

AIA Group Limited
友邦保險控股有限公司
Annual Report 2012

Stock code: 1299



Creating
**Sustainable
Value**

Vision

AIA is the pre-eminent life insurance provider in the Asia-Pacific region, differentiated from our competitors by the combination of our Asia regional focus, the scale, quality and profitability of our operations across the region, and the standards of service and benefits we deliver to our customers. Our vision is to grow our business prudently and profitably in all the markets we serve in order to optimise returns for our shareholders over time.

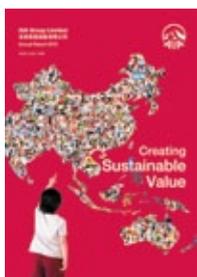
About AIA

AIA Group Limited and its subsidiaries (collectively “AIA” or “the Group”) comprise the largest independent publicly listed pan-Asian life insurance group. It has operations in 16 markets in Asia-Pacific – wholly-owned branches and subsidiaries in Hong Kong, Thailand, Singapore, Malaysia, China, Korea, the Philippines, Australia, Indonesia, Taiwan, Vietnam, New Zealand, Macau, Brunei, a 92 per cent subsidiary in Sri Lanka and a 26 per cent joint venture in India.

The business that is now AIA was first established in Shanghai over 90 years ago. It is a market leader in the Asia-Pacific region (ex-Japan) based on life insurance premiums and holds leading positions across the majority of its markets. It had total assets of US\$134,439 million as of 30 November 2012.

AIA meets the savings and protection needs of individuals by offering a range of products and services including retirement savings plans, life insurance and accident and health insurance. The Group also provides employee benefits, credit life and pension services to corporate clients. Through an extensive network of agents and employees across Asia-Pacific, AIA serves the holders of more than 25 million individual policies and over 13 million participating members of group insurance schemes.

AIA Group Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code “1299” with American Depositary Receipts (Level 1) traded on the over-the-counter market (ticker symbol: “AAGIY”).



Creating Sustainable Value

In 2012 AIA delivered another set of excellent results with record performance across all of our key metrics. We are well positioned for future growth as we create sustainable value for our customers and shareholders.

Notes:

- (1) Explanations of certain terms and abbreviations used in this report are set forth in the Glossary.
- (2) Unless otherwise specified, 2011 and 2012 refer to the financial year of AIA Group Limited, which ends on 30 November of the year indicated.

Contents



8

OVERVIEW

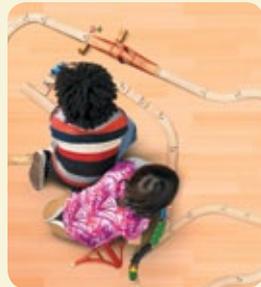
Financial Highlights

10

Chairman's Statement

12

Group Chief Executive and President's Report



18

Financial Review

34

Business Review

54

Risk Management

62

Our People

66

Corporate Social Responsibility



74

Statement of Directors' Responsibilities

75

Board of Directors and Executive Committee

80

Report of the Directors

85

Corporate Governance Report

94

Remuneration Report

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

105

Independent Auditor's Report

107

Consolidated Income Statement

108

Consolidated Statement of Comprehensive Income

109

Consolidated Statement of Financial Position

110

Consolidated Statement of Changes in Equity

111

Consolidated Statement of Cash Flows

112

Notes to the Consolidated Financial Statements
and Significant Accounting Policies

208

Financial Statements of the Company

211

Supplementary Embedded Value Information

ADDITIONAL INFORMATION

234

Information for Shareholders

236

Corporate Information

237

Glossary



2 Key Milestones

1919



AIA put down its corporate roots in Asia when the group founder Mr. Cornelius Vander Starr established an insurance agency in Shanghai.

1921

SHANGHAI

Mr. Cornelius Vander Starr founded Asia Life Insurance Company, his first life insurance enterprise in Shanghai.

1931

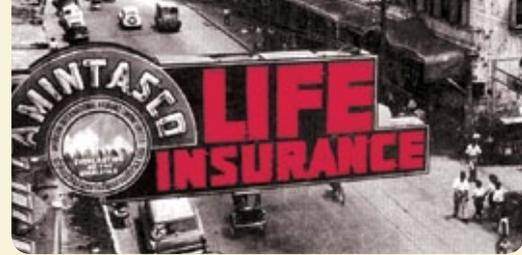


HONG KONG AND SINGAPORE

Mr. Cornelius Vander Starr founded International Assurance Company, Limited (INTASCO), in Shanghai.

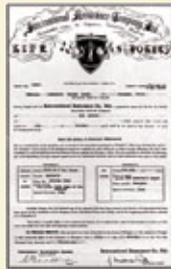
INTASCO established branch offices in Hong Kong and Singapore.

1938



THAILAND

INTASCO entered Siam, later renamed Thailand, to write both life and general insurance.



The first life insurance policy issued in Shanghai.

1990

TAIWAN

Our operations in Taiwan were established as a branch of ALICO.

1992



We re-established our presence in China through a branch office in Shanghai, the first foreign-owned life business to receive a licence in the country.

1998

We celebrated the return to our former headquarters building at The Bund in Shanghai.

2000



VIETNAM

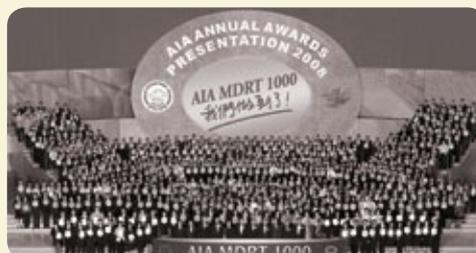
We formed a subsidiary in Vietnam.

2001

INDIA

A joint venture in India was established.

2008



AIA broke the record as the life insurer with the highest number of MDRT qualifiers in Hong Kong.

1947



PHILIPPINES

The Philippine American Life and General Insurance Company (Philam Life) was founded in the Philippines.

INTASCO moved its head office to Hong Kong and changed its name to American International Assurance Company, Limited (AIA Co.).

1957

BRUNEI

We registered in Brunei.

1972

AUSTRALIA

We formed a subsidiary in Australia.

1981

NEW ZEALAND

Our New Zealand operations began as a branch of American Life Insurance Company (ALICO).

1987



KOREA

Korean operations began.

1969



We moved into a new office on Stubbs Road, Hong Kong.

1982

MACAU

We entered Macau.

1984



INDONESIA

We entered Indonesia.

1948

MALAYSIA

We entered Malaysia.

2009

ALICO Taiwan became our branch office.

Philam Life became an operating subsidiary of the Group.

We completed the reorganisation driven by AIG's liquidity crisis in 2008, leading to the positioning of the Company for a public listing.

2010



AIA Group Limited successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited, the third largest IPO ever globally at the time.

2011



AIA Group Limited became a constituent stock of the Hang Seng Index.

We launched a sponsored Level 1 American Depository Receipt programme.

2012



The divestment by AIG of its remaining shareholding in AIA marked the end of our association with AIG.



Geographical Markets

We have a diversified franchise across the Asia-Pacific region. Our long experience in the region allows us to tailor our strategies to the culture, demographics and insurance needs of each market in which we operate.

AIA At-a-Glance⁽²⁾

History of over

90 years

in Asia-Pacific

100 per cent ownership in 14⁽¹⁾ out of

**16 geographical
markets**

Serving the holders of more than

25 million

individual policies and over

13 million

participating members of group insurance schemes

Embedded value of

US\$31.4 billion

Total assets of

US\$134.4 billion

New Zealand

Notes:

(1) Including operations in the Philippines in which percentage holding is 99.78 per cent.

(2) All the above figures are as of 30 November 2012.



With the
Right Strategy

Advantaged Platform in Asia

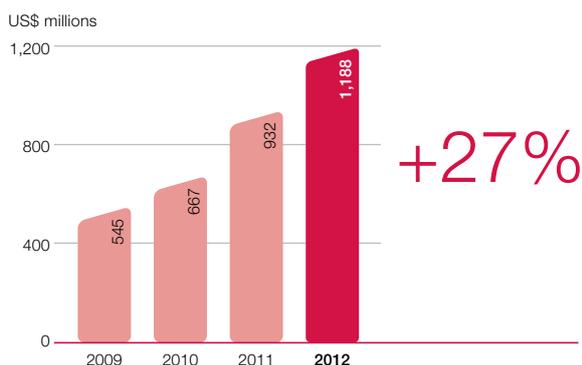
AIA is making great strides as the leading pan-Asian insurer with advantaged positions in each of our 16 markets throughout the Asia-Pacific region.



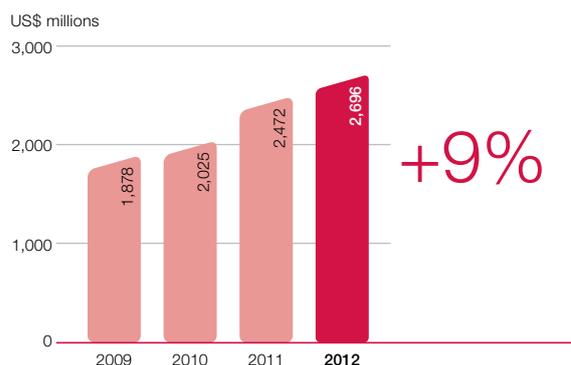
Financial Highlights

2012 Results At-a-Glance*

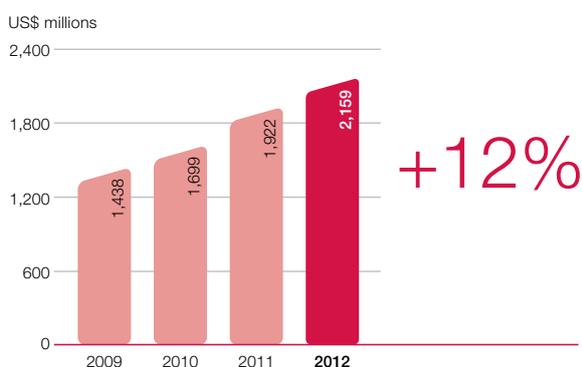
Value of New Business (VONB)⁽¹⁾



Annualised New Premium (ANP)⁽²⁾



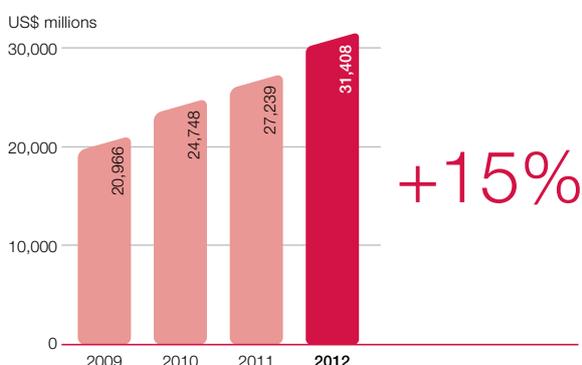
Operating Profit After Tax (OPAT)



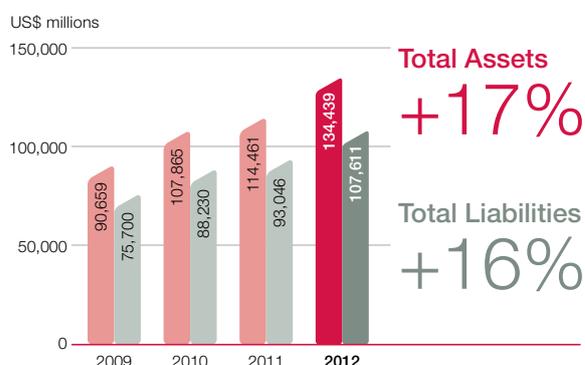
Total Weighted Premium Income (TWPI)⁽³⁾



Embedded Value (EV)⁽⁴⁾



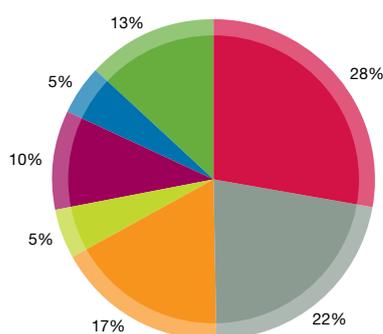
Total Assets and Total Liabilities



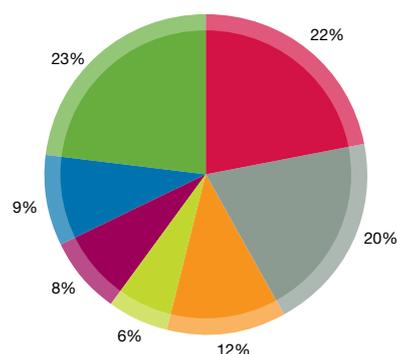
* Percentages shown indicate changes in 2012 compared with 2011.

