit risk arises from the possibility of financial loss arising from default by borrowers and transactional counterparties and the decrease in the value of 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 geographical concentration of the Group's government bonds is disclosed in note 21.

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 Credit Risk Management Committee.

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 (net of allowances) in the consolidated statement of financial position.

Market risk

Market risk arises from the possibility of financial loss caused by changes in financial instruments' fair values or future cash flows due to fluctuations in key variables, including interest rates, equity market prices, foreign exchange rates and real estate property market prices.

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.

The Group routinely conducts sensitivity analysis 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.

Interest rate risk

The Group's exposure to interest rate risk predominantly arises from the Group's duration gap between the liabilities and assets for interest rate sensitive products, especially those providing interest rate guarantees. 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 investing in financial instruments with tenors that match the duration of its liabilities as much as practicable and appropriate.

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. For new products, the Group emphasises flexibility in product design and generally designs products to avoid excessive long-term interest rate guarantees. For in-force policies, policyholder bonus payout and credit interest rates applicable to policyholder account balances are regularly adjusted considering, among others, the earned yields and policyholders' communications and reasonable expectations.

Exposure to interest rate risk

The table below summarises the nature of the interest rate risk associated with financial assets, financial liabilities and insurance contract 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 2010				
Financial assets				
Loans and receivables	731	3,043	1,088	4,862
Debt securities	5,876	56,331	–	62,207
Equity securities	–	–	22,054	22,054
Reinsurance receivables	–	–	46	46
Derivative financial instruments	–	–	775	775
Cash and cash equivalents	2,428	–	167	2,595
Total financial assets	9,035	59,374	24,130	92,539
Financial liabilities and insurance contracts				
Insurance contract liabilities				
(net of reinsurance)	–	–	72,637	72,637
Investment contract liabilities	–	–	9,091	9,091
Borrowings	500	–	97	597
Obligations under securities lending and repurchase agreements	1,091	–	–	1,091
Derivative financial liabilities	–	–	29	29
Other financial liabilities including tax payable	–	–	2,001	2,001
Total financial liabilities and insurance contracts	1,591	–	83,855	85,446
Net financial assets, financial liabilities and insurance contracts	7,444	59,374	(59,725)	7,093

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 and insurance contracts				
Insurance contract liabilities (net of reinsurance)	–	–	63,000	63,000
Investment contract liabilities	–	–	7,780	7,780
Borrowings	603	–	85	688
Obligations under repurchase agreements	284	–	–	284
Derivative financial liabilities	–	–	71	71
Other financial liabilities including tax payable	–	–	1,800	1,800
Total financial liabilities and insurance contracts	887	–	72,736	73,623
Net financial assets, financial liabilities and insurance contracts	7,876	50,311	(54,896)	3,291

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.

On a local operating unit level, we have invested in assets denominated in currencies that match the related liabilities, to the extent possible and appropriate, 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 to ensure that these exposures are undertaken within the Group's acceptable levels of risks. Foreign exchange positions may be closed or hedging instruments such as swaps, futures and forwards may be purchased to mitigate foreign exchange risks.

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 2010							
Equity analysed by original currency	13,195	21	3,727	(1,898)	652	777	1,380
Net notional amounts of currency derivative positions	(3,787)	-	1,266	3,110	-	-	-
Currency exposure	9,408	21	4,993	1,212	652	777	1,380
5% strengthening of original currency							
Impact on profit before tax	103	(24)	-	13	1	9	2
5% strengthening of the US dollar							
Impact on shareholders' equity	(103)	(12)	(249)	(60)	(32)	(34)	(67)
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)

Equity market price risk

Equity market price risk arises from changes in the market value of equity securities and equity funds. The investment in equity assets on a long-term basis is expected to provide diversification benefits and return enhancements which can improve the risk adjusted return of the portfolios.

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.

US\$m	30 November 2010		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)
Interest rate risk				
+ 50 basis points shift in yield curves	(87)	(1,861)	(64)	(1,492)
- 50 basis points shift in yield curves	87	1,861	64	1,492
Equity risk				
10 per cent increase in equity prices	595	595	308	314
10 per cent decrease in equity prices	(595)	(595)	(308)	(314)

Liquidity risk

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet the payment obligations to counterparties when they become 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. The estimated maturity for insurance and investment contracts, is proportionate to their carrying values 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 2010						
Financial assets:						
Loans and receivables	4,862	2,305	1,037	366	672	482
Debt securities	62,207	–	2,843	13,459	16,536	29,369
Equity securities	22,054	22,054	–	–	–	–
Derivative financial instruments	775	–	58	550	167	–
Reinsurance receivables	46	–	46	–	–	–
Cash and cash equivalents	2,595	–	2,595	–	–	–
Total	92,539	24,359	6,579	14,375	17,375	29,851
Financial liabilities and insurance contracts:						
Insurance and investment contracts (net of reinsurance)	81,728	–	(383)	1,775	8,185	72,151
Borrowings	597	101	7	489	–	–
Obligations under securities lending and repurchase agreements	1,091	–	1,091	–	–	–
Derivative financial instruments	29	–	4	10	11	4
Other liabilities including tax payable	2,001	–	2,001	–	–	–
Total	85,446	101	2,720	2,274	8,196	72,155

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 and investment contracts (net of reinsurance)	70,780	–	(687)	922	6,628	63,917
Borrowings	688	139	7	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

38. EMPLOYEE BENEFITS

Defined benefit plans

US\$m	As at 30 November 2010	As at 30 November 2009
Present value of unfunded obligations	72	58
Present value of funded obligations	57	52
Total present value of obligations	129	110
Fair value of plan assets	(60)	(53)
Present value of net obligations	69	57
Unrecognised actuarial (losses)/gains	5	9
Unrecognised past service (cost)/benefit	(1)	(1)
Net recognised defined benefit obligations	73	65
Recognised defined benefit deficits	81	70
Recognised defined benefit surpluses	(8)	(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:

US\$m	As at 30 November 2010	As at 30 November 2009
Equity securities	3	1
Debt securities	2	1
Real estate	40	39
Investment contracts issued by third party financial institutions	15	12
Total	60	53

Movement in the present value of defined benefit obligations

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
At beginning of financial year	110	101
Benefits paid by the plan	(5)	(6)
Current service costs and interest (see next page)	16	19
Actuarial losses/(gains)	–	(11)
Plan settlement, curtailment or amendment	(2)	(1)
Foreign exchange movements	10	8
At end of financial year	129	110

Movement in the fair value of plan assets

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
At beginning of financial year	53	50
Contributions paid into the plan	6	4
Benefits paid by the plan	(5)	(7)
Expected return on plan assets	5	5
Actuarial gains/(losses)	(3)	(2)
Foreign exchange movements	7	4
Asset distributed on settlement	(3)	(1)
At end of financial year	60	53

Expense recognised in consolidated income statement

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Current service costs	10	13
Interest on obligation	6	6
Expected return on plan assets	(5)	(5)
Settlement/curtailment (gains)/losses recognised	1	–
Others	(1)	–
	<hr/>	<hr/>
Total	11	14
	<hr/> <hr/>	<hr/> <hr/>

The expense is recognised within the following line items in the consolidated income statement:

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Operating expenses	11	14

Actuarial assumptions

Principal actuarial assumptions at the reporting date are in the following ranges:

	As at 30 November 2010	As at 30 November 2009
Expected return on plan assets at the start of the financial year	2.5 – 9.75%	2.75 – 12.5%
Future salary increases	2.5 – 10.0%	3.0 – 10.0%
Healthcare trend rate:		
Immediate trend rate	4.0 – 12.0%	4.0 – 10.5%
Ultimate trend rate	4.0 – 12.0%	4.0 – 10.5%
Year in which the ultimate trend rate is reached	2010 – 2016	2010 – 2013
Discount rate at the end of the financial year	2.0 – 11.0%	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.

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 years	22 years	18 years	19.2 – 23.3 years	17 years
Females	23 years	24 years	21 years	23.5 – 29.9 years	21 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 2010	2009	1% decrease 2010	2009
Effect on the aggregate service and interest cost	–	1	–	(1)
Effect on defined benefit obligation	5	4	(4)	(3)

Historical information

US\$m	As at 30 November 2010	As at 30 November 2009
Present value of the defined benefit obligation	129	110
Fair value of plan assets	(60)	(53)
Deficits of the plans	69	57
Experience gain/(loss) arising on plan liabilities	(4)	(7)
Experience gain/(loss) arising on plan assets	3	(2)

Contributions to funded and unfunded defined benefit plans during the year ended 30 November 2010 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 year was US\$34m (2009: US\$30m).

The outstanding liability for defined contribution benefit plans is US\$1m (2009: US\$1m).

39. SHARE BASED COMPENSATION

Stock compensation plans

During year 2010, the Group's employees have participated in seven different equity settled 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 2002 and the 2007 AIG Stock Incentive Plans, as amended (collectively 'the AIG stock incentive plans'), various SICO Plans, the Deferred Compensation Profit Participation Plan ('DCPPP') and the Partners Plan. Except for the 2009 grant of the AIG stock incentive plans and the SICO plans, the other stock compensation plans have been terminated after 29 October 2010; any unvested incentive awards associated with the terminated plans are treated as forfeitures.

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. The 1999 plan was terminated after 29 October 2010 and the associated unvested awards have been forfeited.

	Year ended 30 November 2010		Year ended 30 November 2009	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options				
Outstanding at beginning of financial year	41,519	\$1,232.47	47,539	\$1,232.40
Granted	-	-	-	-
Transfers in	2,247	\$1,213.61	1,264	\$1,237.04
Exercised	-	-	-	-
Transfers out	(4,018)	\$1,214.84	(2,411)	\$1,224.94
Forfeited or expired	(1,786)	\$1,109.29	(4,873)	\$1,139.50
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at end of financial year	37,962	\$1,231.16	41,519	\$1,232.47
Options exercisable at end of financial year	37,924	\$1,231.15	35,742	\$1,226.56

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 2010						
Range of exercise prices:						
Less than or equal to US\$1,000	4,224	2.25	940.00	4,224	2.25	940.00
US\$1,000.01 – US\$1,100.00	112	7.25	1,028.39	112	7.25	1,028.39
US\$1,100.01 – US\$1,200.00	8,601	5.67	1,169.18	8,576	5.67	1,169.27
US\$1,200.01 – US\$1,300.00	15,459	3.19	1,268.09	15,459	3.19	1,268.09
US\$1,300.01 – US\$1,400.00	6,210	5.17	1,322.81	6,210	5.17	1,322.81
More than US\$1,400.01	3,356	5.98	1,423.54	3,343	5.98	1,423.55
Total	37,962	4.23	1,231.16	37,924	4.23	1,231.15

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

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.