2012 Breakdown by Segment

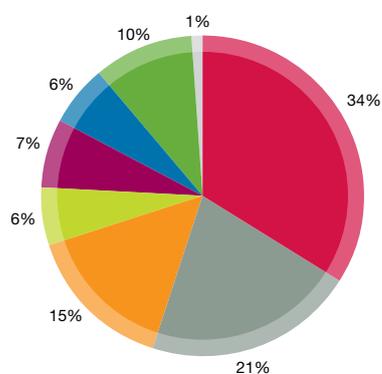
Value of New Business (VONB)^{(1), (6)}



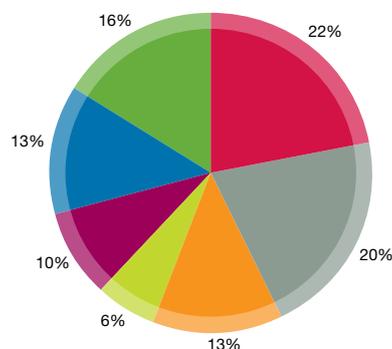
Annualised New Premium (ANP)⁽²⁾



Operating Profit After Tax (OPAT)⁽⁵⁾



Total Weighted Premium Income (TWPI)⁽³⁾

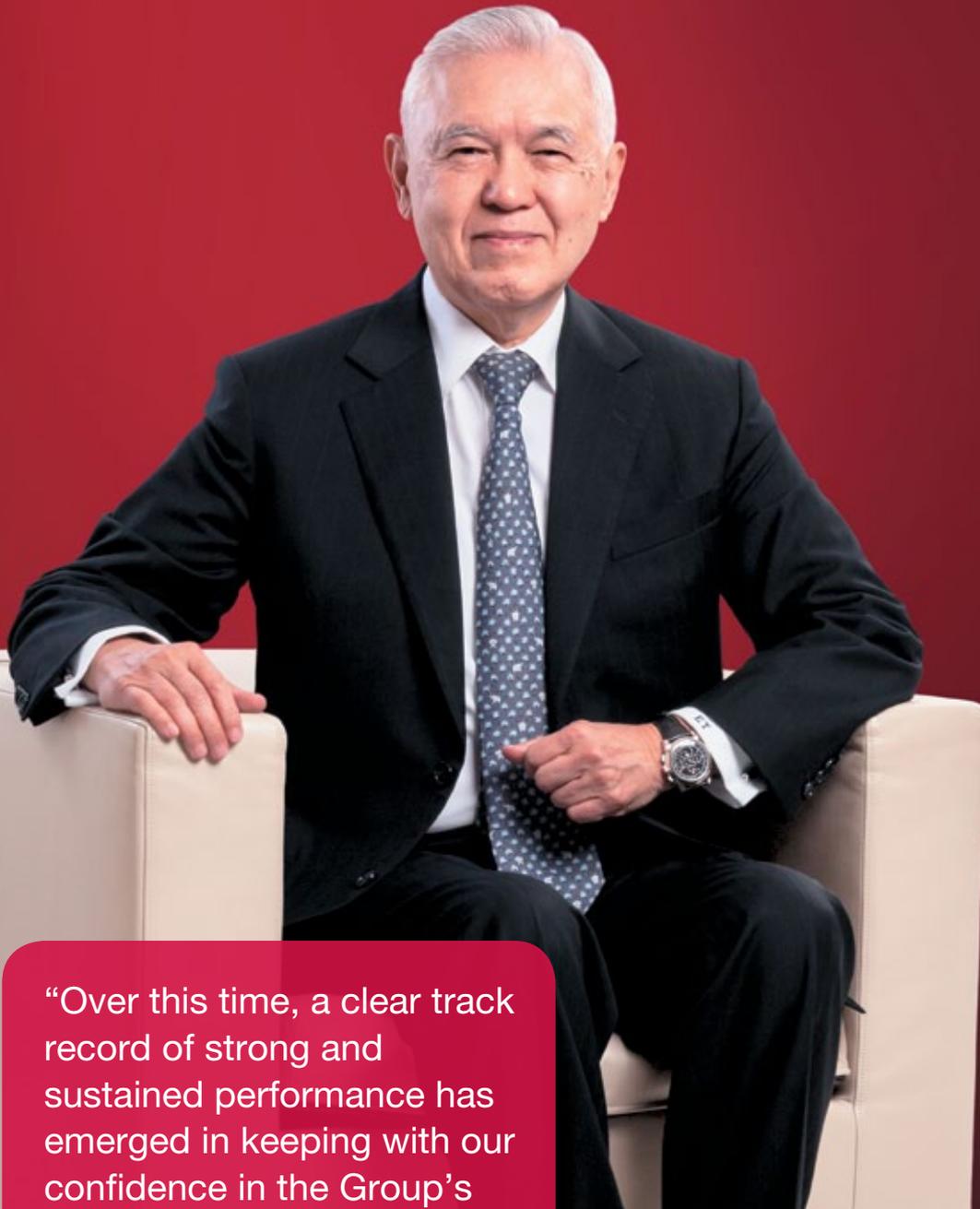


■ Hong Kong
 ■ Thailand
 ■ Singapore
 ■ Malaysia
■ China
 ■ Korea
 ■ Other Markets⁽⁷⁾
 ■ Group Corporate Centre

Notes:

- (1) Value of new business (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.
- (2) Annualised new premium (ANP) is a measure of new business activity that is calculated as the sum of 100 per cent annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded.
- (3) Total weighted premium income (TWPI) consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums.
- (4) Embedded value (EV) is 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.
- (5) Operating profit after tax (OPAT) percentages are shown after non-controlling interest.
- (6) Based on local statutory basis and before unallocated Group Office expenses, VONB by segment includes corporate pension business.
- (7) The results of our joint venture in India are accounted for using the equity method. For clarity, TWPI, ANP and VONB exclude any contribution from India.

Chairman's Statement



“Over this time, a clear track record of strong and sustained performance has emerged in keeping with our confidence in the Group’s outstanding prospects for profitable growth.”

Edmund Sze-Wing Tse
Non-executive Chairman

It is with great pleasure that I present my third annual Statement since AIA became an independent listed company in October 2010. Over this time, a clear track record of strong and sustained performance has emerged in keeping with our confidence in the Group's outstanding prospects for profitable growth.

The Group has delivered an excellent set of results in 2012 building on the momentum achieved in 2011, which was in itself a record year. I would like to thank our leadership team, employees, agents and partners for their hard work and dedication in producing another significant uplift in profitability and shareholder value.

Value of new business (VONB) now stands at US\$1,188 million in 2012, a 27 per cent increase compared with 2011 and more than doubled the figure achieved in 2009. Embedded value (EV) was up 15 per cent over the year and is 50 per cent higher than in 2009. It is a testament to the quality of the Group's in-force business and the active management of its financial position that these levels of profitable new business growth were achieved alongside an improving solvency ratio.

In line with our stated goal to deliver prudent, sustainable and progressive dividends to our shareholders, the Board has recommended a final dividend of 24.67 Hong Kong cents per share, subject to shareholders' approval at the AGM. This is an increase of 12 per cent compared with 2011. AIA's ability to finance growth and deliver a progressive dividend is well recognised by our shareholders and the maintenance of this balance is one to which your Directors attach great importance.

I am also pleased to report that our share price has outperformed the Hang Seng Index by over 70 per cent since listing and that AIA is now the largest Hong Kong headquartered and incorporated company in the Hang Seng Index.

2012 was also noteworthy for the Group in that AIG disposed of its final tranche of AIA's shares via a private placement valued at approximately US\$6.45 billion in December 2012. Globally, this was one of the largest secondary placings ever undertaken. The tremendous speed and efficiency with which the transaction was completed provide further testimony to the level of support in the investment community for AIA and the Group's prospects. The share placing was also significant

as it brought to a close any remaining links between AIA and AIG. This is an appropriate occasion to pay tribute to the unfailing support AIA has received from AIG in the past in building the businesses that now constitute the AIA Group, and over the two years since our IPO. AIA is a truly Asian organisation, directed from Hong Kong and operating solely in the growth markets of the Asia-Pacific region.

The Corporate Governance and Risk Management sections in this Annual Report demonstrate the great importance your Board attaches to maintaining the highest standards of professionalism in governance matters. A key aspect of governance is the composition and balance of the Board and during 2012 important steps were taken to further strengthen the independence of the Board.

During the year one independent and two non-independent directors left the Board. Three independent non-executive directors were appointed in their place and a non-executive director also qualified for redesignation as a further independent director. Your Board is now made up of seven independent non-executive directors plus the Executive Director and myself. My initial appointment as Non-executive Chairman was for two years from 1 January 2011. The Board has invited me to remain as Chairman for a further two years and I am honored to accept.

The outstanding results again demonstrate AIA's momentum for sustained growth and the Group's exceptional attributes that position us to take advantage of the abundant growth opportunities across the Asia-Pacific region. We have clearly defined strategies for growth focused at all times on increasing shareholder value by delivering high-quality products and services to an ever-widening community of customers.

In closing, I would like to record my most sincere thanks to your Group Chief Executive and President Mark Tucker and his team for their great achievements in 2012. They are an exceptional team who produce exceptional results.



Edmund Sze-Wing Tse
Non-executive Chairman
27 February 2013

Group Chief Executive and President's Report



“The execution of the growth strategy that we have put into place since our IPO has continued to deliver record results across all our major performance criteria.”

Mark Edward Tucker
Group Chief Executive and President

It gives me great pleasure to report that 2012, our second complete financial year since our listing in October 2010, was another very successful year for AIA.

The execution of the growth strategy that we have put into place since our IPO has continued to deliver record results across all our major performance criteria. Value of new business (VONB) – our main measure of value creation – increased by 27 per cent compared with 2011 to reach a new high of US\$1,188 million. IFRS operating profit after tax grew 12 per cent and embedded value (EV) increased by 15 per cent, or US\$4,169 million, to a record level of US\$31,408 million.

The growth levels we have achieved were built on a 2011 base that was itself a record year. AIA's ability to achieve growth of this magnitude against the challenging global macro-economic background, and specifically the prevailing low interest rate environment, demonstrates the resilience of our strategy and the quality of AIA's franchise and business model.

DRIVERS OF GROWTH

AIA's success is underpinned by the advantaged position we enjoy across our markets. This includes our financial strength, the considerable scale of revenue streams from our book of in-force business, the widely-held respect for the AIA brand across Asia and the regular personal interaction with our customers that we are able to maintain, primarily through our proprietary agency distribution.

AIA continues to make great strides as the leading pan-Asian insurer. Today we are the largest company listed on the Hong Kong Stock Exchange to be both incorporated and headquartered in Hong Kong. Our exclusive focus on the region means that we have the ability to better understand the needs of our customers on the ground and are able to take full advantage of the opportunities presented by the fast-growing markets in which we operate without diluting our results or distracting our focus by retaining a presence in areas of the world with lower growth prospects and returns.

AIA's significant advantages would not, by themselves, generate the successful results that we are achieving if we had not put in place a comprehensive strategy to deliver growth on a sustained and profitable basis. Our success

comes from the hard work of many thousands of committed, dedicated and professional employees, agents and intermediaries – and from an applied depth of expertise derived from the fact that we are Asia-based and Asia-focused. Our objective is clear: to create shareholder value through delivering high-value products and services to our customers to promote their financial protection and social well-being.

DISTRIBUTION

The unequivocal benefits of taking out adequate levels of protection cover and building up regular long-term savings need to be conveyed to potential consumers through the provision of high standards of advice. Quality of distribution is therefore critical, particularly in emerging markets where the need for protection cover is significant.

AIA has large scale, highly effective agency distribution that has been built up over many decades across the region. We are committed to continually improving the quality and professionalism of our agency training and management processes through our Premier Agency strategy. We see this as essential to the future preservation of our outstanding customer franchise.

At the same time as we continue to strengthen our agency distribution platform, we are developing profitable relationships with local and regional banking partners, the independent financial adviser (IFA) community and other affinity channels through AIA Partners, the Group's partnership team. They are responsible for capturing material growth opportunities through distribution channel expansion but only where our required rates of return are attainable.

PRODUCTS

We have a similarly proactive approach to product innovation. Insurance offers a broader and more reliable source of protection against medical and other life contingencies than reliance on self-funding. It is becoming recognised that a large proportion of the population in the Asia-Pacific region has inadequate protection cover. AIA has launched major initiatives across our markets to promote the take-up of such products and the share of our sales that is derived from protection products has risen over the last two years. We look for continued expansion into the future.

Group Chief Executive and President's Report

In addition to our focus on protection, we continue to enhance and develop our range of products to address our customers' long-term savings needs, including products that offer more efficient access to investment funds and protect the real value of savings, such as our new generation of unit-linked products. We have also adopted a systematic approach to advising our customers on the need to increase their existing levels of cover to keep pace with their changing financial circumstances.

ACQUISITIONS

Organic growth is the key driver of our strategy, but we have been both watchful and well-equipped to review any value-enhancing inorganic opportunities that arise in Asia ex-Japan. In 2012, we completed two such acquisitions. In September, we announced the acquisition of a 92 per cent shareholding in one of the leading insurance companies in Sri Lanka, which will position us well to develop a significant operation in the expanding Sri Lankan market. In October, we announced the acquisition of ING Malaysia, the third largest life insurer in Malaysia, for a consideration of US\$1.73 billion. The acquisition presents AIA with a high calibre distribution force of over 9,000 agents and a long-term bancassurance partnership with a leading Malaysian banking group, Public Bank. The transaction is expected to be immediately accretive and takes AIA from fourth to first position in the Malaysian market in terms of 2011 premium volumes. It provides outstanding opportunities for synergies through integration of the two operations. Such acquisitions are incremental to our core strategy of organic growth, not an alternative.

CHANGES IN MANAGEMENT STRUCTURE

Last year's annual report described in some detail the Group's management structure and the way in which the relationships between the Group Office and local business units are structured to support and empower local management teams. Our approach has proved its effectiveness in 2012 and is embedded in all levels of the organisation.

An important reallocation of Group Office responsibilities took place in August 2012, when Ng Keng Hooi, Regional Chief Executive, received functional responsibility for product development and Simeon Preston, Group Chief Strategy and Operations Officer, became responsible for the Group's IT strategy. In December 2012, Bill Lisle, Group Chief Agency Officer, who has extensive and successful experience of the Malaysian market, took over responsibility for the integration of the AIA and ING operations in Malaysia, while continuing to lead our Premier Agency upgrade programme. His former responsibility for supporting the development of bancassurance and IFA partnerships has been transferred to Gordon Watson, Regional Chief Executive.

ENGAGEMENT WITH EMPLOYEES AND AGENTS

AIA's success is heavily dependent on the quality of people we have working within the organisation and as agents in their communities. We attach great importance to measures that promote both commitment to the delivery of individual performance goals and a wider spirit of "engagement" within the AIA community. There are many facets to this, ranging from the straightforward application of sound human resources practices to innovative thinking on employee welfare. I am particularly pleased that in 2012 we introduced a share ownership scheme for agents equivalent to that already introduced for employees.

One consequence of our IPO is that AIA now has responsibility for many corporate areas that were previously beyond its remit. It is important that we develop a strong, distinctive culture as a group to support our drive for excellence. We identified our Operating Philosophy as being about "Doing the Right Thing, in the Right Way, with the Right People". Underlying this Operating Philosophy are 12 Operating Principles that help guide and shape our employees' actions and behaviours, informing how we interact with one another and how we behave externally with our customers, shareholders and other stakeholders, including the community at large.

In 2012, we committed significant resources to articulate both the Operating Philosophy and the Operating Principles across all of AIA's markets. Workshops were held across the Group to communicate the principles effectively to all levels of the organisation. We will ensure that the Operating Principles are embodied in all of our actions as we continue to create a distinctive culture and provide opportunities for those new to AIA to engage with the Group.

During the year, we continued to provide secondment opportunities for employees to work in countries and in positions that will broaden their experience with the ultimate goal of enhancing their skills. In addition, a number of high potential employees were selected to be transferred or participate in initiatives within different markets and business units to help develop their technical and leadership skills and expand their career opportunities.

ENGAGEMENT WITH CUSTOMERS AND COMMUNITIES

Our core business as a life insurer is to promote the well-being of customers and communities in the markets we serve. We contribute to the social and economic development of these territories and our employees and agents have engaged in charitable and support activities with great enthusiasm over the year. 2012 has also seen employee participation in initiatives to promote "Healthy Living" which we sponsor to generate awareness of the factors that can make a difference to quality of life.

AIA is one of the best recognised and most respected brands in the industry. Our positive operating experience, borne out by the high persistency levels of our in-force book, demonstrates the strong level of trust that exists between our customers and our Group. We are endeavouring to build even stronger ties through our brand promotion to ensure that AIA continues to be seen as a company that provides financial protection for our customers throughout their lives.

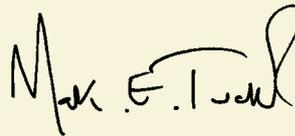
OUTLOOK

A clear theme underlies all of the developments I have described: active executive management working to a focused development programme and applying common regional strategies which are customised by expert and empowered local management teams to local market conditions.

The progress of the global economy over 2012 remained subdued and future growth prospects uncertain but there is a clear differentiation in economic prospects emerging between Asia and the West with the countries in which AIA operates well positioned for continued growth.

AIA combines the presence, scale and dependability from a long history of active engagement across the region with the innovation, growth and energy of a recently established Asian group. We believe that this combination of experience, financial strength, vision and ambition will serve both our customers and shareholders well in the years to come, as we continue to grow and deliver value commensurate with the significant market opportunities.

We have built the momentum: there is a lot more to come!