The subscriptions were cancelled from October 2007 based on the market value of the common stock of AIG. The 1996 plan was terminated after 29 October 2010.

The AIG stock incentive plans

These plans provide equity based or equity related awards to employees of AIG and its subsidiaries.

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.

The 2009 grant was made to one employee in March 2010, of which a portion is fully vested on grant and the remainder vests on the nine-month anniversary of the date of grant, and is transferable in three equal annual instalments beginning on the first anniversary of grant. Except for the 2009 grant of the AIG stock incentive plans, the other grants were terminated after 29 October 2010 and the associated unvested awards have been forfeited.

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 DCPPP, which provides equity based compensation to key employees of the wider group, including senior executive officers. The DCPPP was modelled on the SICO plans.

The DCPPP 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. 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. The DCPPP was terminated after 29 October 2010 and the associated unvested awards have been forfeited.

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. The Partners Plan was terminated after 29 October 2010 and the associated unvested awards have been forfeited.

Valuation methodology

The Company utilises a binomial lattice model to calculate the fair value of AIG stock option grants. No stock option has been granted during 2009 and 2010.

A summary of shares relating to outstanding awards to the Group's employees and directors unvested under the AIG stock incentive plans, SICO plans, DCPPP and Partners Plan is presented below:

	Number of shares				Weighted average grant date fair value (US\$)			
	AIG stock incentive plans	SICO	DCPPP	Partners Plan	AIG stock incentive plans	SICO	DCPPP	Partners Plan
At 1 December 2009	14,959	3,390	4,780	11,084	1,182.33	1,208.53	1,142.31	1,107.19
Granted	118,605	-	-	-	34.45	-	-	-
Transfers in	645	160	200	225	1,102.96	1,213.83	1,142.32	1,083.85
Issued/exercised	(55,683)	-	(2,683)	(2,519)	156.80	-	1,148.68	1,131.60
Transfers out	(768)	(280)	(330)	(490)	1,121.54	1,207.24	1,141.23	1,090.33
Forfeited	(9,544)	(80)	(1,967)	(8,300)	1,102.19	1,249.57	1,143.18	1,077.87
At 30 November 2010	68,214	3,190	-	-	34.45	1,207.88	-	-
At 1 December 2008	22,776	5,560	12,217	21,248	1,198.77	1,248.82	1,173.52	1,125.62
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 2009	14,959	3,390	4,780	11,084	1,182.33	1,208.53	1,142.31	1,107.19

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to share based compensation awards granted under the 1999 plan, the AIG stock incentive plans, the DCPPP, the Partners Plan and the SICO Plans is US\$8m (2009: US\$8m).

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 based payments presented relate to the AIG schemes described in note 39.

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 2010									
<i>Executive directors</i>									
	-	392,559	2,313,568	18,122	3,786	-	-	-	2,728,035
	-	2,371,866	7,377,051	26,290	5,286	(837,137)	-	3,062,580	12,005,936
	-	907,546	-	15,524	-	(378,820)	-	1,313,333	1,857,583
Total	-	3,671,971	9,690,619	59,936	9,072	(1,215,957)	-	4,375,913	16,591,554

Note: (1) Mr. Mark Wilson and Mr. Steve Roder resigned as directors on 1 September 2010 and 22 April 2010 respectively.

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 2009									
<i>Executive directors</i>									
	-	1,647,180	1,594,000	28,680	5,665	489,569	-	-	3,765,094
	-	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

The remuneration of non-executive directors and independent non-executive directors of the Company at 30 November 2010 is included in the tables below. There were no non-executive directors and independent non-executive directors during the year ended 30 November 2009.

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 2010									
<i>Non-executive directors</i>									
	Edmund Sze Wing Tse ¹	42,609	-	-	-	-	-	-	42,609
	Chak Kwong So ²	66,796	-	-	-	-	-	-	66,796
	Robert Benmosche ³	-	-	-	-	-	-	-	-
	David Herzog ³	-	-	-	-	-	-	-	-
	Jay Steven Wintrob ³	-	-	-	-	-	-	-	-
	Jeffrey Joy Hurd ³	-	-	-	-	-	-	-	-
<i>Independent non-executive directors</i>									
	Chung Kong Chow	41,205	-	-	-	-	-	-	41,205
	Rafael Si Yan Hui	38,575	-	-	-	-	-	-	38,575
	Qin Xiao	41,205	-	-	-	-	-	-	41,205
Total		230,390	-	-	-	-	-	-	230,390

- Note:* (1) Included in directors' fee is US\$8,869 which represents remuneration to Mr. Edmund Sze Win Tse in respect of his services as director of subsidiary of the Company.
- (2) Included in directors' fee is US\$29,097 which represents remuneration to Mr. Chak Kwong So in respect of his services as director of subsidiary of the Company.
- (3) Mr. Robert Benmosche, Mr. David Herzog, Mr. Jay Steven Wintrob and Mr. Jeffrey Joy Hurd, who are employees of AIG, were appointed as directors of the Company on 19 July 2010, 7 April 2010, 28 September 2010 and 28 September 2010, respectively. The services they provided to the Group were considered to occupy an insignificant amount of their time and they were not separately remunerated for such services. As such, no remuneration is presented. Mr. Robert Benmosche and Mr. David Herzog resigned as directors of the Company on 27 September 2010.

Remuneration of five highest paid individuals

The aggregate remuneration of the five highest paid individuals employed by the Group in each of the years ended 30 November 2010 and 2009 is presented in the table below.

US\$	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Post employment benefits	Share based payments	Inducement fees	Termination fees	Total
30 November 2010	6,648,875	14,152,323	208,944	11,991	(873,486)	-	3,062,580	23,211,227
30 November 2009	6,321,054	3,982,357	181,385	19,609	1,323,818	-	-	11,828,223

The emoluments of the five individuals with the highest emoluments are within the following bands:

HK\$	Year ended 30 November 2010	Year ended 30 November 2009
12,500,001 to 13,000,000	–	1
14,500,001 to 15,000,000	–	1
15,500,001 to 16,000,000	–	1
17,500,001 to 18,000,000	1	–
18,000,001 to 18,500,000	1	–
19,000,001 to 19,500,000	–	1
21,000,001 to 21,500,000	1	–
26,000,001 to 26,500,000	1	–
29,000,001 to 29,500,000	–	1
96,500,001 to 97,000,000	1	–

Key management personnel remuneration

Key management personnel have been identified as the members of the AIA Group's Executive Committee and members of the Company's Board.

US\$	Year ended 30 November 2010	Year ended 30 November 2009
Key management compensation and other expenses		
Salaries and other short term employee benefits ¹	17,959,530	14,900,774
Termination benefits	5,342,580	–
Post employment benefits – defined contribution	451,517	315,858
Post employment benefits – defined benefit	26,218	29,517
Post employment benefits – medical & life	29,435	40,159
Other long term benefits	14,702,635	2,586,969
Share based payment	(1,572,619)	1,418,414
Total	<u>36,939,296</u>	<u>19,291,691</u>

Note: (1) Mr. Robert Benmosche, Mr. David Herzog, Mr. Jay Steven Wintrob and Mr. Jeffrey Joy Hurd, who are employees of AIG, were appointed as directors of the Company on 19 July 2010, 7 April 2010, 28 September 2010 and 28 September 2010, respectively. The services they provided to the Group were considered to occupy an insignificant amount of their time and they were not separately remunerated for such services. As such, no remuneration is included in the table above. Mr. Robert Benmosche and Mr. David Herzog resigned as directors of the Company on 27 September 2010.

41. RELATED PARTY TRANSACTIONS

Transactions with related parties

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Transactions with related parties		
<i>Reinsurance related parties (income)/expense</i>		
Premiums assumed	(3)	(63)
Premiums ceded to reinsurers	34	21
Claims recovered from reinsurers	(18)	(5)
Claims paid on inwards reinsurance	–	48
Commissions and fee income	(4)	–
	<u>9</u>	<u>1</u>
<i>Non-insurance related party income</i>		
Interest income	–	(3)
Income from services provided	(22)	(39)
	<u>(22)</u>	<u>(42)</u>
<i>Non-insurance related party expenses</i>		
Interest expense	–	1
Purchases of services	22	34
Corporate service fees	15	23
	<u>37</u>	<u>58</u>
Total	<u>24</u>	<u>17</u>
Term deposits held with related parties	<u>–</u>	<u>–</u>
	Year ended 30 November 2010	Year ended 30 November 2009
Amounts due from related parties		
Insurance related amounts receivable	–	1
Loans receivable	–	87
Other amounts receivable	1	1
Total	<u>1</u>	<u>89</u>
Amounts due to related parties		
Insurance related amounts payable	–	3
Loans payable	–	50
Other amounts payable	18	51
Total	<u>18</u>	<u>104</u>

Transactions with related parties are transactions with subsidiaries of AIG with the exception of premiums assumed from associates of US\$nil (2009: US\$nil). Certain group companies receive amounts on behalf of and pay amounts on behalf of subsidiaries of AIG. These amounts are included within other amounts receivable/payable.

The above amounts receivable from and due to related parties are all balances with 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 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 programme. 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:

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Properties and others expiring		
Not later than one year	83	76
Later than one and not later than five years	137	102
Later than five years	83	94
	<u>303</u>	<u>272</u>
Total	<u>303</u>	<u>272</u>

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

US\$m	Year ended 30 November 2010	Year ended 30 November 2009
Not later than one year	148	90
Later than one and not later than five years	–	36
Later than five years	46	138
	<u>194</u>	<u>264</u>
Total	<u>194</u>	<u>264</u>

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.

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\$2,923m at 30 November 2010 (2009: US\$3,588m). The liabilities and related reinsurance assets, which totalled US\$12m (2009: US\$24m), 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 amounts outstanding at the balance sheet date under the terms of this agreement from the retrocessionaire. In the event of a change in control of one party, the other party has the right to terminate the retrocession cover with the Group electing whether the termination is on a run-off basis or clean cut basis.

The Group provided reinsurance and retrocession of general insurance business which was primarily underwritten in the 1970s and 1980s. In the absence of any material claim notifications in the four years ended 30 November 2010, 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 Co 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.

At 30 November 2010, the Group has issued capital guarantees and guarantees of indebtedness of approximately US\$2.5m 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\$1,309m (2009: US\$1,260m). The Group has the ability to reduce the guaranteed rates of return, subject to obtaining approvals of applicable regulators.

The status of the licences of the AIA Group is reviewed from time to time by the Group's regulators in light of a number of factors including the legal structure of the Group.

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 2010	As at 30 November 2009
American International Assurance Company, Limited ¹ ("AIA Co")	Hong Kong	Insurance	805,902,610 shares of US\$5 each	100%	100%
American International Assurance Company (Bermuda) Limited ("AIA-B")	Bermuda	Insurance	3,000,000 shares of US\$1.20 each	100%	100%
American International Assurance Company (Australia) Limited	Australia	Insurance	1,972,800 shares of AUD1 each and 95,500 redeemable preference shares	100%	100%
AIA Pension and Trustee Company Limited	British Virgin Islands	Trusteeship	1,300,000 ordinary shares of US\$1 each	100%	100%
American International Assurance Berhad	Malaysia	Insurance	241,706,000 ordinary shares of RM1 each	100%	100%
PT. AIA Financial	Indonesia	Insurance	477,711,032 shares of Rp1,000 each	100%	100%
The Philippine American Life & General Insurance Company	Philippines	Insurance	200,000,000 shares of PHP\$10 each	99.78%	99.78%
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND 1,028,210,591,693	100%	100%
Grand Design Development Limited	British Virgin Islands	Investment holding company	10,000 shares of HK\$100 each	100%	100%
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 shares of US\$1 each	90%	90%
BPI-Philam Life Assurance Corporation	Philippines	Insurance	749,993,979 shares of PHP\$1 each and 6,000 treasury shares	51%	51%

Note: (1) The Company's subsidiary

(2) All of the above subsidiaries are audited by PricewaterhouseCoopers

All subsidiaries are unlisted.

44. EVENTS AFTER THE REPORTING PERIOD

By letter dated 9 February 2011, the MAS cancelled those directions issued to AIAS since October 2008 as disclosed in Note 36 which specified that AIAS comply with increased capital adequacy requirements, provided that prior MAS consent be sought in respect of certain transactions including transfers or disposals of certain assets (including land or buildings) and financing and guarantee arrangements, and imposed certain additional reporting requirements on AIAS.

FINANCIAL STATEMENTS OF THE COMPANY

Statement of financial position as at 30 November 2010

US\$m	Notes	30 November 2010	30 November 2009
Assets			
Investments in subsidiaries	2	13,994	13,994
Loans and receivables		3	–
Cash and cash equivalents	3	35	44
Total assets		14,032	14,038
Liabilities			
Borrowings	4	–	50
Provisions	5	–	30
Total liabilities		–	80
Equity			
Issued share capital and shares yet to be issued	6	12,044	12,044
Share premium	6	1,914	1,914
Retained earnings		74	–
Total equity		14,032	13,958
Total liabilities and equity		14,032	14,038

Note: (1) Financial information for the Company for the period ended 30 November 2009 is 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 years ended 30 November 2009 and 2010 were US\$nil and US\$74m, respectively.

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 52 to 80. The Company's financial statements comply with both IFRS and HKFRS.

2. Investments in subsidiaries

Movements in the Company's investments in its subsidiaries are as follows:

US\$m

On formation	–
Acquisitions during the period ended 30 November 2009	13,994
	<hr/>
At 30 November 2009 and 2010	13,994
	<hr/> <hr/>

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\$35m (2009: US\$44m) and cash equivalents of US\$nil (2009: US\$nil).

4. Borrowings

Borrowings represented a loan from AIG. The balance was non-interest bearing with no fixed maturity and was repaid in the year.

5. Provisions

In connection with the Company's acquisition of AIA Co, a provision for expected transfer costs was recognised for the year ended 30 November 2009 and fully utilised during the year ended 30 November 2010.

6. Share capital and share premium

Details of share capital and share premium are presented in note 34 of the Group's consolidated financial information.

7. 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 and associates 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 and associates, largely consist of cash and cash equivalents.

Financial liabilities owed by the Company as at 30 November 2009 consist of borrowings from AIG.

8. Related party transactions

The Company receives dividend 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AIA GROUP LIMITED**

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of AIA Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 46 to 159, which comprise the consolidated and company statement of financial position as at 30 November 2010 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and with the International Financial Reporting Standards as issued by the International Accounting Standard Board ("IASB") and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 November 2010 and of the Group's profit and cash flows for the year then ended in accordance with both Hong Kong Financial Reporting Standards issued by the HKICPA and with International Financial Reporting Standards issued by the IASB and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong,
25 February 2011

SUPPLEMENTARY EMBEDDED VALUE INFORMATION

Towers Watson report on the review of the Supplementary Embedded Value Information

AIA Group Limited (the AIA Group) has prepared supplementary embedded value results for the financial year ended 30 November 2010 (EV Results). These EV Results, together with a description of the methodology and assumptions that have been used, are shown in the Supplementary Embedded Value Information section of this document.

Towers Watson Pennsylvania Inc, trading as Towers Watson (Towers Watson) has been engaged to review the methodology and assumptions used to calculate the embedded value at 30 November 2010 and the value of new business for the twelve month period 1 December 2009 to 30 November 2010 for the AIA Group.

Towers Watson has concluded that:

- The methodology used is consistent with recent industry practice in Hong Kong as regards traditional embedded value calculations based on discounted values of projected deterministic after-tax cash-flows. This methodology makes an overall allowance for risk for the AIA Group through the use of risk discount rates which incorporate risk margins and vary by Business Unit, together with an explicit allowance for the cost of holding required capital;
- The economic assumptions are internally consistent and have been set with regard to current economic conditions; and
- The operating assumptions have been set with appropriate regard to past, current and expected future experience, taking into account the nature of the business conducted by each Business Unit.

Towers Watson has performed a number of high-level checks on the models, processes and the results of the calculations, and has confirmed that no issues have been discovered that have a material impact on the disclosed embedded value as at 30 November 2010, value of new business for the twelve month period 1 December 2009 to 30 November 2010, analysis of movement in embedded value and sensitivities.

In arriving at these conclusions, Towers Watson has relied on data and information provided by the AIA Group and its subsidiaries. In the course of its engagement Towers Watson has accepted certain contractual obligations. To the fullest extent permitted by applicable law, Towers Watson does not accept or assume any responsibility, duty of care or liability to any third party for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion.

Towers Watson

25 February 2011

Cautionary statements concerning Embedded Value

This report includes non-IFRS financial measures and should not be viewed as a substitute for IFRS financial measures.

The results shown in this report are not intended to represent an opinion of market value and should not be interpreted in that manner. This report does not purport to encompass all of the many factors that may bear upon a market value.

The results shown in this report are based on a series of assumptions as to the future. It should be recognised that actual future results will differ from those shown, on account of changes in the operating and economic environments and natural variations in experience. The results shown are presented at the valuation dates stated in this report and no warranty is given by the AIA Group that future experience after these valuation dates will be in line with the assumptions made.

1. Highlights

The embedded value (EV) is a measure of the value of shareholders' interests in the earnings distributable from assets allocated to the in-force business after allowance for the aggregate risks in that business. The AIA Group uses a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB). This methodology makes implicit allowance for all sources of risk including the cost of investment return guarantees and policyholder options, asset/liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and for the economic cost of capital, through the use of a risk adjusted discount rate. Table 1.1 summarises the key results including the adjusted net worth (ANW) and value of in-force business (VIF). More details of the results, sensitivity tests, methodology and assumptions are covered in later sections of this report.

TABLE 1.1

Summary Key Metrics (US\$ millions)

	2010	2009	% Growth
As at 30 November			
EV	24,748	20,965	18%
ANW	9,524	7,765	23%
VIF	15,224	13,201	15%
For the twelve months ended 30 November			
ANP ^{(1) (2)}	2,025	1,878	8%
VONB	667	545	22%
VONB Margin ⁽²⁾	32.6%	28.3%	

Note: The figures may not be additive due to rounding. The results are after adjustments to reflect Hong Kong reserving and capital requirements and the after-tax value of unallocated group office expenses.

⁽¹⁾ ANP = Annualised New Premiums = annualised regular premiums plus 10% of single premiums for new business.

⁽²⁾ ANP and VONB Margin exclude corporate pension business.

The Group EV as at 30 November 2010 was US\$24,748 million, increasing by US\$3,783 million or 18% from US\$20,965 million as at 30 November 2009. The increase was mainly driven by the expected return on EV, VONB, favourable investment return variances and positive effect of changes in exchange rates. Excluding exchange rate impact, the growth would be 14%. The Group EV as at 30 November 2010 comprised of ANW of US\$9,524 million and VIF of US\$15,224 million which grew 23% and 15% respectively over the 2009 financial year.

The Group VONB for the twelve months ended 30 November 2010 was US\$667 million, an increase of US\$122 million or 22% from US\$545 million in the same period in 2009. The VONB growth benefited from an expansion of the VONB Margin, which increased from 28.3% in 2009 to 32.6% in 2010, and 8% growth in the annualised new premiums (ANP).

2. Results

2.1 Embedded value

The Group EV as at 30 November 2010 is detailed in Table 2.1 below. Results are presented separately for the six largest Business Units, with those for the remaining Business Units presented together under the category “Other Markets”. This is consistent with the segment information in the IFRS financial statements. Section 4.1 of this report contains a full list of the entities included in the report and the mapping of these entities to “Business Units” for the purpose of the report.

TABLE 2.1

Summary of AIA Group EV by Business Unit as at 30 November 2010 (US\$ millions)

Business Unit	ANW ⁽¹⁾	VIF before	CoC ⁽²⁾	VIF after	EV-2010	EV-2009
		CoC ⁽²⁾		CoC ⁽²⁾		
AIA Hong Kong	4,604	5,655	282	5,373	9,977	9,083
AIA Thailand	3,915	1,863	221	1,642	5,557	4,403
AIA Singapore	1,420	2,175	428	1,747	3,167	2,935
AIA Malaysia	593	596	121	475	1,068	871
AIA China	332	1,212	89	1,123	1,455	1,176
AIA Korea	954	861	185	676	1,630	1,422
Other Markets	1,890	784	191	592	2,482	2,081
Corporate and Other	2,490	(39)	–	(39)	2,451	1,042
Sub-total	16,198	13,107	1,517	11,589	27,787	23,013
Adjustment to reflect Hong Kong reserving and capital requirements ⁽³⁾	(6,674)	4,444	269	4,175	(2,499)	(1,502)
After-tax value of unallocated group office expenses	–	(540)	–	(540)	(540)	(545)
Group EV	9,524	17,011	1,786	15,224	24,748	20,965

Note: The figures may not be additive due to rounding

⁽¹⁾ ANW by Business Unit is after net capital in/(out) flows between Business Units and Corporate and Other as reported in the IFRS financial statements.