Mark Edward Tucker

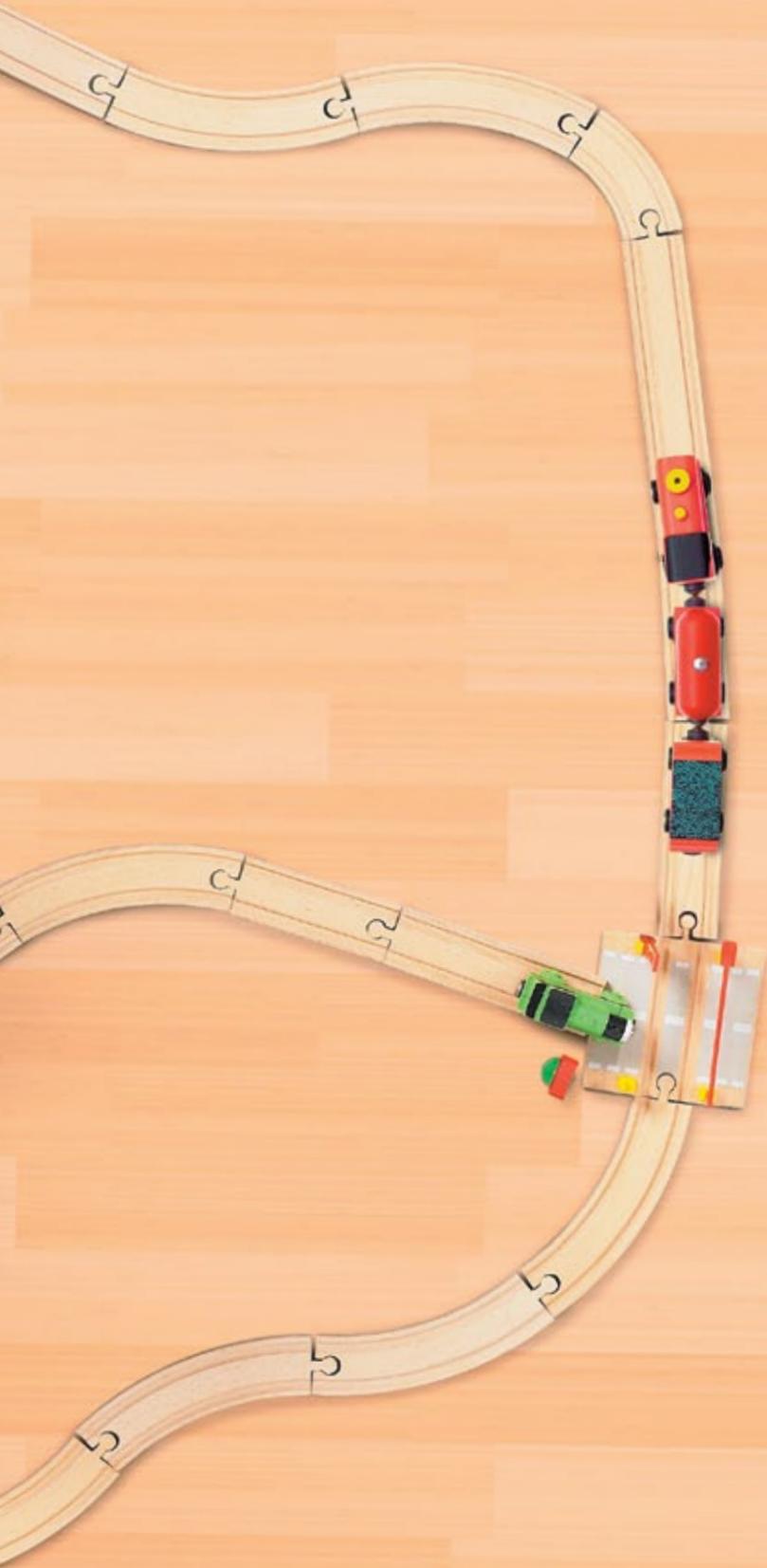
Group Chief Executive and President
27 February 2013



Right Priorities

We have continued to make strong progress in delivering our clear strategic objectives and we are achieving real growth momentum in the business.

Doing the Right Thing



Financial Review



“Our excellent financial results are a testament to the effective execution of our profitable growth strategy and the continuing application of rigorous financial discipline.”

Garth Jones
Group Chief Financial Officer

AIA has made strong progress on its strategy of delivering profitable growth and creating sustainable value for shareholders with another year of excellent financial performance.

The Group has continued to build on the outstanding results achieved in 2011 by delivering growth on all of its key metrics including a record VONB result – our main measure of value creation – strong IFRS earnings growth and excellent embedded value (EV) progression during the year. Our VONB in 2012 has more than doubled since 2009 and our EV is up by 50 per cent over the same period.

Our financial results, delivered during a time of global economic uncertainty, are a testament to both the effective execution of our profitable growth strategy and the continuing application of rigorous financial discipline. Equally important, we have maintained a very strong capital position throughout this period, which we believe will provide a foundation for the continuing execution of our strategy of delivering profitable growth and sustainable value for shareholders.

Summary

VALUE CREATION

VONB grew by 27 per cent compared with 2011 to US\$1,188 million net of tax. VONB margin increased by 6.4 percentage points (pps) to 43.6 per cent and ANP grew by 9 per cent to US\$2,696 million compared with 2011. Underlying ANP growth was 17 per cent excluding the contribution from the previously announced single large Australian group insurance scheme written in the third quarter of 2011.

The excellent VONB result was driven by the Group's focus on writing business that meets our profitability targets, while providing customers with quality products that meet both their increasing regular savings and protection needs. All of our major markets contributed to the profitable growth for the full year, with the exception of our Korean business, which we continued to reposition over the year with positive results over the second half of 2012.

EV grew by US\$4.2 billion to US\$31,408 million at 30 November 2012, an increase of 15 per cent from US\$27,239 million at 30 November 2011.

EV operating profit grew by 12 per cent to US\$3,491 million compared with 2011. The growth was the result of an increase in the expected return on the higher opening EV to US\$2,192 million, a higher VONB of US\$1,188 million and overall positive operating experience variances and operating assumption changes which totalled US\$111 million.

Non-operating EV movements included positive investment return variances, negative economic assumption changes and negative other non-operating variances which totalled US\$715 million. This was partly offset by the payment of dividends of US\$530 million and negative other capital movements of US\$42 million. Foreign exchange movements benefited the EV by US\$535 million.

IFRS PROFIT

Operating profit after tax attributable to shareholders of AIA Group Limited (OPAT) increased by 12 per cent compared with 2011 to US\$2,159 million. The increase was a result of overall growth in the business, strong investment income, effective expense management and a lower effective tax rate.

Net profit attributable to shareholders of AIA Group Limited increased by 89 per cent compared with 2011 to US\$3,019 million. It should be noted that AIA's IFRS net profit definition includes the mark-to-market movements from equity investments. Equity markets in Asia rose significantly in the second half of 2012 compared with the declines recorded previously in the second half of 2011. Shareholders' equity attributable to shareholders of AIA Group Limited increased by 25 per cent to US\$26,697 million at 30 November 2012 from US\$21,313 million at 30 November 2011.

Financial Review

CAPITAL AND DIVIDENDS

At 30 November 2012, the total available regulatory capital for AIA Co., our main regulated entity, was US\$4,811 million, resulting in a solvency ratio of 353 per cent under the HKICO basis. This compares with 311 per cent reported at the end of November 2011. The increase in the solvency ratio over the full year was a result of positive retained earnings generated over the year and a reduction in required capital following the subsidiarisation of our branch operation in Singapore. This

was partially offset by the payment of dividends to AIA Group Limited. The local businesses remitted a net US\$1,583 million of dividends to the Group Corporate Centre in 2012.

The Board of Directors has recommended a final dividend of 24.67 Hong Kong cents per share, subject to shareholders' approval at the AGM. This brings the total dividend for 2012 to 37.00 Hong Kong cents per share, an increase of 12 per cent compared with 2011.

New Business Growth

Value of New Business (VONB) and VONB Margin by Segment

US\$ millions, unless otherwise stated	2012		2011		
	VONB	VONB Margin	VONB	VONB Margin	VONB Change
Hong Kong	366	58.5%	305	56.1%	20%
Thailand	287	53.9%	227	48.8%	26%
Singapore	226	66.8%	164	62.3%	38%
Malaysia	68	45.2%	58	40.7%	17%
China	124	57.5%	102	47.2%	22%
Korea	68	28.4%	74	27.3%	(8)%
Other Markets	162	26.3%	112	18.8%	45%
Subtotal	1,301	47.8%	1,042	41.6%	25%
Adjustment to reflect additional Hong Kong reserving and capital requirements	(41)	n/m	(49)	n/m	n/m
After-tax value of unallocated Group Office expenses	(72)	n/m	(61)	n/m	n/m
Total	1,188	43.6%	932	37.2%	27%

VONB grew by 27 per cent to US\$1,188 million, an increase of US\$256 million compared with US\$932 million in 2011.

All major markets delivered strong double-digit growth in VONB with the exception of Korea. We continued to reposition our Korean business in 2012 and it reported

positive results over the second half of the year with VONB growth of 9 per cent compared with the same period last year. Performance in the Group's Other Markets was particularly strong with growth of 45 per cent driven by Indonesia, the Philippines and Taiwan.

VONB margin improved by 6.4 pps to 43.6 per cent compared with 37.2 per cent in 2011.

Product and portfolio mix improvements contributed 6.2 pps of the increase and 1.1 pps came from positive changes in geographical mix. Assumption changes and other items reduced the margin by 0.9 pps.

The main drivers of the margin improvement were our ongoing focus on pricing discipline, new product launches and the continued shift in product mix towards higher-margin regular savings, accident and health (A&H) and other protection business.

The VONB of US\$1,188 million is reported after deductions of US\$113 million of which US\$41 million is for additional HKICO reserving and capital requirements and US\$72 million for unallocated Group Office expenses.

Annualised New Premium (ANP) by Segment

US\$ millions, unless otherwise stated

	2012	2011	YoY
Hong Kong	604	522	16%
Thailand	532	465	14%
Singapore	339	264	28%
Malaysia	151	142	6%
China	215	215	–
Korea	237	270	(12)%
Other Markets	618	594	4%
Total	2,696	2,472	9%

ANP grew by 9 per cent to US\$2,696 million compared with US\$2,472 million in 2011. The underlying ANP growth for the Group was 17 per cent excluding the contribution from the previously announced single large Australian group insurance scheme written in 2011.

The ANP result benefited from double-digit growth in Singapore, Hong Kong and Thailand.

Our focus on VONB growth has shifted our product mix towards higher-margin A&H covers and other protection products that typically have lower average ANP case sizes. This was particularly evident in China where ANP growth remained flat as a result of selling more of these protection products and less lower-margin business. The Group's overall ANP growth rate was also impacted by the continued repositioning of our distribution model in Korea.

Financial Review

Embedded Value (EV)

An analysis of the movements in EV is as follows:

US\$ millions, unless otherwise stated	2012		
	ANW	VIF	EV
Opening embedded value	10,906	16,333	27,239
Value of new business	(924)	2,112	1,188
Expected return on EV	2,807	(615)	2,192
Operating experience variances	(116)	256	140
Operating assumption changes	(20)	(9)	(29)
EV operating profit	1,747	1,744	3,491
Investment return variances	554	379	933
Effect of changes in economic assumptions	–	(105)	(105)
Other non-operating variances	410	(523)	(113)
Total EV profit	2,711	1,495	4,206
Dividends	(530)	–	(530)
Other capital movements	(42)	–	(42)
Effect of changes in exchange rates	125	410	535
Closing embedded value	13,170	18,238	31,408

US\$ millions, unless otherwise stated	2011		
	ANW	VIF	EV
Opening embedded value	9,524	15,224	24,748
Value of new business	(807)	1,739	932
Expected return on EV	2,643	(614)	2,029
Operating experience variances	(141)	306	165
Operating assumption changes	5	(26)	(21)
EV operating profit	1,700	1,405	3,105
Investment return variances	(114)	(183)	(297)
Effect of changes in economic assumptions	–	(26)	(26)
Other non-operating variances	116	(98)	18
Total EV profit	1,702	1,098	2,800
Dividends	(170)	–	(170)
Other capital movements	(89)	–	(89)
Effect of changes in exchange rates	(61)	11	(50)
Closing embedded value	10,906	16,333	27,239

EV grew by US\$4.2 billion to US\$31,408 million at 30 November 2012, an increase of 15 per cent from US\$27,239 million at 30 November 2011.

EV operating profit grew by 12 per cent to US\$3,491 million compared with 2011. The growth was the result of an increase in the expected return on the higher opening EV to US\$2,192 million, a higher VONB of US\$1,188 million and positive operating experience variances of US\$140 million offset by negative operating assumption changes of US\$29 million.

The positive operating experience variances of US\$140 million have arisen as a result of favourable actual experience in mortality, morbidity, persistency and other variances of US\$163 million compared with the assumptions used in the EV calculation. This was partly offset by an expense variance of US\$(23) million.

Non-operating EV movements included positive investment return variances of US\$933 million from strong capital market performance partially offset by statutory reserve movements; negative changes in economic assumptions of US\$105 million from lower interest rates; and negative other non-operating

variances of US\$113 million. The EV also included the dividend payment to shareholders of US\$530 million, negative other capital movements of US\$42 million and positive foreign exchange movements of US\$535 million.

EV includes adjusted net worth (ANW) and the value of in-force business (VIF). The ANW increased by 21 per cent to US\$13,170 million at 30 November 2012 from US\$10,906 million at 30 November 2011. The ANW figure includes a deduction of US\$8,578 million for additional reserves for the HKICO basis above local statutory requirements.

After the cost of holding required capital, VIF increased by 12 per cent to US\$18,238 million at 30 November 2012, compared with US\$16,333 million at 30 November 2011.

Total undiscounted after-tax distributable earnings of US\$11,870 million are expected to emerge from the VIF over the next five years from 2013 through to 2017.

The total EV includes a deduction of US\$3,633 million to reflect the effect of the additional HKICO reserving and capital requirements above local statutory requirements and the after-tax value of unallocated Group Office expenses.

IFRS Profit

IFRS Operating Profit Before Tax (OPBT) by Segment

US\$ millions, unless otherwise stated

	2012	2011	YoY
Hong Kong ⁽¹⁾	796	750	6%
Thailand	604	560	8%
Singapore	393	391	1%
Malaysia	186	166	12%
China	180	140	29%
Korea	164	153	7%
Other Markets	283	248	14%
Group Corporate Centre ⁽¹⁾	45	(27)	n/m
Total	2,651	2,381	11%

Note:

- (1) Results of certain internal reinsurance have been reclassified from the Hong Kong segment to the Group Corporate Centre in 2011 to conform to the current year presentation. As a result, operating profit before tax for the Hong Kong segment has decreased by US\$42 million and the Group Corporate Centre has increased by US\$42 million for 2011. The reclassification has no impact on the total operating profit before tax of the Group in 2011.

Financial Review

The Group's OPBT increased by 11 per cent to US\$2,651 million compared with 2011 as a result of overall business growth, favourable investment income and disciplined expense management. OPBT growth in Hong Kong, Thailand and Singapore was reduced by lower investment income following dividends remitted to the Group Corporate Centre. China's OPBT increased by 29 per cent as a result of underlying business growth, effective expense control and increased investment income. Other Markets' OPBT

increased by 14 per cent from strong growth in Indonesia and the Philippines, partly offset by unfavourable claims experience in Australia as disclosed previously.