⁽²⁾ CoC refers to the cost arising from holding the required capital as defined in Section 4.2 of this report.

⁽³⁾ Adjustment to Group EV for the branches of AIA Co and AIA-B, as described in Section 4.4 of this report.

Table 2.2 sets out the derivation of ANW from IFRS equity as at 30 November 2010.

TABLE 2.2

AIA Group ANW (US\$ millions)

	30 November 2010		30 November 2009	
IFRS equity attributable to shareholders of AIA Group		19,555		14,908
Elimination of IFRS deferred acquisition costs asset		(12,006)		(10,976)
Difference between IFRS and local statutory policy liabilities (for entities included in EV results)	6,678	(5,328)	6,816	(4,160)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds		1,676		1,160
Elimination of intangible assets		(252)		(233)
Recognition of deferred tax impacts of above changes		647		623
Recognition of non-controlling interest impacts of the above adjustments		(100)		(64)
Group ANW (local statutory basis)		16,198		12,234
Adjustment to reflect Hong Kong reserving requirements, net of tax		(6,674)		(4,469)
Group ANW (after Hong Kong reserving requirements)		9,524		7,765

Note: The figures may not be additive due to rounding.

Table 2.3 shows the breakdown of the ANW for the AIA Group between the required capital, as defined in Section 4.6 of this report, and the free surplus, which is the ANW in excess of the required capital.

TABLE 2.3

Free surplus and required capital for the AIA Group as at 30 November 2010 (US\$ millions)

	Local statutory basis	Hong Kong basis for branches of AIA Co and AIA-B
Free surplus	12,778	4,992
Required capital	3,420	4,532
ANW	16,198	9,524

Note: The figures may not be additive due to rounding

Table 2.4 shows how the after-tax distributable earnings from the assets backing the statutory reserves and required capital of the in-force business of the AIA Group are projected to emerge over future years. The projected values are based on the assumptions described in Section 5 of this report and reflect the Hong Kong reserving and capital requirements for the branches of AIA Co and AIA-B. The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US\$19,756 million plus the free surplus of US\$4,992 million shown in Table 2.3 is equal to the Group EV of US\$24,748 million shown in Table 2.1.

TABLE 2.4

Profile of projected after-tax distributable earnings for AIA Group (US\$ millions)

Financial year	Undiscounted	Discounted
2011 – 2015	10,151	8,279
2016 – 2020	9,217	4,776
2021 – 2025	8,730	3,015
2026 – 2030	7,048	1,598
2030 +	27,020	2,088
Total	62,166	19,756

Note: The figures may not be additive due to rounding.

2.2 Value of new business

The VONB for the AIA Group for the period from 1 December 2009 to 30 November 2010 is summarised in Table 2.5 below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. Results are presented separately for the six largest Business Units, with those for the remaining Business Units presented together under the category “Other Markets”. This is consistent with segment information in the IFRS financial statements. Section 4.1 of this report contains a full list of the entities included in the report and the mapping of these entities to “Business Units” for the purpose of the report.

TABLE 2.5

**Summary of VONB by Business Unit for the period 1 December 2009 to 30 November 2010
(US\$ millions)**

Business Unit	VONB before CoC ⁽¹⁾	CoC ⁽¹⁾	VONB after CoC ⁽¹⁾ – 2010	VONB after CoC ⁽¹⁾ – 2009
AIA Hong Kong	231	21	210	206
AIA Thailand	187	13	174	120
AIA Singapore	122	18	104	96
AIA Malaysia	48	9	39	28
AIA China	85	17	68	48
AIA Korea	71	7	64	60
Other Markets	116	17	99	77
Total before unallocated group office expenses (local statutory basis)	860	102	758	635
Adjustment to reflect Hong Kong reserving and capital requirements ⁽²⁾	(26)	23	(49)	(50)
Total before unallocated group office expenses (after Hong Kong reserving and capital requirements)	834	125	709	585
After-tax value of unallocated group office expenses	(42)	–	(42)	(40)
Total	792	125	667	545

Note: The figures may not be additive due to rounding

⁽¹⁾ CoC refers to the cost arising from holding the required capital as defined in Section 4.2 of this report.

⁽²⁾ Adjustment to VONB for the branches of AIA Co and AIA-B, as described in Section 4.4 of this report.

Table 2.6 shows the VONB Margin for the AIA Group. The VONB Margin is defined as VONB, excluding corporate pension business, expressed as a percentage of ANP. The VONB for corporate pension business is excluded from the margin calculation to be consistent with the definition of ANP. Results are presented separately for the six largest Business Units, with those for the remaining Business Units presented together under the category “Other Markets”. This is consistent with the segment information in the IFRS financial statements. Section 4.1 of this report contains a full list of the entities included in the report and the mapping of these entities to “Business Units” for the purpose of the report.

TABLE 2.6

**Summary of VONB Margin by Business Unit for the period 1 December 2009 to 30 November 2010
(US\$ millions)**

Business Unit	VONB excluding corporate pension	ANP ⁽¹⁾	VONB Margin ⁽¹⁾ – 2010	VONB Margin ⁽¹⁾ – 2009
AIA Hong Kong	203	449	45.1%	49.5%
AIA Thailand	174	420	41.4%	32.4%
AIA Singapore	104	210	49.4%	59.6%
AIA Malaysia	39	117	33.3%	26.0%
AIA China	68	206	33.2%	25.5%
AIA Korea	64	282	22.8%	17.6%
Other Markets	99	341	29.0%	23.9%
Total before unallocated group office expenses (local statutory basis)	751	2,025	37.1%	33.1%
Adjustment to reflect Hong Kong reserving and capital requirements ⁽²⁾	(49)	–		
Total before unallocated group office expenses (after Hong Kong reserving and capital requirements)	702	2,025	34.7%	30.4%
After-tax value of unallocated group office expenses	(42)	–		
Total	660	2,025	32.6%	28.3%

Note: The figures may not be additive due to rounding.

⁽¹⁾ ANP and VONB Margin exclude corporate pension business.

⁽²⁾ Adjustment to VONB for the branches of AIA Co and AIA-B, as described in Section 4.4 of this report.

Table 2.7 shows the breakdown of the VONB and the VONB Margin for the AIA Group by quarter for business written in the twelve months to 30 November 2010. For comparison purposes, the quarterly VONB and the VONB Margin for business written in the twelve months to 30 November 2009 are also shown in the same table.

TABLE 2.7

Summary of the VONB, ANP and VONB Margin by quarter for the AIA Group (US\$ millions)

Quarter	VONB after CoC ⁽¹⁾	ANP ⁽²⁾	VONB Margin ⁽²⁾
<i>Values for 2010</i>			
Three months ended 28 February 2010	151	437	33.9%
Three months ended 31 May 2010	152	450	33.6%
Three months ended 31 August 2010	160	503	31.5%
Three months ended 30 November 2010	204	635	31.9%
<i>Values for 2009</i>			
Three months ended 28 February 2009	95	355	25.4%
Three months ended 31 May 2009	136	418	31.5%
Three months ended 31 August 2009	144	552	25.7%
Three months ended 30 November 2009	170	553	30.3%

⁽¹⁾ CoC refers to the cost arising from holding the required capital as defined in Section 4.2 of this report.

⁽²⁾ ANP and VONB Margin exclude corporate pension business.

Table 2.8 shows the VONB, ANP and VONB Margin for the AIA Group for business written in the three month period 1 September 2010 to 30 November 2010.

TABLE 2.8

VONB, ANP and VONB Margin for the three month period ending 30 November 2010 (US\$ millions)

Business Unit	VONB after CoC ⁽¹⁾	VONB excluding corporate pension	ANP ⁽²⁾	VONB Margin ⁽²⁾
AIA Hong Kong	70	69	183	37.5%
AIA Thailand	59	59	133	44.1%
AIA Singapore	30	30	56	53.1%
AIA Malaysia	10	10	28	37.1%
AIA China	20	20	64	31.3%
AIA Korea	13	13	73	17.4%
Other Markets	29	29	98	30.1%
Total before allocated group office expenses (local statutory basis)	231	230	635	36.2%
Adjustment to reflect Hong Kong reserving and capital requirements ⁽³⁾	(16)	(16)		
After-tax value of unallocated group office expenses	(11)	(11)		
Total	204	203	635	31.9%

- (1) CoC refers to the cost arising from holding the required capital as defined in Section 4.2 of this report.
- (2) ANP and VONB Margin exclude corporate pension business.
- (3) Adjustment to VONB for the branches of AIA Co and AIA-B, as described in Section 4.4 of this report.

2.3 Analysis of movement

Table 2.9 shows the analysis of movement in the Group EV from 30 November 2009 to 30 November 2010.

TABLE 2.9

**Analysis of movement in Group EV from 30 November 2009 to 30 November 2010
(US\$ millions)**

	ANW	VIF	EV
Opening EV	7,765	13,201	20,965
Value of new business	(691)	1,358	667
Expected return on EV	2,591	(745)	1,846
Operating experience variances	(229)	125	(105)
Operating assumption changes	(143)	146	3
EV operating profit	1,528	884	2,412
Investment return variances	192	881	1,073
Effect of changes in economic assumptions	–	(333)	(333)
Other non-operating variances	(227)	77	(150)
Total EV profit	1,493	1,510	3,003
Capital/Dividend movements	–	–	–
Effect of changes in exchange rates	266	514	780
Ending EV	<u>9,524</u>	<u>15,224</u>	<u>24,748</u>

Note: The figures may not be additive due to rounding.

The value of new business shown in Table 2.9 is the VONB at the point of sale for business written during the twelve month period from 1 December 2009 to 30 November 2010. This does not include any excess of actual acquisition expenses over the unit cost assumptions which is reflected in the operating experience variances.

The expected return on EV is the expected change in the EV resulting from projecting the EV at the start of the period and the VONB from the point of sale to 30 November 2010 using the best estimate assumptions.

The operating experience variances reflect the impacts on the ANW and VIF caused by differences between the actual experience during the period and that expected on the operating assumptions. The main operating variances (net of tax) are:

- An expense variance of US\$(145) million which includes US\$(105) million impact from the excess of actual acquisition expenses over the unit cost assumptions during the period and US\$(40) million impact mainly from non-recurring project and corporate expenses;
- A mortality and morbidity claims variance of US\$109 million;
- A persistency variance of US\$(54) million; and
- Other variances of US\$(15) million.

The operating assumption changes reflect changes in the assumptions in respect of expected future operating experience between the start and end of the period. This includes the impact on the EV of changes in the operating assumptions used in the regulatory reserving bases for the AIA Group.