The OPBT for the Group Corporate Centre has increased to US\$45 million compared with a loss of US\$27 million in 2011 as a result of higher investment income on increased dividends remitted from the local business units and disciplined expense management.

IFRS Operating Profit After Tax (OPAT) ⁽¹⁾ by Segment

US\$ millions, unless otherwise stated

	2012	2011	YoY
Hong Kong ⁽²⁾	732	694	5%
Thailand	452	395	14%
Singapore	332	336	(1)%
Malaysia	142	133	7%
China	151	119	27%
Korea	125	124	1%
Other Markets	207	165	25%
Group Corporate Centre ⁽²⁾	18	(44)	n/m
Total	2,159	1,922	12%

Notes:

(1) Attributable to shareholders of AIA Group Limited.

(2) Results of certain internal reinsurance have been reclassified from the Hong Kong segment to the Group Corporate Centre in 2011 to conform to the current period presentation. As a result, operating profit after tax for the Hong Kong segment has decreased by US\$42 million and the Group Corporate Centre has increased by US\$42 million for 2011. The reclassification has no impact on the total operating profit after tax of the Group in 2011.

The Group's OPAT increased by 12 per cent to US\$2,159 million compared with 2011, largely attributable to the growth in OPBT as discussed above, as well as a lower effective tax rate primarily from a reduction in the corporate tax rate in Thailand from 30 per cent to 23 per cent, partly offset by a

higher effective tax rate in Korea from 22 per cent to 24.2 per cent. The corporate tax rate in Thailand is expected to further reduce to 20 per cent for assessment years 2013 and 2014 and is assumed to be 30 per cent from assessment year 2015 onward.

Total Weighted Premium Income (TWPI) by Segment

US\$ millions, unless otherwise stated	2012	2011	YoY
Hong Kong	3,372	3,142	7%
Thailand	3,119	2,976	5%
Singapore	2,035	1,949	4%
Malaysia	964	928	4%
China	1,446	1,313	10%
Korea	1,942	2,029	(4)%
Other Markets	2,482	2,105	18%
Total	15,360	14,442	6%

TWPI increased by 6 per cent to US\$15,360 million, reflecting growth in all our markets except in Korea where we continued

to reposition the business. Persistency remained strong and stable at 94.2 per cent in 2012.

Investment Income ⁽¹⁾

US\$ millions, unless otherwise stated	2012	2011	YoY
Interest income	3,864	3,574	8%
Dividend income	316	296	7%
Rental income	97	76	28%
Total	4,277	3,946	8%

Note:

(1) Excluding unit-linked contracts

Investment income increased by 8 per cent to US\$4,277 million compared with 2011, reflecting the higher level of invested assets at the start of 2012. Rental income increased

by 28 per cent as a result of the increase in investment property held at the beginning of 2012 and higher rental yields achieved over the year.

Financial Review

Operating Expenses

US\$ millions, unless otherwise stated	2012	2011	YoY
Operating expenses	1,340	1,253	7%

Operating expenses increased by 7 per cent to US\$1,340 million compared with 2011. The expense ratio was

maintained at 8.7 per cent in 2012, reflecting effective expense management across all regions.

Net Profit ⁽¹⁾

US\$ millions, unless otherwise stated	2012	2011	YoY
OPAT	2,159	1,922	12%
Net gains/(losses) from equities, net of tax	787	(207)	n/m
Other non-operating investment experience and other items, net of tax	73	(115)	n/m
Total	3,019	1,600	89%

Note:

(1) Attributable to shareholders of AIA Group Limited.

Net profit attributable to shareholders of AIA Group Limited increased by 89 per cent to US\$3,019 million in 2012, reflecting the growth in OPAT described above and the significant gains from positive mark-to-market movements in equity investments in 2012 compared with negative movements in 2011.

SENSITIVITIES

Sensitivities to profit before tax and net assets arising from foreign exchange rate, interest rate, and equity market risk are included in note 36 to the financial statements.

Earnings Per Share (EPS)

EPS based on net profit attributable to shareholders of AIA Group Limited increased to 25.2 US cents in 2012 from 13.3 US cents in 2011.

OPAT EPS increased to 18.0 US cents in 2012 from 16.0 US cents in 2011.

Earnings Per Share – Basic

	Net Profit ⁽¹⁾		OPAT ⁽¹⁾	
	2012	2011	2012	2011
Profit (US\$m)	3,019	1,600	2,159	1,922
Weighted average number of ordinary shares (millions) ⁽²⁾	11,997	12,031	11,997	12,031
Basic earnings per share (US cents)	25.2	13.3	18.0	16.0

Notes:

- (1) Attributable to shareholders of AIA Group Limited.
- (2) The decrease in weighted average number of ordinary shares outstanding compared with 2011 was primarily a result of the purchase of shares held by employee share-based trusts.

Earnings Per Share – Diluted

	Net Profit ⁽¹⁾		OPAT ⁽¹⁾	
	2012	2011	2012	2011
Profit (US\$m)	3,019	1,600	2,159	1,922
Weighted average number of ordinary shares (millions) ⁽²⁾⁽³⁾	12,008	12,032	12,008	12,032
Diluted earnings per share (US cents) ⁽³⁾	25.1	13.3	18.0	16.0

Notes:

- (1) Attributable to shareholders of AIA Group Limited.
- (2) The decrease in weighted average number of ordinary shares outstanding compared with 2011 was primarily a result of the purchase of shares held by employee share-based trusts.
- (3) Diluted earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible employees, directors, officers and agents under the share-based compensation plans as described in note 38 to the financial statements.

Financial Review

Balance Sheet

Consolidated Statement of Financial Position			
US\$ millions, unless otherwise stated	As at 30 November 2012	As at 30 November 2011	YoY
Assets			
Financial investments	111,581	92,254	21%
Investment property	1,035	896	16%
Cash and cash equivalents	2,948	4,303	(31)%
Invested assets	115,564	97,453	19%
Deferred acquisition and origination costs	14,161	12,818	10%
Other assets	4,714	4,190	13%
Total assets	134,439	114,461	17%
Liabilities			
Insurance and investment contract liabilities	99,439	87,112	14%
Borrowings	766	559	37%
Other liabilities	7,406	5,375	38%
Less total liabilities	107,611	93,046	16%
Equity			
Total equity	26,828	21,415	25%
Less: non-controlling interests	131	102	28%
Total equity attributable to shareholders of AIA Group Limited	26,697	21,313	25%

ASSETS

Total assets grew by 17 per cent to US\$134,439 million at 30 November 2012 compared with US\$114,461 million as at 30 November 2011, reflecting the growth in the overall business and positive capital market movements.

Cash and cash equivalents decreased to US\$2,948 million at 30 November 2012 compared with US\$4,303 million at 30 November 2011, reflecting increased investments in financial assets and the payment of dividends totalling US\$530 million.

Deferred acquisition and origination costs increased to US\$14,161 million at 30 November 2012 compared with US\$12,818 million at 30 November 2011, reflecting the growth in the business.

LIABILITIES

Total liabilities increased by 16 per cent to US\$107,611 million at 30 November 2012 compared with US\$93,046 million at 30 November 2011. Insurance and investment contract liabilities increased to US\$99,439 million at 30 November 2012 compared with US\$87,112 million at 30 November 2011, reflecting the growth of the in-force portfolio.

Other liabilities increased by 38 per cent to US\$7,406 million at 30 November 2012 mainly from the US\$1,122 million increase in obligations under securities lending and repurchase agreements, US\$419 million increase in deferred tax liabilities primarily related to the increase in the valuation of the investment portfolio, US\$321 million increase in payables to financial institutions in respect of cash collateral received from derivative transactions and US\$145 million increase in payables from purchases of investments.

Details of contingencies are included in note 41 to the financial statements.

Equity – Movement in Shareholders' Equity of AIA Group Limited

US\$ millions, unless otherwise stated

	2012	2011
Opening shareholders' equity	21,313	19,555
Net profit	3,019	1,600
Fair value gains on assets	2,565	500
Foreign currency translation adjustments	372	(83)
Purchase of shares held by employee share-based trusts	(84)	(105)
Dividends	(530)	(170)
Other capital movements	42	16
Total movement in shareholders' equity	5,384	1,758
Closing shareholders' equity	26,697	21,313

Shareholders' equity excluding non-controlling interests increased by 25 per cent over 2011 to US\$26,697 million at 30 November 2012 compared with US\$21,313 million at 30 November 2011. This increase was mainly made up of

net profit of US\$3,019 million, fair value gains on assets of US\$2,565 million primarily reflecting increased fixed income asset values, an increase in foreign currency translation reserves of US\$372 million less the payment of dividends totalling US\$530 million.

Financial Review

Invested Assets

The carrying value of our invested assets, including financial investments, investment property and cash and cash equivalents, increased by 19 per cent to US\$115,564 million

at 30 November 2012 compared with US\$97,453 million at 30 November 2011. Invested assets include total assets held in respect of shareholders and policyholders, and unit-linked contracts.

Total Invested Assets

US\$ millions, unless otherwise stated	As at 30 November 2012	Percentage of total	As at 30 November 2011	Percentage of total
Total policyholder and shareholder	98,240	85%	82,284	84%
Total unit-linked contracts	17,324	15%	15,169	16%
Total invested assets	115,564	100%	97,453	100%

Details of the investment mix are as follows:

Policyholder and Shareholder Invested Assets

US\$ millions, unless otherwise stated	As at 30 November 2012	Percentage of total	As at 30 November 2011	Percentage of total
Participating funds				
Government and government agency bonds	6,011	6%	5,640	7%
Corporate bonds and structured securities	9,842	10%	8,097	10%
Loans and deposits	1,303	2%	1,026	1%
Subtotal – Fixed income investments	17,156	18%	14,763	18%
Equities	3,534	4%	2,777	3%
Cash and cash equivalents	316	–	481	1%
Derivatives	317	–	367	–
Investment property	15	–	11	–
Subtotal participating funds	21,338	22%	18,399	22%
Other policyholder and shareholder				
Government and government agency bonds	32,072	33%	27,379	33%
Corporate bonds and structured securities	30,893	31%	24,445	30%
Loans and deposits	5,047	5%	3,396	4%
Subtotal – Fixed income investments	68,012	69%	55,220	67%
Equities	5,656	6%	4,388	6%
Cash and cash equivalents	1,897	2%	3,034	4%
Derivatives	317	–	358	–
Investment property	1,020	1%	885	1%
Subtotal other policyholder and shareholder	76,902	78%	63,885	78%
Total policyholder and shareholder	98,240	100%	82,284	100%

Unit-linked Contracts

US\$ millions, unless otherwise stated	As at 30 November 2012	Percentage of total	As at 30 November 2011	Percentage of total
Unit-linked contracts				
Debt securities	2,044	12%	2,391	16%
Loans and deposits	75	–	143	1%
Equities ⁽¹⁾	14,466	84%	11,847	78%
Cash and cash equivalents	735	4%	788	5%
Derivatives	4	–	–	–
Total unit-linked contracts	17,324	100%	15,169	100%

Note:

(1) Including third-party interests in equities.

Invested assets held in respect of policyholders and shareholders increased to US\$98,240 million at 30 November 2012 compared with US\$82,284 million at 30 November 2011 mainly as a result of the growth in the portfolio and the investment of operating cash flows arising from the business over the year, and positive mark-to-market movements.

Fixed income investments, including debt securities, loans, and term deposits, held in respect of policyholders and shareholders, totalled US\$85,168 million at 30 November 2012 compared with US\$69,983 million at 30 November 2011.

Government and government agency bonds represented 45 per cent of our fixed income investments at 30 November 2012 compared with 47 per cent at 30 November 2011. Corporate bonds and structured securities accounted for 48 per cent of fixed income investments at 30 November 2012 compared with 46 per cent at 30 November 2011.

Total equity securities held in respect of policyholders and shareholders totalled US\$9,190 million at 30 November 2012, compared with US\$7,165 million at 30 November 2011. The increase in carrying value was attributable to new purchases as well as an increase in market value. Equity securities totalling US\$3,534 million were held in participating funds.

Cash and cash equivalents held in respect of policyholders and shareholders totalled US\$2,213 million at 30 November 2012 compared with US\$3,515 million at 30 November 2011.

Invested assets held in respect of unit-linked contracts totalled US\$17,324 million at 30 November 2012 compared with US\$15,169 million at 30 November 2011.

Capital

FREE SURPLUS GENERATION

The Group's free surplus at 30 November 2012 represented the excess of adjusted net worth over the required capital. Free surplus increased to US\$6,643 million at 30 November 2012, as a result of free surplus generation of US\$2,845 million from our in-force book, less US\$1,412 million of investment in new business growth, US\$148 million of unallocated Group Office expenses and the payment of dividends totalling US\$530 million and other capital movements of US\$42 million.

Financial Review

The following table shows the change in free surplus:

US\$ millions, unless otherwise stated	2012	2011
Opening free surplus	5,930	4,992
Free surplus generated	2,845	2,485
Free surplus used to fund new business	(1,412)	(1,140)
Unallocated Group Office expenses	(148)	(148)
Dividends	(530)	(170)
Other capital movements	(42)	(89)
Closing free surplus	6,643	5,930

NET FUNDS TO GROUP CORPORATE CENTRE

Business units remitted US\$1,583 million of net dividends to the Group Corporate Centre. Working capital comprises debt and equity securities, deposits and cash and cash equivalents

held by Group Corporate Centre. Working capital, after payment of dividends, was US\$5,185 million at 30 November 2012 compared with US\$3,912 million at 30 November 2011.

The movements in working capital are summarised as follows:

US\$ millions, unless otherwise stated	2012	2011
Opening working capital	3,912	2,180
Group Corporate Centre net profit/(loss) ⁽¹⁾	26	(129)
Capital flows from business units		
Hong Kong ⁽¹⁾	1,104	1,058
Thailand	503	401
Singapore	23	618
Malaysia	98	120
China	(100)	(80)
Other Markets	(45)	26
Net funds remitted to Group Corporate Centre	1,583	2,143
Change in fair value reserve	217	(18)
Payment of dividends	(530)	(170)
Purchase of shares held by employee share-based trusts	(84)	(105)
Change in share-based compensation reserve	41	16
Other changes in working capital	20	(5)
Closing working capital	5,185	3,912

Note:

- (1) Results of certain internal reinsurance have been reclassified from the Hong Kong segment to the Group Corporate Centre in 2011 to conform to the current year presentation. As a result, net loss in the Group Corporate Centre has reduced by US\$42 million and the capital flow from the Hong Kong segment has decreased by US\$42 million for 2011.

Regulatory Capital

The Group's lead insurance regulator is the Hong Kong Office of the Commissioner of Insurance (HKOCI). The Group's principal operating company is AIA Co., a Hong Kong-domiciled insurer. At 30 November 2012, the total available regulatory capital for AIA Co. amounted to US\$4,811 million as measured under the HKICO basis. AIA Co. has a solvency ratio of 353 per cent of the minimum regulatory capital requirement. This compares with 311 per cent reported as at the end of November 2011.

The increase in the solvency ratio over the full year was a result of the positive retained earnings generated over the year and a reduction in required capital following the subsidiarisation of our branch operation in Singapore. This was partially offset by the payment of dividends to AIA Group Limited.

A summary of the total available regulatory capital and solvency ratios of AIA Co. is as follows:

US\$ millions, unless otherwise stated	As at 30 November 2012	As at 30 November 2011
Total Available Regulatory Capital	4,811	6,168
Regulatory Minimum Required Capital (100%)	1,362	1,984
Solvency ratio (%)	353%	311%

AIA has given an undertaking to the HKOCI that it will maintain a solvency ratio of not less than 150 per cent in each of AIA Co. and AIA-B. The Group's individual branches and subsidiaries are also subject to supervision in the jurisdictions in which they operate. This means that local operating units, including branches and subsidiaries, must meet the regulatory capital requirements of their local prudential regulators. The various regulators overseeing the Group's branches and subsidiaries actively monitor their capital position. The local operating units were in compliance with the capital requirements of their respective local regulators in each of our geographical markets at 30 November 2012.

Inaugural Offering of Medium Term Notes

At the time of the acquisition of ING Malaysia in October 2012 we stated that we intended to refinance the acquisition through an efficient financing structure comprising a combination of internal cash resources and debt issuance.

We established a US\$2 billion Medium Term Note (MTN) programme on 27 February 2013 and successfully completed an inaugural offering of US\$1 billion of senior unsecured fixed rate notes in March 2013. The proceeds from the notes will be used to refinance the unsecured credit facility associated with the acquisition.

Credit Ratings

At 30 November 2012, AIA Co. has published financial strength ratings of AA- (Very Strong) from Standard & Poor's with a stable outlook.

Dividends

The Board of Directors has recommended a final dividend of 24.67 Hong Kong cents per share, subject to shareholders' approval at the AGM. This brings the total dividend for 2012 to 37.00 Hong Kong cents per share, an increase of 12 per cent compared with 2011.

Business Review

Distribution

AGENCY

AIA's proprietary tied agency channel is our core distribution platform developed over AIA's many decades of successful operations in Asia. The regular personal interaction that our agents have with our customers enables us to understand and meet their evolving regular savings and financial protection needs and is a fundamental competitive advantage for the Group.

Agency generated US\$939 million of VONB representing 73 per cent of the Group's total in 2012. The growth in agency-generated VONB reflected our strategy of improving agent quality and activity levels. It also demonstrates our focus on writing business that meets both our customers' needs and our return targets, as demonstrated by the 4.6 pps improvement in agency VONB margin to 54.0 per cent compared with 49.4 per cent in 2011.

Our principal agency distribution strategy is to develop the Premier Agency force in Asia to achieve best-in-class activity levels, scale, productivity and profitability through market-leading recruitment and training. In 2012, AIA Premier Academy, our local market agency education and development facility, broadened its scope to support the recruitment of high calibre candidates. Through AIA's strategic partnership with LIMRA, a worldwide leader in training and recruitment selection for the insurance industry, we have introduced profiling tools across nine of our markets to identify and select leading candidates as well as further strengthening new agent induction programmes in each

market. The overall result is a 7 per cent increase in the number of active agents compared with 2011.

At the same time as improving the quality of recruitment programmes, we have focused on driving increases in agent activity and productivity. AIA Premier Academy has implemented training roadmaps designed for each local market to provide tailored and motivational development opportunities for new, experienced and Premier Agents. Training programmes have been deployed not only to give our agents more advanced sales and advisory skills but also to enhance the capabilities of our agency leaders.

The development of Premier Agents requires best-in-class leadership. In 2012, we began to adopt a new structured approach to this process by establishing a Leader Assessment Centre, initially covering four markets, to identify potential new leaders. We also launched a LIMRA Regional Officers School to equip our agency officers with improved management skills to motivate the agency force to achieve higher productivity and recruitment levels. In addition, selected Premier Agency leaders attended the inaugural Premier Agency Leaders Summit in Bangkok in 2012 to undertake a tailored learning and agency development programme aimed at building their businesses.

AIA continued to roll out iPoS, its industry-leading interactive point-of-sale technology, described in greater detail in the Technology and Operations section. Through the use of iPad mobile devices, iPoS enables our agents to provide customers with an engaging and unique sales experience using a medium with which customers are increasingly familiar and comfortable.



Selected Premier Agency leaders attended the inaugural Premier Agency Leaders Summit in Bangkok to undertake a tailored learning and agency development programme.

Developing Million Dollar Round Table (MDRT) qualifiers continues to be our benchmark for the Premier Agency strategy as evidenced by AIA's continued Platinum sponsorship of the "MDRT Experience" in Asia. We organised additional regional events to recognise sales excellence such as the inaugural President's Club Convention, hosted by AIA's Group senior executive team. This exclusive event is designed for the top Premier Agency Leaders and Premier Agents to recognise their contribution and motivate them to develop greater numbers of MDRTs. As a result of our initiatives, our MDRT qualifiers grew by 11 per cent compared with 2011.

AIA PARTNERS

AIA's partnership team "AIA Partners" is responsible for creating and expanding value through bancassurance, direct marketing and other intermediated distribution channels. In 2012, AIA Partners continued to implement our strategy of improving the quality of service and products to meet the evolving needs of our customers and to improve the economic returns for both our partners and AIA. We have continued to pursue new growth opportunities that meet our profitability targets, resulting in the expansion of certain existing partnerships and the signing of a number of new partnership agreements around the region.

Our comprehensive approach to building partnerships has yielded strong results, with AIA's partnership business accounting for US\$348 million of VONB or 27 per cent of the Group's VONB for 2012. This represents growth of 59 per cent compared with 2011. The increase is a function of a strong improvement in our VONB margin of 10.0 pps to 36.4 per cent and ANP growth of 15 per cent to US\$958 million.

Bancassurance

AIA's bancassurance platform reported a very strong performance in 2012 with robust new business growth from both our local partners and regional relationships. In addition to building growth momentum with our existing bank partners, we entered into significant new long-term bancassurance agreements with Public Bank in Malaysia and National Development Bank in Sri Lanka. We maintained our financially disciplined approach to sales management in collaboration with our bancassurance partners, producing a VONB result of more than twice the amount reported in 2011.

Other Partnership Channels

Other partnership channels, including private banks, independent financial advisers (IFAs), brokers and specialist advisers, showed strong growth, particularly in the high-net-worth (HNW) customer segment. As a leading independent life risk specialist, AIA's Australian business also experienced significant year-on-year growth in the region's largest IFA market, through the launch of a new adviser value proposition and with the introduction of an award-winning product.

Overall growth in our direct marketing channel remained steady across the region as a result of continuing investment in our people, processes and technologies, particularly in Korea. The restructuring of our direct marketing operation in Korea has been progressing to plan with the intention of driving high-quality new business growth in the future. We have also seen strong new sales growth in our direct marketing business in Malaysia, Taiwan and Thailand.

GROUP INSURANCE

AIA has been supporting clients ranging from small-and-medium sized enterprises (SME), local domestic and multinational companies and their group members for over six decades. We are a leading provider of group insurance in the Asia-Pacific region, with over 100,000 corporate clients and more than 13 million group insurance scheme members.

Rapid economic development in Asian labour markets continued to drive demand for group insurance solutions as employers seek to attract and retain the most talented employees resulting in double-digit sector growth rates across the Asia-Pacific region. Notwithstanding this recent growth, overall penetration levels and coverage at this stage of Asia's development remain significantly behind those in more developed markets such as the United States, demonstrating the considerable potential for expansion of this market.

In 2012, our focus was to reinforce AIA's market-leading positions in Australia and Singapore and to strengthen significantly our capabilities in other markets. We expanded our relationships with business partners by focusing on best-in-class service through our Regional Employee Benefits Partnership Platform and continuing to leverage AIA's strong agency distribution to increase our penetration in the SME segment.

New simplified packaged products designed specifically for the agency market were introduced to simplify the sales process alongside training and incentives targeted at leveraging agents' relationships with SME business owners. As a result, the number of agents selling group insurance cases increased by 38 per cent and the success of our initiatives resulted in VONB growth of 25 per cent compared with 2011.

Note:

VONB and VONB margin by distribution channel are based on local statutory reserving and capital requirements and exclude corporate pension business.

Business Review

Marketing

AIA's marketing philosophy reflects that of the wider organisation, where our pan-Asian strength and technical knowledge is leveraged to empower our local businesses with the best practices and support they need in order to deliver outstanding products, advice and levels of service to our customers.

AIA is one of the strongest and most respected insurance brands in the industry. During the year, we have worked to ensure that the AIA brand continues to resonate in a relevant way with our customers in support of AIA's significant growth opportunities.

ENHANCING THE CUSTOMER EXPERIENCE

One of our marketing objectives is to maintain a high level of engagement with our customers. We have extended our Customer Experience Programme, launched in 2011, to 10 of our major markets. An important input to this programme has been the creation of detailed customer and distributor analytical tools, allowing us to gather information from our customers, agents and partners that we integrate into strategic initiatives such as the launch of iPoS.

Our increasingly sophisticated use of customer data helps us to improve the areas of service that matter most to our customers. Front-line staff development centres have been established to drive service excellence in our call centres and our branches. Our efforts were rewarded in China with The Best Call Centre Award for the third consecutive year and in Hong Kong with four awards from the Hong Kong Association for Customer Service Excellence. The CURE Project industry benchmarking report in Australia recognised AIA as the best service provider for group insurance underwriting and claims in the market.

In addition, training modules in customer relationship management for our agents have also been developed. Results show that this systematic focus on the customer experience is already producing results with up to four times as much additional new premium generated from highly engaged customers as from those who are less engaged.

We systematically monitor our progress to ensure that business improvement decisions are based on creating the highest customer value in the most efficient way for AIA, our agents and our partners.

OPTIMISING THE VALUE OF OUR CUSTOMER BASE

AIA's large customer base of over 25 million individual policies and over 13 million group insurance scheme members is a key competitive advantage and source of future value for the Group. A sizeable proportion of our new business premium in 2012 came from existing customers as our agents helped them address their ongoing savings and protection needs.

During 2012, we undertook a series of marketing programmes focused on helping our agents to identify opportunities within our existing customer base. Using customer analytics, our marketing teams generated customer leads based on savings and protection product gap opportunities.

By way of example, our Hong Kong team utilised an advanced customer segmentation analysis to launch targeted marketing campaigns to existing customers. The campaigns generated conversion rates two-thirds higher than other campaigns using a mass market, single communication approach.

There is much more that we can do to optimise the value of AIA's large customer base but the initial results in 2012 were positive with an additional 500,000 policies sold.

DELIVERING THE RIGHT PRODUCTS

In 2012, we continued to focus on raising awareness of the protection gap – the difference between the amount of life and health insurance coverage our customers' need and the amount that they actually have – in all of our markets across the region. This message has been supported by the development of innovative products to address these protection needs.



We continued to develop innovative products to address the needs for protection and offer a suite of products to our customers to meet their long-term wealth creation goals.

In addition to coverage for premature death, we have highlighted the importance of protection against the financial consequences of accidents, critical illnesses and disabilities. We have developed several new standalone accident and health plans to enhance our ability to meet our customers' protection needs while also improving our margins. These include a first-to-market cradle-to-grave critical illness plan in Thailand; an early payment version of our market-leading critical illness plan in Hong Kong; as well as a disability income plan in Singapore with a number of distinct features including an innovative rehabilitation benefit.

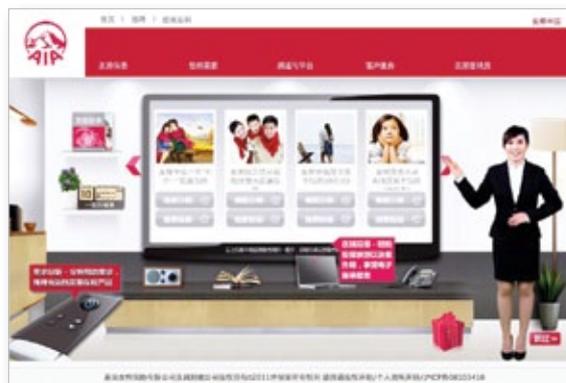
We do not focus solely on protection provision. We also see a major aspect of our business as providing our customers with products to meet their long-term wealth creation goals. We offer a suite of medium- to long-term regular premium products with a choice of traditional and participating investment options. These are designed to target the range of savings goals over our customers' lifetimes from the provision of education savings plans for young families to pre- and post-retirement accumulation products to provide security in older age. We continued to roll out and enhance our next generation unit-linked products which combine efficient regular savings with comprehensive coverage against death, critical illness and disability.

EMBRACING SOCIAL MEDIA

We believe that AIA is well-positioned to align customers' increasing use of social media with their important and continuing desire for face-to-face advice and support provided through our agency sales channel. As of the end of 2012, AIA had corporate social media sites in markets across the region resulting in more than 100,000 Facebook friends.

One example of how we are using online channels as a means of engaging with customers is an e-store we have launched in China. In addition to offering customers the choice and convenience of buying some products over the Internet, the "e-store" provides customers with the opportunity to be contacted by a sales agent.

Our aim is to integrate opportunities for customer engagement through social and digital media within our total channel offering, providing our customers with the widest possible opportunity to engage with AIA.



We have launched e-Store in China offering customers the choice and convenience of buying some products over the Internet and providing them with the opportunity to be contacted by a sales agent.

Business Review

Technology and Operations

In 2012, we continued to deliver improved operating efficiencies, customer experiences and economies of scale. Key initiatives in technology and operations during the year included:

- Enhancing the productivity and effectiveness of business processes in many of our markets;
- Improving the efficiency and service quality of our shared service operations in China and Malaysia;
- Empowering our agency force with advanced electronic point-of-sale tools including electronic submission of policy application and e-signature capabilities to enhance customer experience and simplify the sales process; and
- Implementing an enterprise-wide social network for employees to encourage collaboration and rapid dissemination of best practices throughout the organisation.

Even after taking into account our ongoing investment in technology in 2012, these initiatives contributed to the maintenance of our overall expense ratio at 8.7 per cent, amongst the lowest expense ratios in the region in 2012.

OPERATIONAL TRANSFORMATION

AIA has improved efficiency through implementing innovative systems, modernising facilities and processes, and introducing more customer-centric services. We have seen significant improvements in productivity and service speed, quality and scope across the region as a result of these efforts during 2012.

For example, a business process re-engineering initiative helped reduce turnaround times of new policies issued in Indonesia by 15 per cent; a similar initiative in China boosted productivity by 13 per cent in underwriting, 25 per cent in claims and 45 per cent in policyowner services.

To build on the new underwriting framework implemented in 2011, we commenced a group-wide programme in 2012 to revise our underwriting guidelines to support our protection strategy and help our customers receive the level of protection they need. Initial work completed in Singapore, Hong Kong and Thailand has resulted in over 60 initiatives being implemented to improve our underwriting competitiveness while maintaining our risk tolerances. This ongoing programme has been actively supported by our reinsurance partners.

SHARED SERVICE CENTRES

Our investments in low-cost shared service centres continued to pay off through improvements in operating efficiency. Our Technology Shared Service Centres in China boosted cost effectiveness by introducing a new Software Factory methodology. Configured to support the “agile” method of software development, the Software Factory environment has reduced application development time while improving software quality.

Our Operations Shared Service Centre in Malaysia continued to provide improved support to our business units. Approximately 7.4 million transactions were processed at this centre in 2012, an increase of 18 per cent over the previous year. This was achieved with an overall improvement in productivity while maintaining agreed service levels.