The EV operating profit of US\$2,412 million is the sum of the VONB, the expected return on EV, the operating experience variances and the operating assumption changes.

The investment return variances arise from the impact of differences between the actual investment returns in the period and the expected investment returns. This includes the impact on the EV of changes in the economic assumptions used in the regulatory reserving bases for the AIA Group.

The effect of changes in economic assumptions reflects the impact of changes in long term investment return assumptions of US\$(615) million partially offset by the impact of changes in risk discount rates of US\$282 million.

The other non-operating variances reflect the following:

- Changes in legislation such as taxation during the period which resulted in an increase in the EV of US\$48 million;
- A change in the allowance for remittance taxes to deduct the present value of expected remittance taxes payable on the VIF which caused a change in the EV of US\$(60) million;
- A change in the approach for calculating the statutory reserves on a Hong Kong regulatory basis for certain policyholder options and guarantees. This caused a change in the EV of US\$(9) million;
- Restructuring and separation costs of US\$(41) million as reported in the IFRS financial statements and the current year effect of US\$(17) million for the Agency Incentive Plan which is a one-off initiative to improve agency activity and productivity prior to the IPO of the AIA Group. The remaining effect for the Agency Incentive Plan currently estimated to be not more than US\$(180) million will be recognized if and when the performance requirements for the incentive awards are fulfilled in future; and
- Other variances, mainly modelling enhancements made during the period from 30 November 2009 to 30 November 2010, caused a change in EV of US\$(71) million.

The EV profit of US\$3,003 million is the total of the EV operating profit, the investment return variances, the effect of economic assumption changes and the other non-operating variances.

The effect of changes in exchange rates reflects the gains and losses in respect of exchange rate movements over the period.

3. Sensitivity tests

The VIF as at 30 November 2010 and the VONB for the twelve month period 1 December 2009 to 30 November 2010 have been recalculated to illustrate the sensitivity of the results to changes in certain of the central assumptions discussed in Section 5.

The sensitivities tested were:

- Risk discount rate 2 percentage points per annum higher than the central assumptions.
- Risk discount rate 2 percentage points per annum lower than the central assumptions.
- Investment return 0.5 percentage points per annum higher than the central assumptions.
- Investment return 0.5 percentage points per annum lower than the central assumptions.

- Lapse and premium discontinuance rates increased proportionally by 10% (i.e. 110% of the central assumptions).
- Lapse and premium discontinuance rates decreased proportionally by 10% (i.e. 90% of the central assumptions).
- Mortality/morbidity rates increased proportionally by 10% (i.e. 110% of the central assumptions).
- Mortality/morbidity rates decreased proportionally by 10% (i.e. 90% of the central assumptions).
- Maintenance expenses 10% lower (i.e. 90% of the central assumptions).
- Expense inflation set to 0%.

For the investment return sensitivities, projected bonus rates on participating business were changed to be consistent with the investment return assumption in the sensitivity test, while all of the other assumptions and the statutory valuation bases were unchanged. For each of the remaining sensitivity tests, where bonus rates are set using a fixed proportion of surplus emerging from the participating fund, the projected bonus rates were changed to be consistent with sensitivity test assumptions, while all of the other assumptions and statutory valuation bases remain unchanged.

The results of the above sensitivity tests are shown in below Table 3.1 for in-force business and in Table 3.2 for new business.

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

TABLE 3.1

Sensitivity of the Value of In-Force business as at 30 November 2010 (US\$ millions)

Scenario	VIF after tax and before CoC ⁽¹⁾	CoC ⁽¹⁾	VIF after tax and CoC ⁽¹⁾
Central value	17,011	1,786	15,224
2% increase in risk discount rate	14,653	2,215	12,439
2% decrease in risk discount rate	20,315	1,173	19,141
0.5% increase in investment return	18,659	1,596	17,063
0.5% decrease in investment return	15,356	1,978	13,378
10% increase in lapse/discontinuance rates	16,692	1,726	14,966
10% decrease in lapse/discontinuance rates	17,365	1,850	15,514
10% increase in mortality/morbidity rates	15,748	1,784	13,964
10% decrease in mortality/morbidity rates	18,277	1,788	16,488
10% decrease in maintenance expenses	17,339	1,784	15,555
Expense inflation set to 0%	17,251	1,785	15,466

Note: The figures may not be additive due to rounding.

⁽¹⁾ CoC refers to the cost arising from holding the required capital as defined in Section 4.2 of this report.

TABLE 3.2**Sensitivity of the VONB for the period 1 December 2009 to 30 November 2010 (US\$ millions)**

Scenario	Value of New Business before CoC ⁽¹⁾	CoC ⁽¹⁾	Value of New Business after CoC ⁽¹⁾
Central value	792	125	667
2% increase in risk discount rate	631	154	478
2% decrease in risk discount rate	1,000	77	923
0.5% increase in investment return	855	110	744
0.5% decrease in investment return	727	138	589
10% increase in lapse rates	724	117	608
10% decrease in lapse rates	865	133	732
10% increase in mortality/morbidity rates	654	124	530
10% decrease in mortality/morbidity rates	928	124	804
10% decrease in maintenance expenses	825	124	700
Expense inflation set to 0%	811	125	686

Note: The figures may not be additive due to rounding.

⁽¹⁾ CoC refers to the cost arising from holding the required capital as defined in Section 4.2 of this report.

4. Methodology

4.1 Entities included in this report

The AIA Group operates through a number of subsidiaries and branches. Its two main operating subsidiaries are American International Assurance Company, Limited (AIA Co), a subsidiary of the AIA Group, and American International Assurance Company (Bermuda) Limited (AIA-B), a subsidiary of AIA Co. Furthermore, AIA Co has branches located in Brunei, China, Singapore and Thailand and AIA-B has branches located in Hong Kong, Korea, Macau, New Zealand and Taiwan.

The following is a full list of the entities and their mapping to “Business Units” for the purpose of this report:

- AIA Australia refers to AIA Australia Limited, a subsidiary of AIA Co;
- AIA China refers to the Chinese branches of AIA Co;
- AIA Hong Kong refers to the total of the following three entities:
 - the Hong Kong and Macau branches of AIA-B;
 - the Hong Kong and Macau business written by AIA Co; and
 - AIA Pension & Trustee Company Limited, a subsidiary of AIA Co.
- AIA Indonesia refers to PT. AIA Financial, a subsidiary of AIA-B;
- AIA Korea refers to the Korean branch of AIA-B;
- AIA New Zealand refers to the New Zealand branch of AIA-B;
- AIA Malaysia refers to American International Assurance Bhd., a subsidiary of AIA Co and its subsidiary AIA Takaful International Bhd.;

- Philamlife refers to The Philippine American Life and General Insurance Company, a subsidiary of AIA Co and its 51% owned subsidiary BPI-Philam Life Assurance Corporation;
- AIA Singapore refers to the Singaporean and Brunei branches of AIA Co;
- AIA Thailand refers to the Thailand branches of AIA Co;
- AIA Taiwan refers to the Taiwanese branch of AIA-B; and
- AIA Vietnam refers to AIA (Vietnam) Life Insurance Company Limited, a subsidiary of AIA-B.

In addition, the entity Tata AIG Life Insurance Limited, which is 26% owned by AIA-B, has been included in the Group ANW presented in this report on an IFRS equity method accounting basis.

The summary of the EV of the AIA Group by Business Unit in this report also includes a segment for “Corporate and Other” results. The results shown for this segment consist of the ANW for the AIA Group’s corporate functions and the present value of remittance taxes payable on distributable profits to Hong Kong. The ANW has been derived as the IFRS equity for this segment plus mark-to-market adjustments less the value of excluded intangible assets.

4.2 Embedded value and value of new business

The AIA Group uses a traditional deterministic discounted cash flow methodology for determining its EV and VONB. This methodology makes implicit allowance for all sources of risk including the cost of investment return guarantees and policyholder options, asset/liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and for the economic cost of capital, through the use of a risk adjusted discount rate. Typically, the higher the risk discount rate, the greater the allowance for these factors. This is a common methodology used by life insurance companies in Asia currently. Alternative valuation methodologies and approaches continue to emerge and may be considered by the AIA Group.

The business included in the VIF and VONB calculations includes all life business written by the Business Units of the AIA Group, plus other lines of business which may not be classified as life business but have similar characteristics. These include Accident & Health, Group and Pension businesses. The projected in-force business included in the VIF also incorporates expected renewals on short term business with a term of one year or less.

The EV is the sum of the ANW and VIF. The ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of the AIA Group, plus the IFRS equity value (excluding the value of intangible assets) of other activities, such as general insurance business. It excludes any amounts not attributable to the shareholders of the AIA Group. The market value of investment properties and property held for use used to determine the ANW is based on the fair value disclosed in the AIA Group’s IFRS financial statements as at the valuation date. It is the AIA Group’s policy to obtain external property valuations annually except in the event of a discrete event occurring in the interim that has a significant impact on the fair value of the properties.

The VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net of tax investment return on the shareholder assets backing required capital less the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in a participating fund there is no associated cost of capital included in the VIF or VONB.

The VONB is the present value, measured at point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business. The VONB for the AIA Group is calculated based on assumptions applicable at the point of measurement and before deducting the amount attributable to non-controlling interests. The VONB attributable to non-controlling interests was US\$2 million for the twelve month period ending 30 November 2010.

A deduction has been made from the Group EV and VONB for the present value of future after-tax unallocated group office expenses, representing the expenses incurred by the group office which are not allocated to the Business Units. These unallocated group office expenses have been allocated to acquisition and maintenance activities, and a deduction made from the VONB and VIF respectively.

4.3 Definition of new business

New business includes the sale of new contracts during the period, additional single premium payments on recurrent single premium contracts and increments to existing contracts where these are not variations allowed for in the calculation of the VIF. The VONB also includes the present value of cash flows associated with new policies written during the reporting period but subsequently terminated before the valuation date.

For group yearly renewable term business, new business is composed of new schemes set up during the period plus any premium payable on existing schemes that exceeds 125% of the prior year's premium.

For short-term accident and health business with a term of one year or less, renewals of existing contracts are not considered new business, and the value of expected renewals on this business is included in the VIF.

For corporate pension business, only new schemes set up during the period are considered as new business for the calculation of the VONB.

New business volumes shown in this report are measured using Annualised New Premiums (ANP), which is an internal measure of new business sales. This is equal to 100% of the annualised regular premiums on newly issued recurring premium contracts plus 10% of the single premiums received. It excludes new business sales for corporate pension business.

4.4 Consolidation of Hong Kong branches

The AIA Group's subsidiaries, AIA Co and AIA-B, are both Hong Kong regulated entities. The AIA Group operates in a number of territories as branches of these entities. Therefore, the business written in these branches is subject to the local reserving and capital requirements in the relevant territory and the Hong Kong reserving and capital requirements applicable to AIA Co and AIA-B at the entity level.

For these branches, the consolidated Group EV results shown in Section 2 have been calculated reflecting the more onerous of the Hong Kong and branch level regulatory reserving and capital requirements. This was done because the ultimate distribution of profits to the AIA Group shareholders from AIA Co and AIA-B will depend on both the Hong Kong and the local regulatory reserving and capital requirements. At the end of November 2010, the more onerous reserving basis for both AIA Co and AIA-B was the Hong Kong regulatory basis. This impact is shown as a group level adjustment to the EV and VONB. The EV and VONB for each Business Unit reflect only the local reserving and capital requirements, as discussed in Section 4.6.

4.5 Valuation of future statutory losses

For certain lines of business, projected future statutory profits are negative due to the local statutory reserves being insufficient to meet the value of future policyholder cash flows. Within a traditional embedded value framework, there are a number of acceptable methods for determining the value of a combination of positive and negative statutory profits for different lines of business.

For the purposes of this valuation, future projected statutory losses have been valued by discounting them at the risk discount rate for the relevant Business Unit. This has been done because the allowance for risk in the range of selected risk discount rates for each Business Unit has been set taking into account the presence of any such business lines with projected statutory losses. Also, the currently more onerous Hong Kong regulatory reserving requirements for the branches of AIA Co and AIA-B have the effect of reducing the level of any future projected statutory losses for these Business Units. Based on the assumptions described in Section 5, and allowing for the Hong Kong statutory reserving and capital requirements for the branches of AIA Co and AIA-B, the overall projected annual distributable profits from the current in-force business and the assets backing the required capital of the AIA Group are positive over the remaining lifetime of the business. Therefore, it is not considered necessary to change the discounting approach described above.

4.6 Required capital

Each of the Business Units has to hold shareholder capital in addition to the assets backing the insurance liabilities. This is for a number of reasons including to satisfy regulatory capital requirements. The AIA Group's assumed levels of required capital for each Business Unit are set out in the table below. Further, the consolidated EV results for the AIA Group have been calculated reflecting the more onerous of the Hong Kong and branch level local regulatory reserving and capital requirements for AIA Co and AIA-B.

TABLE 4.1

Required capital by Business Unit

Business Unit	Required Capital
AIA Australia	100% of the regulatory capital adequacy requirement
AIA China	100% of required minimum solvency margin
AIA Hong Kong	150% of required minimum solvency margin ⁽¹⁾
AIA Indonesia	120% of regulatory risk-based capital requirement (standard basis)
AIA Korea	150% of regulatory risk-based capital requirement
AIA Malaysia	170% of regulatory risk-based capital requirement
AIA New Zealand	100% of the local regulatory requirement ⁽²⁾
Philamlife	100% of regulatory risk-based capital requirement
AIA Singapore – Brunei business	100% of the local regulatory requirement
AIA Singapore – Singapore business	200% of regulatory risk-based capital requirement ⁽³⁾
AIA Taiwan	200% of regulatory risk-based capital requirement
AIA Thailand	150% of required minimum solvency margin
AIA Vietnam	100% of required minimum solvency margin

Note:

- ⁽¹⁾ The assumed level of required capital for AIA Hong Kong is also used for the branches of AIA Co and AIA-B in the calculation of the consolidated EV results of the AIA Group.
- ⁽²⁾ The local regulatory standard is considered to be defined by the Professional Standards of the New Zealand Society of Actuaries.
- ⁽³⁾ Subsequent to 30 November 2010, AIA Singapore has been notified by the Monetary Authority of Singapore that the increased capital adequacy requirements imposed since October 2008 no longer apply. The AIA Group does not expect a material impact to the Group EV results from this change.

5. Assumptions

5.1 Introduction

This section summarises the assumptions used by the AIA Group to determine the EV as at 30 November 2010 and the VONB for the twelve months to 30 November 2010 and highlights certain differences in assumptions between the EV as at 30 November 2009 and the EV as at 30 November 2010.

5.2 Economic assumptions

Investment returns

The AIA Group has set the assumed long-term future returns for fixed income assets to reflect its view of expected returns having regard to historical returns, estimates of long-term forward rates from yields available on government bonds and current bond yields. In determining returns on fixed income assets the AIA Group allows for the risk of default, and this allowance varies by the credit rating of the underlying asset.

Where these long-term views of investment return assumptions differ from current market yields on existing fixed income assets such that there would be a significant impact on value, an adjustment was made to make some allowance for the current market yields. In these cases, in calculating the VIF, adjustment was made to the investment return assumptions such that the investment returns on existing fixed interest assets were set consistently with the current market yield on these assets for their full term, to be consistent with the valuation of the assets backing the policy liabilities.

The AIA Group has set the equity return assumptions by reference to the return on 10-year government bonds, allowing for an internal assessment of equity risk premia that vary by territory.

For each Business Unit, the non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major investment classes.

For unit-linked business, fund growth assumptions have been determined based on actual fund mixes at the valuation date and expected long-term returns for major asset classes.

Risk discount rates

The risk discount rates for each Business Unit can be considered as the sum of the appropriate risk free rate, to reflect the time value of money, and a risk margin to make allowance for the risk profile of the business.

The AIA Group has generally set the risk discount rates to be equal to the estimated cost of equity capital for each Business Unit within the AIA Group. The cost of equity capital is derived using an estimated long-term risk free interest rate, an equity risk premium and a market risk factor. In some cases, adjustments have been made to reflect territorial or Business Unit specific factors.

Table 5.1 summarises the risk discount rates and assumed long-term investment returns for the major asset classes for each Business Unit as at 30 November 2010. The same risk discount rates were used for all the results shown in sections 1 and 2 of this report. In particular, for the branches of AIA Co and AIA-B, the consolidated Group EV results reflecting the Hong Kong reserving and capital requirements were calculated using the branch specific risk discount rates shown in Table 5.1. The present value of unallocated group office expenses was calculated using the AIA Hong Kong risk discount rates. The investment returns shown are gross of tax and investment expenses.

TABLE 5.1**Risk discount rates and long-term investment return assumptions by Business Unit as at 30 November 2010 (%)**

Business Unit	Risk discount rates		10-yr government bonds		Local equities	
	2010	2009	2010	2009	2010	2009
AIA Australia	8.75	8.75	5.65	5.75	8.15	8.15
AIA China	10.00	10.00	3.74	3.74	9.74	9.74
AIA Hong Kong ⁽¹⁾	8.00	8.00	3.53	3.83	8.48	8.48
AIA Indonesia (Rupiah denominated business)	15.00	17.00	7.90	11.00	12.86	13.48
AIA Korea	10.50	11.00	4.82	5.16	8.16	9.08
AIA Malaysia	9.00	9.00	4.45	4.46	8.34	8.34
AIA New Zealand	9.00	9.00	6.13	6.30	n/a⁽²⁾	n/a ⁽²⁾
Philamlife (Peso denominated business)	13.00	14.00	6.00	7.47	11.16	11.16
AIA Singapore – Brunei business	7.75	7.75	2.93	2.93	8.00	8.00
AIA Singapore – Singapore business	7.75	7.75	2.93	2.93	8.00	8.00
AIA Taiwan	8.00	8.00	1.73	1.73	6.87	6.87
AIA Thailand	9.50	10.00	3.87	4.16	10.16	10.16
AIA Vietnam	16.00	16.00	10.20	9.25	n/a⁽²⁾	n/a ⁽²⁾

Note:

⁽¹⁾ The majority of AIA Hong Kong's assets and liabilities are denominated in U.S. dollars. The 10-year government bond assumption is for U.S. dollar denominated bonds.

⁽²⁾ The assumed asset allocations do not include equities for these Business Units.

5.3 Persistency

Persistency covers the assumptions required, where relevant, for policy lapse (including surrender), premium persistency, premium holidays, partial withdrawals and retirement rates for pension products.

Assumptions have been developed by each of the Business Units based on their recent historical experience, and their best estimate expectations of current and expected future experience. Persistency assumptions vary by policy year and product type with different rates for regular and single premium products.

Where experience for a particular product was not credible enough to allow any meaningful analysis to be performed, experience for similar products was used as a basis for future persistency experience assumptions.

In the case of surrenders, the valuation assumes that current surrender value bases will continue to apply in the future.

5.4 Expenses

For the established Business Units, the expense assumptions have been set based on the most recent expense analysis. The purpose of the expense analysis is to allocate firstly total expenses between acquisition and maintenance activities, and then to allocate these acquisition and maintenance expenses to various product categories to derive unit cost assumptions.

Where the expenses associated with certain activities have been identified as being one-off, these expenses have been excluded from the expense analysis.

Expense assumptions have been determined for acquisition and maintenance activities, split by product type, and unit costs expressed as a percentage of premium, sum assured and an amount per policy. Where relevant, expense assumptions have been calculated per distribution channel.

Expense assumptions do not make allowance for any anticipated future expense savings as a result of any strategic initiatives aimed at improving policy and claims handling efficiency.

Assumptions for commission rates and other sales related payments have been set in line with actual experience.

Maintenance expenses

For AIA China and AIA Vietnam, which are still in a development phase, expense assumptions were based on assumed long-term levels of unit costs. Therefore, the estimated future maintenance expenses are in excess of the projected future expense allowances (based on long-term expected unit costs) for these Business Units. The AIA Group has made a deduction in the VIF as at 30 November 2010 of the after tax net present value of the expected future maintenance expense overruns.

The maintenance expense overrun has been calculated by projecting the future maintenance expense allowances generated each year, allowing for expected future new business volumes, and comparing these to the estimated future maintenance expenses.

For those units where there is a maintenance expense overrun, the after tax amounts of the estimated future maintenance expense overrun attributable to shareholders are shown in the table below.

TABLE 5.2

Projected after-tax maintenance expenses above assumed long-term levels attributable to shareholders (by financial year) (US\$ millions)

Business Unit	2011	2012	2013	2014	2015
AIA China	13	1	–	–	–
AIA Vietnam	5	4	3	1	–

Acquisition expenses

For Business Units that are in a development phase, or where the new business volumes during the period were lower than in previous years, the VONB has been determined using expected future acquisition expense assumptions rather than actual acquisition expenses during the valuation period. For the Business Units in a development phase, the acquisition expense assumptions have been set equal to expected long-term levels. For Business Units where new business volumes were significantly below historical levels, the expected acquisition expense assumptions have been derived using actual acquisition expenses and new business volumes for periods before 2009. Any excess or shortfall of actual acquisition expenses (including commissions) over the unit cost assumptions has not been adjusted from the VONB figures presented in this report.