MOBILE TOOLS

Recognising the critical role that mobile devices can play in supporting business initiatives and meeting customer needs, the Group has made significant headway during 2012 in equipping agents with industry-leading mobile sales tools that enhance customer experience while maintaining privacy and security.



The Group has made significant headway during 2012 in equipping agents with industry-leading mobile sales tools that enhance customer experience while maintaining privacy and security.

Our teams in Taiwan and Singapore led the way in pioneering iPoS, AIA's market-leading point-of-sale technology. Using iPad mobile devices as the host device, iPoS improves the sales experience and allows our agents to provide customers with a comprehensive financial advisory process that covers the total sales cycle from the completion of the customer's financial-needs analysis to proposal generation and secure electronic submission of life insurance applications, reducing the administrative workload. With iPoS, customers can undertake the insurance consultation and purchase process anytime and anywhere, and as a result of increased efficiency are now able to obtain insurance coverage as fast as within a single day.

The iPoS technology has now been deployed to and well received by our agency forces in Singapore, Indonesia, Malaysia and Taiwan and planning has commenced for the roll-out of iPoS in other markets in 2013. Since deployment in Singapore late in the third quarter of 2012, more than 44 per

cent of our active agents have adopted this technology. In Hong Kong, AIA was the first MPF (Mandatory Provident Fund) provider to deploy an e-Submit application for iPad mobile devices, which allows agents to close MPF Personal Account business at point of sale. Thanks to expedited electronic submissions, turnaround times and administrative workloads have been substantially reduced.

SOCIAL NETWORKING

In 2012, AIA introduced "Wave" as an internal enterprise social network. Using the Jive Software platform, Wave helps AIA staff connect with colleagues across the region and enables them to collaborate and innovate faster. This new engagement platform provides staff with the ability to share documents, knowledge and ideas; post blogs; participate in discussions; design and progress projects; identify and approach subject-matter experts; keep up with the latest company news; and build communities with colleagues.

Business Review

Geographical Markets

HONG KONG				
	US\$ millions, unless otherwise stated	2012	2011	YoY
	VONB ⁽¹⁾		366	305
VONB margin ⁽²⁾		58.5%	56.1%	2.4 pps
ANP		604	522	16%
TWPI		3,372	3,142	7%
Operating profit after tax		732	694	5%

Notes:

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include corporate pension business.

(2) VONB margin excludes corporate pension business to be consistent with the definition of ANP used within the calculation.

AIA's Hong Kong operation delivered a strong performance in 2012 as a direct result of the consistent roll-out of the Premier Agency programme we began in 2011 and of the progress we have made in building our Profitable Partnership model to complement our agency channel growth. The foundation of our sustained profitable growth has been the relentless execution of our strategy of increasing the activity and productivity levels of our market-leading agency distribution channel and improving product mix through our integrated customer-led product design and marketing approach. Hong Kong continued to be the largest contributor to the Group's earnings accounting for 28 per cent of VONB and 34 per cent of OPAT.

VONB and VONB Margin

VONB grew by 20 per cent compared with 2011 to US\$366 million. The strong growth reflected an overall increase in new business volumes with ANP up by 16 per cent to US\$604 million from higher agency productivity accompanied by a strong result from our partnership distribution channel. At the same time as growing production, overall VONB margin improved by 2.4 pps to 58.5 per cent as we continued to reprice products and improve the quality of our product mix.

Distribution

AIA's highly professional proprietary agency distribution is the largest agency sales force in Hong Kong, with many years' experience in advising our customers and providing solutions to their growing savings and protection needs.

Agency recruitment continued to be a priority in 2012 as we expanded our agency force to create the next generation of Premier Agents. AIA Premier Academy continued to lead the way by combining selective recruitment with first-class training, resulting in a 16 per cent increase in the overall number of active new agents compared with 2011.

A particularly effective programme through AIA Premier Academy called "Road to MDRT" provides targeted training and mentoring opportunities to high-potential recruits, increasing our future pool of MDRT candidates and expanding our leading market position in Hong Kong. Within its first 16 months of operation, over 450 graduates from the programme have joined our sales force and results have been promising, with graduates significantly more productive than other new recruits in Hong Kong. AIA maintained its position as leader in MDRT qualifiers in Hong Kong with over 10 per cent of agents qualifying in 2012. The number of MDRT qualifiers in Hong Kong increased by 9 per cent compared with 2011.



AIA Premier Academy celebrates outstanding achievements of young insurance elites honoured for attaining MDRT qualification.



Through “Road to MDRT” programme, we provide targeted training and mentoring opportunities to high-potential recruits and enriched our pool of future talents.

Our focus on distributing group insurance through agents continued to gain momentum as the number of agents selling group insurance cases in 2012 increased by 44 per cent compared with 2011.

While agency remains the dominant distribution channel in Hong Kong, partnership distribution reported another excellent year of growth. Driven by investments in new service platforms, VONB from the IFA and bancassurance channels more than doubled compared with 2011.

Products and Customers

AIA continued to launch products focused on addressing the growing life and health protection requirements of Hong Kong consumers. Protection against critical illness continued to be at the forefront of our campaigns and we extended our flagship critical illness range with the launch of our new early stage critical illness product called “Prime Care Pro” in August 2012.

We improved the customer analytics around our large book of existing policyholders, a clear competitive advantage for AIA’s Hong Kong business, to support focused marketing campaigns. For example, we identified and targeted 120,000 customers who did not possess sufficient medical coverage with a simple offer to extend their existing coverage and we also launched products specifically designed to recapture maturity payments from our customer base.

Operating Profit after Tax

Operating profit after tax increased by 5 per cent to US\$732 million compared with 2011. Growth was partly offset by lower investment income following dividends remitted to the Group Corporate Centre.



Our new early stage critical illness product “Prime Care Pro” was launched in Hong Kong as an extension of our flagship critical illness range.

Business Review

THAILAND				
	US\$ millions, unless otherwise stated	2012	2011	YoY
	VONB ⁽¹⁾	287	227	26%
	VONB margin ⁽²⁾	53.9%	48.8%	5.1 pps
	ANP	532	465	14%
	TWPI	3,119	2,976	5%
	Operating profit after tax	452	395	14%

Notes:

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include corporate pension business.

(2) VONB margin excludes corporate pension business to be consistent with the definition of ANP used within the calculation.

AIA has a significant market leadership position in Thailand and a distinct competitive advantage as a result of our extensive nationwide agency network and market-leading brand established over our long history in the country. AIA's Thai operation has built on this advantaged position to produce impressive results in 2012 as we continued to execute our Premier Agency strategy focused on improving agency activity and productivity levels. Impacts on our business from the floods that affected the country in late 2011 were limited to the first quarter of 2012.

VONB and VONB Margin

VONB grew by 26 per cent to US\$287 million compared with 2011. The strong growth was a result of ongoing improvements in agency productivity and our success in promoting the sale of savings and protection products, increased rider attachments and group insurance business through our agency channel. This contributed to VONB margin expansion of 5.1 pps to 53.9 per cent together with ANP growth of 14 per cent in 2012.

Distribution

As part of our Premier Agency strategy in Thailand, AIA has upgraded recruitment processes to enhance the quality of our new recruits and ensure improved activity levels for new agents. We have adopted a sophisticated candidate profiling and psychometric testing approach in conjunction with LIMRA to improve our recruitment efficiency and target those individuals who are committed to a professional agency career with AIA. The result is an increased proportion of university graduate recruits and a significant uplift in the activity levels of new agents recruited compared with 2011.

Further investment was made to upgrade our training capabilities in 2012 to extend the productivity and profitability gains we have achieved. One particular area of focus was on training designed to enhance the effectiveness of our agents in selling higher-margin protection products and increased riders in order to capitalise on AIA's leadership position in the life and health market in Thailand. The result was a higher-quality sales mix with VONB of new protection business up 30 per cent compared with 2011.



In Thailand, AIA maintained its significant market leadership position and continued to be recognised by a series of awards in 2012, including the "Reader's Digest Trusted Brand Award" for the ninth consecutive year.



We introduced AIA Health Lifetime in 2012, an industry-leading whole-of-life participating critical illness product which became our top five product in Thailand within three months of launch.

We continued to reactivate or manage out those agents that fell below our productivity standards. As a result of our initiatives, we retained our number one MDRT ranking and significant leadership position in the agency channel with MDRT qualifiers in Thailand up by 26 per cent compared with 2011.

Group insurance is an important emerging opportunity in Thailand alongside the rapid development of the employment market. We have made good progress in this area through leveraging our proprietary agency distribution within the SME segment. VONB from group insurance increased by over 90 per cent compared with the corresponding figure in 2011.

Products and Customers

AIA designated 2012 as the “Year of Protection” with the aim of promoting awareness of the need for adequate protection cover for our customers in Thailand. Recent studies by AIA showed that 76 per cent of the Thai population does not have any form of life insurance with many of the remainder having insufficient coverage.

Our education and marketing campaigns were designed not only to attract new customers but also to improve the protection coverage of our existing customer base of over 7 million in-force policies. Our industry-leading whole-of-life participating critical illness product, AIA Health Lifetime, was introduced in April 2012 and became a top five product within three months of launch, while the “Double Sum Assured” campaign targeted existing customers whose protection coverage was lower than average.

Operating Profit after Tax

Operating profit after tax grew by 14 per cent to US\$452 million compared with 2011. The result benefited from a reduction in the effective corporate tax rate in Thailand from 30 per cent to 23 per cent. The corporate tax rate in Thailand is expected to further reduce to 20 per cent for assessment years 2013 and 2014. We have assumed a return to 30 per cent from assessment year 2015 onward.

Business Review

SINGAPORE



US\$ millions, unless otherwise stated	2012	2011	YoY
VONB ⁽¹⁾	226	164	38%
VONB margin ⁽²⁾	66.8%	62.3%	4.5 pps
ANP	339	264	28%
TWPI	2,035	1,949	4%
Operating profit after tax	332	336	(1)%

Notes:

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include corporate pension business.

(2) VONB margin excludes corporate pension business to be consistent with the definition of ANP used within the calculation.

Singapore achieved excellent new business growth in 2012. Our strategic focus on growing our Premier Agency, developing profitable partnership distribution and sustaining our group insurance leadership position allowed AIA to build on the previous year's outstanding performance. We supported our distribution initiatives in 2012 with product and technological innovation to enable AIA to help our customers meet their regular savings and protection goals. In January 2012, we completed the transfer of our business into a Singapore-incorporated company, with an inaugural AA-financial strength rating with stable outlook from Standard and Poor's.

VONB and VONB Margin

Singapore improved on a strong first-half performance to deliver a VONB increase of 38 per cent to US\$226 million compared with 2011. Agency distribution was the main growth driver complemented by an excellent performance from partnership distribution and group insurance. VONB margin for the year improved by 4.5 pps to 66.8 per cent compared with 2011, as we continued to focus on higher-margin term, critical illness and rider protection business and repriced savings products. The margin improvement was in addition to a strong increase in ANP of 28 per cent.

Distribution

We continued to implement our Premier Agency strategy in 2012 and introduced a new agency structure that reinforces the development of skilled agency leaders with the objective of recruiting higher-quality Premier Agents. Despite some uncertainty around new regulatory requirements in 2012, our efforts to recruit experienced candidates from both financial and non-financial sectors and AIA Premier Academy training courses designed to promote the productivity of agents have increased the number of active agents over the year compared with 2011.



Our ongoing commitment to our customers and partners has garnered multiple awards in 2012, including the "Life Insurance Company of the Year 2012" award from *Asia Insurance Review*.

Our agents are at the forefront in driving AIA's protection proposition in Singapore. The launch of new and enhanced protection solutions coupled with integrated agency sales campaigns increased the mix of protection business in 2012 driving higher margins and strong growth in VONB. Partnership distribution reported excellent growth, particularly in the IFA and private bank channels targeting the more affluent segment.



Throughout 2012, we continued to introduce products to help Singaporean families bridge their protection gaps offering a comprehensive range of protection benefits, including innovative disability income plans.

Group insurance remains a key strength in Singapore where AIA is the market leader. We continued to focus on our broker partnerships and the SME segment through our Premier Agency and, as a result of our concerted up-selling effort of group life cover during contract renewals, VONB from group insurance increased by 62 per cent compared with 2011.

The Financial Advisory Industry Review (FAIR) panel has published its findings and recommendations to the Monetary Authority of Singapore (MAS). AIA is supportive of measures that serve to improve the quality of distribution in life insurance and promote access to regular savings and protection insurance, particularly to the mass market and lower income sectors where encouragement to make regular savings and advice on product suitability is most needed. Given AIA's financial strength, high-quality Premier Agency distribution and strong governance principles, we believe that progress in life insurance regulation in Asia will play to our strengths and we are confident in our ability to implement the recommendations of the panel.

Products and Customers

Throughout 2012, we continued to introduce products to help Singaporean families bridge their protection gaps offering a comprehensive range of protection benefits such as critical illness, guaranteed renewable term life and innovative

disability income protection plans. We continued to develop our next generation unit-linked products to further address the combined regular savings and protection needs of customers.

With over 80 years of history in Singapore, our in-force customers represent a valuable potential source of new business. In 2012, we initiated a number of integrated marketing campaigns to help our in-force customers address their protection needs. Our ongoing commitment to our customers and partners has garnered multiple awards in 2012, including the "Life Insurance Company of the Year 2012" award from *Asia Insurance Review*.

Singapore is one of the markets in which we have already introduced our innovative fully mobile and secure iPoS system. The Protection iBook application was also introduced to provide protection calculators, product information and other useful information to enhance the overall customer purchase experience.

Operating Profit after Tax

Operating profit after tax decreased by 1 per cent to US\$332 million due to lower investment income following dividends remitted to the Group Corporate Centre in respect of the subsidiarisation of our Singaporean branch operation.

Business Review

MALAYSIA



US\$ millions, unless otherwise stated	2012	2011	YoY
VONB ⁽¹⁾	68	58	17%
VONB margin ⁽²⁾	45.2%	40.7%	4.5 pps
ANP	151	142	6%
TWPI	964	928	4%
Operating profit after tax	142	133	7%

Notes:

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include corporate pension business.

(2) VONB margin excludes corporate pension business to be consistent with the definition of ANP used within the calculation.

AIA's Malaysian business delivered solid results over the year with a 17 per cent increase in VONB compared with 2011. The performance was driven by our focus on improving the protection coverage of our customers and promoting regular premium unit-linked sales with a combined protection and savings content. Our Takaful business continued to make good progress in its first full year of operation.

VONB and VONB Margin

VONB grew by 17 per cent to US\$68 million compared with 2011. VONB margin improved by 4.5 pps to 45.2 per cent reflecting AIA's market-leading position in accident and health protection business and increased unit-linked sales within the product mix. ANP increased by 6 per cent to US\$151 million with lower growth in the second half of the year reflecting a very successful up-selling campaign to existing customers in the second half of 2011 as previously disclosed.

Distribution

Agency is the major distribution channel for AIA in Malaysia and our priority is to develop our Premier Agency force through the selective recruitment and training of our next generation of Premier Agents. We launched improved recruitment and selection processes in 2012 alongside training programmes through AIA Premier Academy to support the induction of new agents.

AIA Premier Academy has also enabled us to provide targeted training programmes, according to agent experience, with the aim of promoting increased protection and unit-linked sales within the product mix, which has been a key driver of VONB margin growth for 2012.