While any projected excess of the acquisition expenses over the unit cost assumptions has not been included in the Group EV or VONB, the historical excess of actual acquisition expenses over the unit cost assumptions has reduced the amount of assets and hence the ANW component of the Group EV.

The after tax amounts of excess of the actual acquisition expenses above the acquisition expenses reflected in the VONB attributable to shareholders for the twelve month period ending 30 November 2010 are shown in the table below.

TABLE 5.3

Excess/(shortfall) of acquisition expenses above/(below) acquisition expenses reflected in VONB (US\$ millions)

Business Units in a development phase

AIA China	15
AIA Vietnam	3
	<hr/>
Sub-total	18
	<hr/>

Other Business Units

AIA Hong Kong	25
AIA Korea	34
AIA Malaysia	(1)
AIA Singapore	27
AIA Thailand	(22)
Other Markets excluding AIA Vietnam	24
	<hr/>
Sub-total	87
	<hr/>

Total	105
	<hr/> <hr/>

Group office expenses

Group office expense assumptions have been set, after excluding non-recurring expenses, based on actual acquisition and maintenance expenses in the twelve month period to 30 November 2010. The group office acquisition expenses have been deducted from the VONB. The present value of the projected future group office maintenance expenses has been included in the Group EV. The maintenance expense assumptions in the VONB also allow for the allocation of group office expenses.

5.5 Expense inflation

The assumed expense inflation rates are based on expectations of long-term consumer price and salary inflation. The expense inflation assumptions are shown in the table below.

TABLE 5.4

Expense inflation assumptions by Business Unit as at 30 November 2010 (%)

Business Unit	Expense inflation
AIA Australia	3.25
AIA Brunei	2.0
AIA China	2.0
AIA Hong Kong	2.0
AIA Indonesia	6.0
AIA Korea	3.5
AIA Malaysia	3.0
AIA New Zealand	2.0
Philamlife	4.5
AIA Singapore	2.0
AIA Taiwan	1.0
AIA Thailand	2.5
AIA Vietnam	5.0

Unallocated group office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

5.6 Mortality

Assumptions have been developed by each Business Unit based on their recent historical experience, and their expectations of current and expected future experience. Where historical experience is not credible, reference has been made to pricing assumptions supplemented by market data, where available.

Mortality assumptions have been expressed as a percentage of either standard industry experience tables or, where experience is sufficiently credible, as a percentage of tables that have been developed internally by the AIA Group.

For products that are exposed to longevity risk, an allowance has been made for expected improvements in mortality; otherwise no allowance has been made for mortality improvements.

5.7 Morbidity

Assumptions have been developed by each Business Unit based on their recent historical experience, and their expectations of current and expected future experience. Morbidity rate assumptions have been expressed as a percentage of standard industry experience tables or as expected claims ratios.

5.8 Reinsurance

Reinsurance assumptions have been developed by each Business Unit based on the reinsurance arrangements in-force as at the valuation date and the recent historical and expected future experience.

5.9 Policyholder dividends, profit sharing and interest crediting

The projected policyholder dividend, profit sharing and interest crediting assumptions set by each Business Unit that have been used in calculating the EV results presented in this report, reflect contractual and regulatory requirements, policyholders' reasonable expectations (where clearly defined) and each Business Unit's best estimate of future policies, strategies and operations consistent with the investment return assumptions used in the EV results.

Participating fund surpluses have been assumed to be distributed between policyholders and shareholders via future final bonuses or at the end of the projection period so that there are no residual assets at the end of the projection period.

5.10 Taxation

The projections of distributable profits underlying the values presented in this report are net of corporate tax, based on current taxation legislation and corporate tax rates. The projected amount of tax payable in any year allows, where relevant, for the benefits arising from any tax loss carried forward.

The local corporate tax rates used by each Business Unit are set out in the table below.

TABLE 5.5

Local corporate tax rates by Business Unit (%)

Business Unit	Applicable taxation rate
AIA Australia	30.0
AIA China	25.0
AIA Hong Kong – Hong Kong business	16.5
AIA Hong Kong – Macau business	12.0
AIA Indonesia	25.0
AIA Korea	24.2 until 31st March 2012; 22.0 thereafter
AIA Malaysia	25.0
AIA New Zealand	30.0 until year-end 2010; 28.0 thereafter
Philamlife	30.0
AIA Singapore – Brunei business	22.0
AIA Singapore – Singapore business	17.0
AIA Taiwan	25.0 until year-end 2010; 17.0 thereafter
AIA Thailand	30.0
AIA Vietnam	25.0

The tax assumptions employed in the valuation reflect the local corporate tax rates set out above. Where applicable, tax payable on investment income has been reflected in projected investment returns.

The EV of the AIA Group as at 30 November 2010 is calculated after deducting any remittance taxes payable on both the distribution of the ANW and VIF.

Where territories have an imputation credit system in place, e.g. Australia, no allowance has been made for the value of the imputation credits in the results shown in this report.

5.11 Statutory valuation bases

The projection of regulatory liabilities at future points in time assumes the continuation of the reserving methodologies used to value policyholder liabilities as at the valuation date.

5.12 Product charges

Management fees and product charges reflected in the VIF and VONB have been assumed to remain at existing levels.

5.13 Foreign exchange

The EV as at 30 November 2009 and 30 November 2010 have been translated into U.S. Dollar using exchanges rates as at each valuation date. The VONB results shown in this report have been translated into U.S. Dollar using the corresponding average rates for each quarter. The other components of the EV profit shown in the analysis of movement of the EV have been translated using average rates for the period.

ADDITIONAL INFORMATION

Review of Accounts

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 30 November 2010, including the accounting principles and practices adopted by the Group.

Compliance with the Code on Corporate Governance Practices

Throughout the period from the date of the Company's listing on the Hong Kong Stock Exchange on 29 October 2010 to the end of the financial year on 30 November 2010, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code save as disclosed below:

- (i) Code Provision A.2.1 of the Corporate Governance Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the Relevant Period, Mr. Mark Edward Tucker assumed the dual roles of Group Executive Chairman and Chief Executive Officer. The Board considered that this structure maximized the effectiveness of the strategic and operational management of the Group at the relevant time.

On 1 January 2011, Mr. Edmund Sze Wing Tse was invited to assume the role of Non-executive Chairman and Mr. Tucker relinquished the role of Group Executive Chairman and became Group Chief Executive and President. After separation of the roles of Chairman and Group Chief Executive, the Company has been in compliance with Code Provision A.2.1.

- (ii) Code Provision A.4.1 of the Corporate Governance Code provides that the Non-executive Directors should be appointed for a specific term, subject to re-election. Mr. Jeffrey Joy Hurd and Mr. Jay Steven Wintrob, both being Non-executive Directors of the Company, were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company.

The Company has also adopted its own Directors' and Chief Executives' Dealing Policy on terms no less exacting than those set out in the Model Code in respect of dealings by the Directors in the securities of the Company. All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and the Directors' and Chief Executives' Dealing Policy throughout the Relevant Period.

Purchase, Sale and Redemption of the Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the financial year ended 30 November 2010.

Subsequent Events

Details of significant events after the year ended 30 November 2010 are set out in Note 44 to the financial statements.

Publication of Certain Financial and Other Data Pursuant to Local Regulatory Requirements and AIG Financial Information

The Company or its subsidiaries or their respective branches are subject to local regulatory oversight in each of the countries or jurisdictions in which they operate. In a number of these jurisdictions, local insurance and other regulations require the publication of certain financial and other data, primarily for

policyholder information and prudential supervisory purposes. The Local Statutory Data is often produced pursuant to regulations that are not designed with the protection or requirements of public shareholders as a primary objective. The Local Statutory Data that we expect to be published in 2011 includes the following:

Location	Expected Time of Publication
People's Republic of China	Monthly
Hong Kong	April, June, September, October and December
Malaysia	May and July
Singapore	June and July
Korea	February, June, August and November
Thailand	before end of May, August and November

Such Local Statutory Data is prepared on bases different from the IFRS which the Company uses to prepare its own consolidated financial information and may be substantially different from the Company's audited IFRS financial information.

In addition, AIG is required to file various reports with the U.S. Securities and Exchange Commission which contain certain financial information which is prepared on a basis different from the IFRS which the Company uses to prepare its financial information, is based on a financial period different to the Company's and includes financial information relating to AIG businesses that are outside the scope of the Company's businesses.

Accordingly, our shareholders and potential investors are advised that the Local Statutory Data and AIG Financial Information should not be relied on for an assessment of the Company's financial performance.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 23 May 2011 to Thursday, 26 May 2011, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify to attend and vote at the 2011 Annual General Meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m., Friday, 20 May 2011.

Analysts and Investors Presentation

A presentation for analysts and investors, hosted by Mark Tucker, Group Chief Executive and President, is scheduled at 9:30 a.m. Hong Kong time today. An audiocast of the presentation and presentation slides will be available on the Company's website, <http://investors.aia.com/phoenix.zhtml?c=238804&p=irol-presentations>.

Annual General Meeting

The 2011 Annual General Meeting will be held at 11:00 a.m. Hong Kong time on Thursday, 26 May 2011. The notice of the 2011 Annual General Meeting will be published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk and the Company's website at www.aia.com.

Forward Looking Statements

This document contains certain forward looking statements relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our 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 our business prospects, future developments, trends and conditions in the industry and geographical markets in which we operate, our strategies, plans, objectives and goals, our ability to control costs, statements relating to prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

When used in this document, the words “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and similar expressions, as they relate to us or our management, are intended to identify forward looking statements. These forward looking statements reflect our views as of the date hereof with respect to future events and are not a guarantee of future performance or developments. 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 any changes in the laws, rules and regulations relating to any aspects of our business operations, general economic, market and business conditions, including capital market developments, changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, the actions and developments of our competitors and the effects of competition in the insurance industry on the demand for, and price of, our products and services, various business opportunities that we may or may not pursue, changes in population growth and other demographic trends, including mortality, morbidity and longevity rates, persistency levels, our ability to identify, measure, monitor and control risks in our business, including our ability to manage and adapt our overall risk profile and risk management practices, our ability to properly price our products and services and establish reserves for future policy benefits and claims, seasonal fluctuations, and factors beyond our control. Subject to the requirements of the Listing Rules, we do not intend to update or otherwise revise the forward looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward looking information or statements. All forward looking statements in this document are qualified by reference to the cautionary statements set forth in this section.

By order of the Board
Mark Edward Tucker
Executive Director
Group Chief Executive and President

Hong Kong, 25 February 2011

As at the date of this announcement, the Board of Directors of the Company comprises:

Non-executive Chairman and Non-executive Director:

Mr. Edmund Sze Wing Tse

Executive Director:

Mr. Mark Edward Tucker

Independent Non-executive Directors:

Sir Chung-Kong (CK) Chow, Mr. Rafael Si-Yan Hui and Dr. Qin Xiao

Non-executive Directors:

Mr. Jack Chak-Kwong So, Mr. Jeffrey Joy Hurd and Mr. Jay Steven Wintrob

GLOSSARY

Accident and health (A&H) insurance products	Accident and health insurance products, which provide morbidity or sickness benefits and include health, disability, critical illness and accident cover. A&H insurance products are sold both as standalone policies and as riders that can be attached to our individual life insurance policies.
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>
Adjusted net worth (ANW)	ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of AIA Group, plus the IFRS equity value (excluding the value of intangible assets) of other activities, such as general insurance business. It excludes any amounts not attributable to the shareholders of AIA Group. The market value of investment properties and property held for use used to determine the ANW is based on the fair value disclosed in AIA Group's IFRS financial statements as at the valuation date. It is AIA Group's policy to obtain external property valuations annually except in the event of a discrete event occurring in the interim that has significant impact on the fair value of the properties.
AIA-B	American International Assurance Company (Bermuda) Limited, an AIA Group Limited subsidiary.
AIA Co	American International Assurance Company, Limited, an AIA Group Limited subsidiary.
AIA Group or 'the Group'	AIA Group Limited and its subsidiaries.
AIG	American International Group, Inc.
AIG Financial Information	Certain financial information contained in various reports filed by AIG with the U.S. Securities and Exchange Commission, which is prepared on a basis different from which the Company uses to prepare its financial information.

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.
Annualised New Premiums (ANP)	ANP represents 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within the AIA Group. ANP excludes new business of corporate pension business and personal lines and motor insurance.
Annuity	A savings product where the accumulated amount can be paid out to the customer in a variety of income streams.
Asset-liability management (ALM)	To manage the risk exposures of our assets and our liabilities and to ensure that our obligations arising from our liabilities are met.
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.
Bancassurance	The distribution of insurance products through banks or other financial institutions.
bps	Basis points.
Broad marketing	A channel that utilises mass marketing through television, newspapers and the Internet.
Capital management	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.
CER Committee	Catastrophic and Emerging Risk Committee.
Claims volatility risk	The possibility that the frequency or severity of claims arising from insurance products exceed the levels assumed when the products were priced.
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.
The Company	AIA Group Limited.
Corporate Governance Code	Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules.
Corridor	A range around an entity's best estimate of post employment benefit obligations.

Cost of Capital (CoC)	CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net of tax investment return on the shareholder assets backing the required capital less the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policy holder assets such as surplus assets in a participating fund there is no associated cost of capital included in the VIF or VONB.
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.
CRM Team	Credit Risk Management Team.
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.
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.
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.
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.
Discontinued operations	<p>A component of an entity that either has been disposed of or is classified as held for sale and:</p> <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)	<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.
Effective interest method	<p>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.</p>
Embedded value (EV)	<p>An actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business.</p>
EPS	<p>Earnings Per Share.</p>
ERM	<p>Enterprise Risk Management.</p>
Excess return	<p>Return rate on an investment relative to the return rate on relevant benchmark.</p>
Fair value	<p>The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.</p>
Fair value through profit or loss	<p>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.</p>
First year premiums	<p>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.</p>
Free cashflow	<p>Operating cash flows (net income plus amortization and depreciation) minus capital expenditures and dividends. Free cash flow is the amount of cash that a company has left over after it has paid all of its expenses, including investments.</p>
Free surplus	<p>ANW in excess of the required capital.</p>
Functional currency	<p>The currency of the primary economic environment in which the entity operates.</p>
Group office	<p>Group office includes the activities of the Corporate and Other segment consisting of the AIA Group's corporate functions, shared services and eliminations of intragroup transactions.</p>

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.
High net worth individuals	Individuals who have investable assets of US\$1.0 million or more.
Hong Kong	The Hong Kong Special Administrative Region of the PRC; in the context of our reportable segments, Hong Kong includes Macau.
Hong Kong Insurance Companies Ordinance (HK ICO)	The Insurance Companies Ordinance (Laws of Hong Kong, Chapter 41) (“ICO”) provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong. The objectives of the ICO are to protect the interests of the insuring public and to promote the general stability of the insurance industry.
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited.
HKOCI	Hong Kong Office of the Commissioner of Insurance.
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’).
Inactive agent	An agent who sells less than one life insurance product per month.
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 Investments	Financial investments held to back investment-linked contracts.
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.
IPO	Initial public offering.
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.
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
Local Statutory Data	Certain financial and other data required to be published under local insurance and other regulations, primarily for policyholder information and prudential supervisory purposes.
Mandatory Provident Fund (MPF)	MPF is a compulsory saving scheme (pension fund) for the retirement of residents in Hong Kong. Most employees and their employers are required to contribute monthly to Mandatory Provident Fund Schemes provided by approved private organisations, according to their salaries and the period of employment.
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.
Martassurance	A distribution channel that allows customer to access AIA's insurance products in multi-national retailer stores.
Million Dollar Round Table (MDRT)	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules in respect of dealings by the Directors in the securities of the Company.

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.
Net book value	The net value of an asset. Equal to its original cost (its book value) minus depreciation and amortization.
Net funds to Group	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.
Net profits	Net profit is calculated by subtracting a company's total expenses from total revenue, including share of loss from associates and after tax.
Net return on equity	Net return on equity measures our ability to generate returns for shareholders. Net return on equity is calculated as net profit attributable to shareholders of AIA Group Limited, as a percentage of average total equity attributable to shareholders of AIA Group Limited, which is a simple average of the opening and closing balances.
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.
n/a	Not available.
n/m	Not meaningful.
Operating profit before tax and after tax	The Group defines operating profit before and after 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 investment funds, policyholders' share of tax relating to the change in insurance and investment contract liabilities and other significant items of non-operating income and expenditure.
OPAT	Operating profit after tax.
Operating return on allocated equity	Operating return on allocated equity is calculated as operating profit after tax attributable to shareholders of AIA Group Limited, expressed as percentage of the simple average of opening and closing total equity attributable to shareholders of AIA Group Limited, less the fair value and foreign currency translation reserves, and adjusted for subordinated intercompany debt.

Operating segment	<p>A component of an entity that:</p> <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.
ORM Committee	Operational Risk Management Committee.
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 features	Various features offered in participating policies.
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. The 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	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 factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The 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.
Persistency	The percentage of insurance policies remaining in force from month to month, as measured by premiums.
PhilamLife	The Philippine American Life and General Insurance Company, an AIA Group Limited subsidiary.
Policyholder and Shareholder Investments	Investments other than those held to back investment-linked contracts.

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.
pp	Percentage points.
PRM Committee	Product Risk Management Committee.
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.
RCSA	Risk and control self assessment.
Recapture	The voluntary termination of a contract of life reinsurance.
Related parties	<p>Related parties, as disclosed in Note 41 to the financial statements 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 • they are a postretirement benefit plan for the employees of AIA Group.
Relevant Period	From date of the Company's listing on the Hong Kong Stock Exchange on 29 October 2010 to end of financial year on 30 November 2010.
Regulatory Capital	A minimum solvency margin requirements set by the HK ICO that an insurer must meet in order to be authorized to carry on insurance business in or from Hong Kong.
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.
Rider	A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premium.
RMF	Risk Management Framework.
Risk-adjusted return	A measure of how much an investment returned in relation to the amount of risk it took on.
Risk appetite	Risk appetite is the level of risk that insurance companies are willing to take in the process of achieving their business targets. Risk appetite is the basic attitude of life insurance companies towards risk, and it provides guidance for the establishment of strategy, the implement of business plans, and the allocation of resources.
Risk asset	An asset other than debt securities, loans or cash and cash equivalents.
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.
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.
Sharia or Shariah products	Savings, protection, and investment products that are compliant with Islamic principles.
Singapore	The Republic of Singapore; in the context of our reportable segment, Singapore includes Brunei.

Single premiums	Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.
Solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
Solvency ratio	The ratio of actual capital to the minimum capital requirement applicable to the insurer pursuant to relevant regulations.
Standalone A&H	A&H policies that are sold as separate policies not attached to other individual life products.
Statement of financial position	Formerly referred to as the balance sheet.
Strategic asset allocation (SAA)	SAA is the setting of strategic asset allocation targets, based on long-term capital market assumptions, to meet long-term requirements of the insurance business and shareholders.
Stress tests	Stress test is a form of testing that is used to determine the stability of a given system or entity. It involves testing beyond normal operational capacity, often to a breaking point, in order to observe the results.
Super funds	Super funds is money set aside over a lifetime to provide for retirement. Super funds invest the money in many things, such as shares, property and managed funds.
Tactical asset allocation (TAA)	TAA is the mechanism that allows investment managers to generate alpha over SAA by tilting the asset class exposures in anticipation of (or in reaction to) short-term market deviations from their long-term expected fair values. It is typically a defined range above/below the SAA targets.
Takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
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.
Underwriting	The process of examining, accepting or rejecting insurance risks, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
Unit linked	Unit linked contracts may combine savings with an element of protection, the cash value of the policy depends 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.

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.
Value of in-force business (VIF)	The VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital ("CoC") to support the in-force business.
Value of new business (VONB)	<p>VONB is the present value, measured at point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business.</p> <p>VONB for AIA Group is stated after adjustments to reflect applicable Hong Kong reserving and capital requirements and the after-tax value of unallocated group office expenses.</p> <p>VONB by market is stated before adjustments to reflect applicable Hong Kong reserving and capital requirements and unallocated group office expenses, and presented on a local statutory basis.</p>
VONB margin	<p>VONB excluding corporate pension business, expressed as a percentage of ANP.</p> <p>VONB margin for AIA Group is stated after adjustments to reflect applicable Hong Kong reserving and capital requirements and the after-tax value of unallocated group office expenses.</p> <p>VONB margin by market is stated before adjustments to reflect applicable Hong Kong reserving and capital requirements and unallocated group office expenses, and presented on a local statutory basis.</p>
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.
Working Capital	Working capital comprises debt and equity securities and cash and cash equivalents held at group office. These liquid assets are available to invest in building the Group's business operations.
YoY%	Year-on-year percentage variance
US\$m	US Dollar Million
US\$b	US Dollar Billion