Partnership distribution continued to gain traction in 2012 with our bancassurance and direct marketing channels reporting strong growth compared with 2011. We continued to expand our Takaful business through our multi-distribution platform and it contributed positively in its first full year of operation in 2012 providing over 10 per cent of the overall VONB in Malaysia.

Products and Customers

We continued to focus our product development and campaigns on increasing customer awareness of the need to maintain adequate protection. Through ongoing coordinated distribution training and targeted sales promotions, the VONB from unit-linked business grew by 29 per cent compared with 2011.



We continued to help bridge the insurance protection gap by offering protection products of critical illness.

Following on from the successful marketing campaign in the second half of 2011, we launched customer marketing programmes to help bridge the insurance protection gap of our large in-force customer base in the first half of the year. The two campaigns promoted protection products of term life cover and critical illness respectively, and together successfully generated over 55,000 new policies.

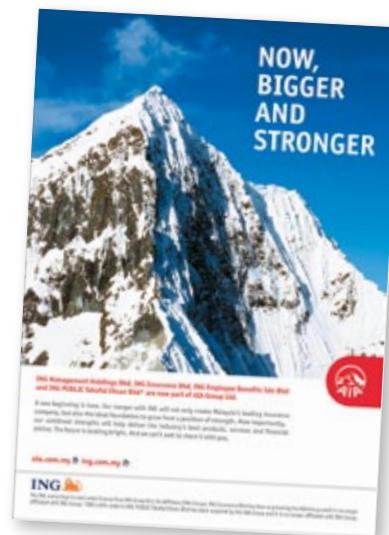
In line with the Malaysian government's effort to develop a long-term sustainable private retirement industry, AIA was the only life insurance company approved as one of eight Private Retirement Scheme (PRS) Providers. We are on track to launch the venture by the first quarter of 2013 as a first step in addressing the immense opportunity to serve Malaysia's growing retirement needs.

Operating Profit after Tax

Operating profit after tax increased by 7 per cent to US\$142 million, mainly driven by the increase in TWPI.

Acquisition of ING Malaysia

AIA completed the acquisition of ING's insurance and Takaful businesses in Malaysia in December 2012, after the financial year end. The transaction represents a highly attractive opportunity with compelling strategic and financial benefits through leveraging AIA's track record of profitable growth delivery and applying our product and distribution expertise to the combined business. The Transitional Steering Committee based in Malaysia has already made significant progress in putting in place the integration process under the leadership of Bill Lisle and the executive team. We are committed to ensuring the smooth and efficient integration to optimise the full potential of our enlarged business in this key market, and to deliver a positive outcome for our shareholders, customers, employees and agents.



The successful completion of the acquisition has well placed AIA as the top life insurer in this important growth market.

Business Review

CHINA				
	US\$ millions, unless otherwise stated	2012	2011	YoY
	VONB ⁽¹⁾	124	102	22%
	VONB margin ⁽²⁾	57.5%	47.2%	10.3 pps
	ANP	215	215	–
	TWPI	1,446	1,313	10%
	Operating profit after tax	151	119	27%

Notes:

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include corporate pension business.

(2) VONB margin excludes corporate pension business to be consistent with the definition of ANP used within the calculation.

AIA is the leading non-mainland life insurance company in China. It has led the development of professional agency distribution and product innovation in the Chinese life insurance market over the last two decades. Since launching our Premier Agency strategy at the end of 2010, we have focused on taking this to the next level by recruiting and developing best-in-class agents, offering high-quality advice to Chinese families to provide them with the insurance cover they need. This strategy has continued to deliver strong financial results with a combination of profitable new business growth and strong earnings progression.

VONB and VONB Margin

VONB increased by 22 per cent to US\$124 million compared with 2011 driven by positive changes in product mix and increased agent activity. VONB margin increased by 10.3 pps from 47.2 per cent to 57.5 per cent with positive improvements reported across all product classes. ANP was flat overall with protection business growing by 17 per cent within this figure, as we actively maintained our focus on writing only quality business that meets our profitability targets.

Distribution

Agency remained the core distribution channel for AIA's new business growth in China during 2012. Our strategy has concentrated on enabling our agents to focus on providing

quality advice that meets the regular savings and protection needs of our customers, while developing agency leaders capable of recruiting the next generation of high-quality agents to serve the increasingly sophisticated requirements of consumers in China.

Our Premier Agency programme aims to achieve this through offering best-in-class training and development opportunities to increase the professionalism and activity levels of our agents alongside a compensation scheme that grows average incomes aligned with the interests of our customers and the Group. We increased active agent numbers and profitability per active agent at the same time as growing average income levels over 2012.



As a result of our Premier Agency programme, AIA saw an increase in the number of MDRT qualifiers in China by 19 per cent compared with 2011.



We stepped up in 2012 as the “Protection Expert” and continued to position the AIA brand as a leader in China’s comprehensive protection insurance market.

Our dual career path option awards equivalent status to agents with ambitions to attain MDRT qualification and become a Premier Agent, and to agency leaders looking to build and manage teams that will be essential to sustaining AIA’s profitable new business growth. As a result of our programmes and sales management activities, the number of MDRT qualifiers has increased by 19 per cent compared with 2011.

While agency remained our major source of new business, we continued to align our partnership distribution business in China with the overall Group’s strategy of writing higher-margin protection products with longer payment periods, and reducing less profitable business.

Products and Customers

AIA has successfully positioned its brand as a leader in the comprehensive protection insurance market in China as demonstrated by the growth of this product category in 2012. We continued to innovate through the increased use of customer segmentation to offer differentiated products with varying levels of protection cover at different price points to broaden our market coverage. In addition to protection products, we have also launched retirement savings products targeted at the growing senior customer segment.

Operating Profit after Tax

Operating profit after tax grew by 27 per cent compared with 2011 from improved expense efficiency, higher levels of investment income and the substantial growth in the business.

Business Review

KOREA



US\$ millions, unless otherwise stated	2012	2011	YoY
VONB ⁽¹⁾	68	74	(8)%
VONB margin ⁽²⁾	28.4%	27.3%	1.1 pps
ANP	237	270	(12)%
TWPI	1,942	2,029	(4)%
Operating profit after tax	125	124	1%

Notes:

(1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include corporate pension business.

(2) VONB margin excludes corporate pension business to be consistent with the definition of ANP used within the calculation.

The repositioning of our Korean business has progressed well during 2012. We began with the restructuring of our agency distribution channel in 2011, when we realigned remuneration to shift the emphasis towards protection and regular savings products that meet our customers' needs and provide us with the right platform to grow Premier Agency profitability in Korea. The focus in 2012 has been to build on this platform with the effective recruitment of quality agents that fit with our Premier Agency culture and implementing a corresponding strategy for our direct marketing channel. We have seen early signs that the positive strategic decisions we have taken are having the desired results and will flow through into sustainable VONB growth.

VONB and VONB Margin

VONB has reduced by 8 per cent compared with 2011. The decrease was driven by a reduction in ANP of 12 per cent partially offset by an improvement in VONB margin of 1.1 pps. However, the reduction in VONB for the full year was a result of the decline reported in the first half of the year partially offset by second-half growth in VONB of 9 per cent compared with the same period last year.



In Korea, our extensive recruiting efforts were combined with a focus on improved training and a better overall sales management culture.



We launched an immensely popular nationwide marketing campaign to raise the awareness of families to protect the future of their children.

Distribution

AIA's management team has focused on growing the number of high-quality agents over the second half of the year to support sustainable profitable growth in our agency channel. Our extensive recruiting efforts were combined with a focus on improved training and a better overall sales management culture. Our programmes contributed an improvement in agency channel productivity in the second half of the year and increased the number of active agents by 20 per cent compared with the first half. 2012 is the first year of positive growth in the agency force since the 2008 crisis. Importantly, we increased the overall number of MDRT qualifiers by 40 per cent compared with 2011, demonstrating the quality and sustainability of the agency strategy in Korea.

The restructuring of our direct marketing channel in Korea was a key priority for 2012. We opened four new call centres and moved our recruitment centre from central Seoul to the outskirts so that we could target new areas of the workforce that meet our recruitment profile. A modern and flexible work

schedule was introduced and our recruitment processes were revised to drive recruitment of new telesales representatives (TSRs). Training programmes and product development have focused on driving improvements in the product mix and expanding core products to offer a more diversified product range to raise TSR productivity levels.

Products and Customers

Aligned with a continued focus on protection, we launched key product initiatives focused on expanding accident and health coverage. We continued to embed insurance in our key savings products and increase the use of riders to expand the breadth of coverage for our customers. Our combined product and marketing campaigns are concentrating on different target segments including family cover and seniors.

For example, AIA launched a marketing campaign in Korea aimed at raising the awareness of the need for families to protect the future of their children and to increase the brand awareness of AIA. This campaign was centred around an engaging television commercial that has been viewed over one million times on YouTube.

We will continue to implement our quality recruitment programmes and drive further product innovation and enhanced customer segmentation to revitalise our Korean business.

Operating Profit after Tax

Operating profit after tax for 2012 increased by 1 per cent to US\$125 million compared with 2011 with the reduction in TWPI and a higher effective tax rate from 22.0 per cent to 24.2 per cent offset by positive cost savings and product margin improvements.

Business Review

OTHER MARKETS			
US\$ millions, unless otherwise stated	2012	2011	YoY
VONB ⁽¹⁾	162	112	45%
VONB margin ⁽²⁾	26.3%	18.8%	7.5 pps
ANP	618	594	4%
TWPI	2,482	2,105	18%
Operating profit after tax	207	165	25%

Notes:

- (1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include corporate pension business.
- (2) VONB margin excludes corporate pension business to be consistent with the definition of ANP used within the calculation.

Other Markets refers to AIA's operations in Australia, the Philippines, Indonesia, Vietnam, Taiwan and New Zealand. Our 26 per cent share of India's financial results is included in operating profit on an equity accounted basis.

VONB and VONB Margin

VONB increased by 45 per cent to US\$162 million compared with 2011. The result was driven mainly by strong performances in Australia and the Philippines and outstanding growth in Indonesia and Taiwan across both agency and partnership channels. VONB margin expanded by 7.5 pps to 26.3 per cent and ANP volumes increased by 4 per cent. Underlying ANP volumes were up 46 per cent excluding the effect of the single large group insurance scheme written in Australia in 2011.

Business Unit Performance

- Australia:** AIA's Australian business performed strongly in 2012 as we continued to build on our market-leading group insurance franchise and successfully targeted the retail IFA channel. AIA was recognised as the fastest-growing life insurance company in Australia as we leveraged our position as an independent risk specialist. The year-on-year growth rate of our group insurance



AIA's Australian business achieved three "Life Company of the Year" industry awards in 2012.

business was distorted by the single large Australian scheme written in the third quarter of 2011 and group insurance VONB increased on an underlying basis excluding the scheme. We achieved excellent VONB growth from the retail IFA channel in 2012 as improvements in production were accompanied by strong margin expansion. This was a direct result of the successful implementation of our Premier IFA model, combining competitive products and best-in-class adviser services to target an improved business mix, helping AIA's Australian business achieve three "Life Company of the Year" industry awards in 2012.

- Indonesia:** AIA's Indonesian business achieved excellent results in 2012 with outstanding VONB growth across both agency and bancassurance distribution compared with 2011. Our agency channel delivered a very strong performance through the execution of our Premier Agency strategy. Our successful recruitment programme, coupled with the launch of a new compensation scheme that rewards activity, persistency and productivity, has resulted in an increase in the number of active agents by 37 per cent compared with 2011. Improved activity has been accompanied by a major increase in the sales of protection and unit-linked business with the introduction of our next generation unit-linked products into Indonesia over the year.

In bancassurance, we focused on increasing sales activity levels within our insurance specialist referral model. Productivity per active sales specialist increased by 49 per cent compared with 2011. Products launched in the bancassurance channel included new packaged health products and a Takaful line of products through CIMB Niaga.



AIA's business in Indonesia achieved outstanding VONB growth across both agency and bancassurance in 2012.

- **Philippines:** AIA's operations in the Philippines reported strong growth in VONB compared with 2011. We have made major progress over the year in updating our product portfolio to introduce unit-linked products across our main distribution channels and improve the activity and productivity of our agency force. Our bancassurance relationship with the Bank of the Philippine Islands (BPI) went from strength to strength with VONB three times the amount reported in 2011. The growth arose from a combination of production and margin increases mainly as a result of our launch of unit-linked products into this channel.
- **New Zealand:** AIA's New Zealand business focused on reinvigorating relationships with IFAs and on broadening distribution channels to complement our existing business. We successfully launched our direct marketing business in

August 2012 and made headway in bancassurance distribution. The core product portfolio has been revitalised as part of our strategy to improve productivity, while at the same time improving our operational processes to provide better service to advisers.

- **Taiwan:** AIA achieved an outstanding VONB performance in 2012 in Taiwan. The development of our Premier Agency force continues apace, with agency offices now established in the three major cities of Taipei, Kaohsiung and Taichung. As one of the first insurers to receive regulatory approval to fully implement a state of the art iPoS system in Taiwan, we have equipped our agents with sales tools that boost productivity and enhance the customer purchase experience. This capability is an attractive proposition, particularly in combination with our Premier Agency training programmes. Our bancassurance business has performed well on the back of our regional relationships, while solid new business growth was also achieved in direct marketing.
- **Vietnam:** Our Vietnamese business has continued to develop Premier Agency with a focus on training, recruitment and redesigned compensation structures to enhance activity levels and improve professionalism. We also launched several major campaigns to promote the AIA brand in 2012. New product launches, including a popular product providing education funding for children and life protection for parents, has improved margins and profitability and reflected our commitment to offering innovative solutions to meet the regular savings and protection needs of our customers in Vietnam.

Operating Profit after Tax

Operating profit after tax increased by 25 per cent from the strong growth in Indonesia and the Philippines partly offset by unfavourable claims experience in Australia as disclosed previously.

Risk Management

The core of AIA's business is accepting, pooling and managing risk for the benefit of both policyholders and shareholders. Effective risk management is vital in any organisation but especially in a life insurance business where it is a key driver of value.

All business unit managers and executives are responsible for ensuring their businesses understand the risks that are being undertaken, operate within acceptable levels of risk tolerance and achieve appropriate returns for these risks. This direct accountability at the operational level is reinforced by a second tier of financial, actuarial and underwriting monitoring at the Group level and via the Group and local risk functions as part of the Risk Management Framework (RMF) which is described below.

Risks undertaken by the Group are backed by appropriate levels of capital to support the ongoing business and protect our policyholders. While AIA seeks capital efficiency, we do so within acceptable levels of risk without compromising either our financial strength or our requirement for appropriate returns. We discuss below the principal risks and how they are managed.

OVERVIEW

AIA operates a RMF with the following components:

- An efficient governance and reporting architecture that facilitates escalation of key issues to appropriate levels of management, oversees the administration of the risk management framework at a local level, ensures swift and effective responses to emerging issues, and provides assurance to the Board as to the efficiency and robustness of the decision-making process;
- Effective quantitative and qualitative risk measurement to allow the Group's risks to be clearly identified, and to ensure that risk is contained within our Risk Appetite;
- Local risk managers in each country who report to local management; the latter remaining accountable for the management of risk in their business; and
- The Group Risk function, which works with local risk functions to identify, measure and manage current and emerging risks that pose a material economic or reputational risk to the Group as a whole. The Group Risk function is part of the Group Risk and Capital Management department with the Group's principal risk officer, the Group Head of Risk and Capital Management, reporting to the Group Chief Financial Officer.

Our Risk Appetite is the foundation of our RMF and risk management culture, providing a consistent approach for risk management and thereby reducing the likelihood of our financial strength being damaged by unexpected events.

RISK APPETITE

AIA's Risk Appetite is the nature and amount of risk we are willing to take in pursuit of value. Our Risk Appetite Statement (RAS) articulates this expectation and in doing so provides a key input to strategy as well as defining the focus of the organisation's risk and capital management activities.

Our Risk Appetite is articulated through an overarching statement which focuses on ensuring that the risks that AIA accepts are consistent with our stakeholders' expectations.

The amount of risk taken by AIA in the ordinary course of its business will be sufficient to meet its customers' reasonable expectations for protection and benefits while ensuring that the level and volatility of shareholder returns are in line with a risk profile appropriate to a life insurance company focused on Asia-Pacific, ex-Japan.

This statement is supported by our risk and capital management priorities:

- Maintaining financial strength and regulatory solvency sufficient to meet our liabilities as they fall due;
- Managing liquidity to ensure the Group can meet its obligations and take advantage of business opportunities; and
- Managing earnings volatility.

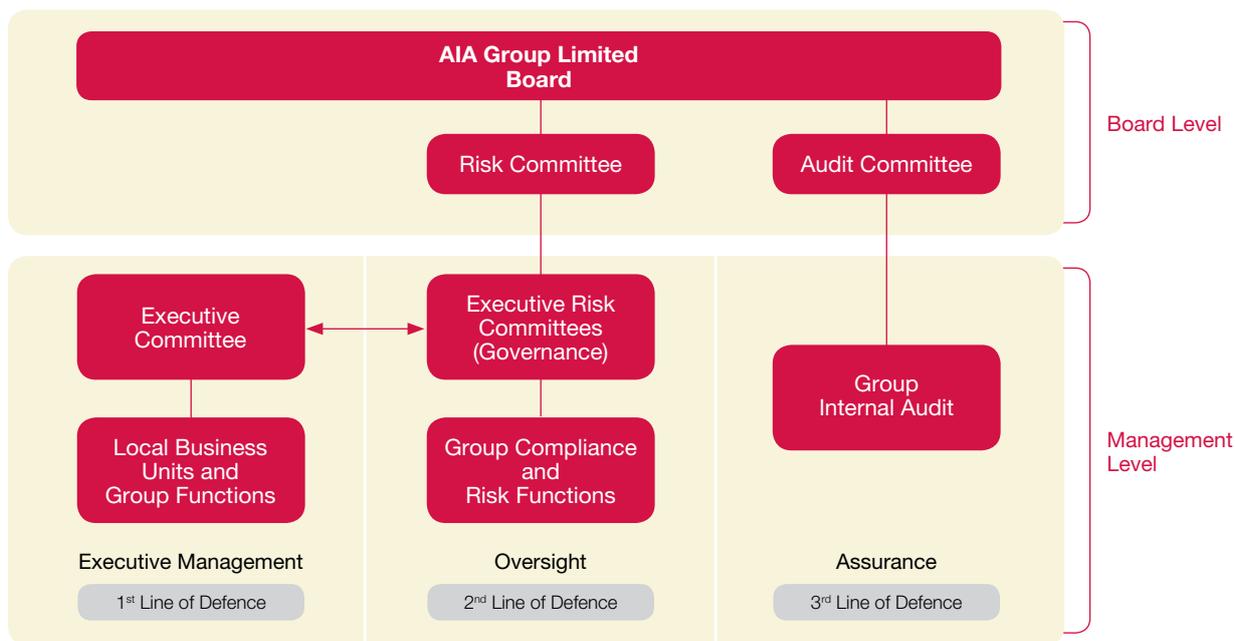
Our statement and priorities are in turn expressed as qualitative statements and quantitative measures and policies which together provide assurance to executive management and the Board of our compliance with AIA's Risk Appetite.

RISK GOVERNANCE AND REPORTING STRUCTURE

The Company’s Board has overall responsibility for oversight of the Group’s risk management activities and ensuring adequate capital to support the Group’s business. The Risk

Committee focuses on overseeing the Group’s risk management and capital adequacy, and the 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:



Under the “first line of defence”, primary responsibility for risk identification and management lies with the local businesses supported by the local risk teams along with Group functions.

The “second line of defence” consists of two executive risk committees, Group Compliance and Group Risk. The primary responsibility of these committees and functions is to provide oversight of the risk management activities conducted by the “first line of defence”. The second line also provides support to the Board via the Risk Committee to enable the Board to discharge its responsibilities for setting the Group’s overall risk appetite, agreeing the RMF and monitoring group-wide risks.

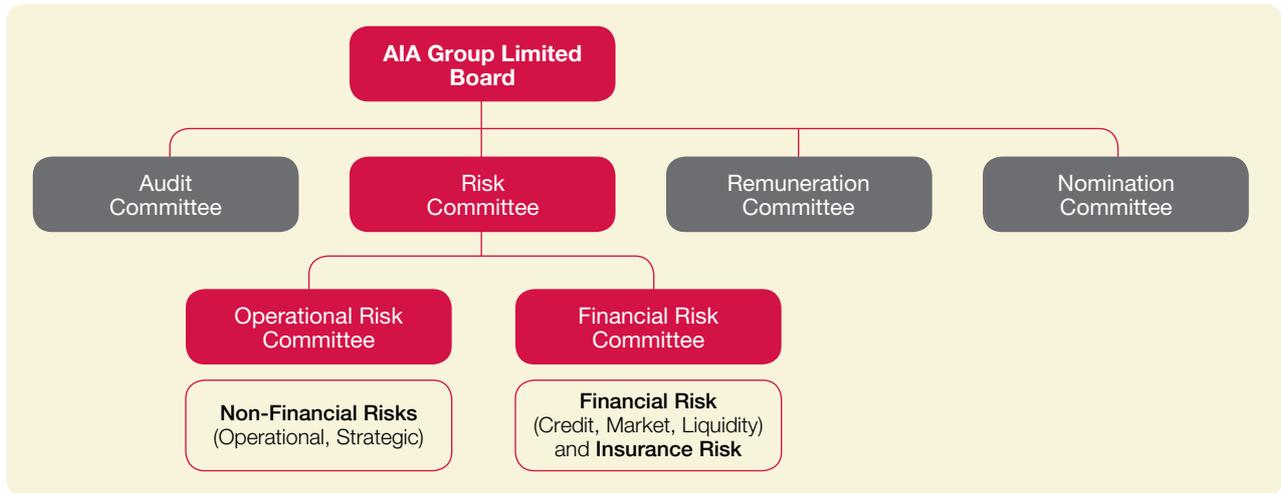
The “third line of defence” is performed by Group Internal Audit, which provides assurance to the Board via the Audit Committee and to executive management as to the effectiveness of internal controls. This helps the Board to discharge its corporate governance responsibilities. This third line includes reviews of the RMF, including the Group Risk function and committees, which together constitute the Group’s second line of defence.

Group Internal Audit coordinates with the Group Risk and Group Compliance functions to ensure risks and their management processes are identified and monitored on a consistent basis, and to ensure there are no overlaps or gaps in our risk assessment and control processes.

Risk Management

In February 2012 the Company's Board approved a new risk governance and reporting structure. Under the new structure the Company's Board retains overall responsibility for oversight of the Group's risk management activities and ensuring we have adequate capital to support the business of

the Group. In fulfilling these responsibilities the Board is supported by the Risk Committee and two new executive risk committees, namely the Operational Risk Committee (ORC) and the Financial Risk Committee (FRC), the creation of which was also approved by the Risk Committee. The new governance structure is illustrated in the chart below:



Risk Committee

The objectives of the Risk Committee are to advise the Board on any risk-related issues requiring Board attention. The Risk Committee is also responsible for approving risk metrics used in the context of the Group's Risk Appetite. The members of the Risk Committee are all Board directors, with the Chairman required to be an Independent Non-Executive Director. The Risk Committee meets at least four times a year.

In practice the Risk Committee has oversight over all risk management activities in the Group. At each meeting it considers the general risk environment, reviews the activities of the Group's executive risk committees and the Group's solvency. Thorough reviews are conducted into the Group's major risks. During the year, the Risk Committee reviews included two reviews of market risk and credit risk in the Group's investment portfolios, a review of operational risk management and the Group's key balance sheet risks. The Risk Committee also considered specifically the risk implications of the Group's acquisition of ING Groep NV's insurance business in Malaysia.

Operational Risk Committee

The ORC provides oversight of non-financial risk activities within the Group. These include any activity that has the potential to weaken our business whether strategic or reputational, and may include issues related to our human, physical or technology resources. The ORC approves Group policies, processes and metrics related to the management of Operational Risk. The members of the ORC are predominantly members of the Group Executive Committee and the ORC is chaired by the Group Chief Financial Officer. The ORC meets at least four times a year.

During the year, the ORC met four times. At each meeting the operational risk environment was reviewed based on the Group's defined key operating risks. Local business unit ORC reports were reviewed and emerging issues considered, with mitigation strategies for such items being discussed and agreed.

Financial Risk Committee

The FRC provides oversight of financial and insurance risk activities within the Group. These include market and insurance risks as well as the Group's balance sheet, liquidity and capital position. The FRC approves Group policies,

processes and metrics related to the management of Financial Risks and Insurance Risk. The members of the FRC include our Group Chief Investment Officer and Group Chief Financial Officer. The FRC is chaired by our Group Chief Executive. The Committee meets at least four times a year.

During the year, the FRC met four times. At each meeting the Group's capital and balance sheet position was reviewed as well as the risks in the Group's investment portfolio including asset-liability, foreign exchange and liquidity risks. Local business unit FRC reports were also reviewed and emerging issues considered, with mitigation strategies for such items being discussed and agreed.

Where activities, proposals, and/or reports are relevant to both the FRC and the ORC, the FRC is responsible for coordination.

LOCAL AND GROUP RISK FUNCTIONS

Each country has a local risk function which reports to local management. This is consistent with the empowered business model that AIA has adopted and allows the local risk management framework to support local regulatory and Board requirements. Local risk functions are responsible for managing the local risk management frameworks, identifying and escalating emerging risks and control weaknesses to the Group.

Local business units have some discretion over their local risk management frameworks, but are subject to an annual

assurance review by Group Risk and Group Internal Audit to ensure that these are effective and to the required standard. Day-to-day interactions between local and Group risk functions together with a quarterly report to the Group's risk committees on items discussed at local committees ensures that risk management remains aligned across the Group.

The Group Risk function oversees the Group's RMF, including the setting and monitoring of risk appetite in relation to different risks. Consisting of risk professionals that focus on integrated risk management and oversight, the function seeks to identify, escalate and resolve risk issues with a Group dimension as well as to develop risk models and approaches to support performance and risk management. The function supports the Group executive risk committees, proposes risk management policies and methodologies, and exercises oversight of risk management awareness and control procedures, working closely with other Group functions.

The Group Risk function is part of the Group Risk and Capital Management department, together with the Group Treasury and Group Capital Management functions.

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. Credit Risk	The risk that third parties fail to meet their obligations to the Group when they fall due
	2. Market Risk	The risk of loss from adverse movements in the value of assets owing to market factors, including changes in interest and foreign exchange rates, as well as movements in credit, equity and property prices
	3. Liquidity Risk	The risk of having insufficient cash available to meet payment obligations to counterparties when they fall due
Insurance Risk	4. Insurance Risk	The potential loss resulting from inappropriate underwriting, mispricing, adverse expense, lapse, mortality and morbidity experiences
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

Risk Management

Risk Modeling

Fundamental to the risk management framework is the ability to model risks and propose mitigating strategies. Group Risk has a dedicated risk modeling function that works closely with the Finance, Actuarial and Investment functions to develop tools for assessing the various risks in the balance sheet. There are four principal risk modeling activities:

Stress Testing: We perform regular stress testing to monitor the potential impact of changing investment and economic environment on the regulatory capital position of the Group and the business units. These tests show how the risks identified above behave individually and collectively. In particular, AIA closely monitors the correlations between financial risks across different countries, considering that the ability to diversify risk is a key competitive advantage for a geographically broadly-based financial institution.

Stress testing provides assurance that the Group and the business units are adequately capitalised to withstand adverse financial risk events and that the pursuit of business strategies remains within acceptable risk tolerances.

Market Risk Modeling: Group Risk works closely with the Investment Analytics team to develop and implement quantitative techniques for managing AIA's market risk. For example, peak exposure analysis is used to determine credit and liquidity limits and both deterministic scenarios and stochastic models are used to assess interest rate, credit, equity market and foreign exchange risks.

Operational Risk Modeling: Our Operational Risk team uses scenario modeling to estimate the potential for losses arising from our major strategic and operational risks, as well as the expected maximum loss. Scenario modeling is a technique used, where data is scarce, to try and approximate the loss distribution associated with a particular operational or strategic event.

Economic Capital: AIA is developing an internal economic capital model that draws on industry best practices and takes into account the environment in the Asia-Pacific region.

Principal Risks

The principal individual risks and our management of them are discussed below with further information provided in note 36 to the financial statements.

Credit Risk

Credit risk occurs wherever we are relying on a third party to satisfy their financial obligation to us. Although the primary source of credit risk is the Group's investment portfolio, credit risk also arises in our reinsurance, settlement and treasury activities.

Note 20 to the financial statements provides further details of the Group's financial investments in debt instruments, the credit quality of those instruments and the basis on which they are carried in the Financial Statements.

The management of credit risk occurs on two levels in AIA. The Investment Credit Research team performs a detailed analysis of individual counterparties and recommends a rating within the internal ratings framework. The Group Risk function manages the Group's internal ratings framework and agrees these recommendations. Internal ratings are then used to determine our appetite for exposure to each counterparty.

A matrix of risk tolerances has been approved by the FRC that ensures that credit risk in the investment portfolio is contained within AIA's risk appetite. These tolerances cover individual counterparty, segmental concentration and cross-border exposures. The Investment function has discretion to shape the portfolio within those risk tolerances. Where the Investment function wish to invest outside those tolerances, further Group approvals are required. If certain investments are technically within risk tolerances but there is a specific concern, Group Risk may bring these to the attention of the FRC.

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 and property market prices. Note 36 to the financial statements provides further detail relating to the market risks discussed below.

The FRC approves all policies and metrics associated with the evaluation of market risk exposures.

Interest Rate Risk

The Group's exposure to interest rate risk predominantly arises from any difference between the tenor of the Group's liabilities and assets, or any difference between the return on investments and the return required to meet the Group's commitments, predominantly its insurance liabilities. This exposure can be heightened in products with inherent interest rate options or guarantees.

Exposure to interest rate risks related to financial assets and financial liabilities, split between variable, fixed and non-interest bearing is summarised in note 36 to the financial statements.

We seek to manage interest rate risk by ensuring appropriate insurance product design and underlying assumptions as part of the product approval process and by matching, to the extent possible and appropriate, the duration of our investment assets with the duration of our insurance policies. For in-force policies, we regularly adjust the policyholder bonus payout and crediting rates applicable to policyholder account balances, considering amongst other things the earned yields and policyholders' 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 US dollars for financial reporting purposes. Note 36 to the financial statements shows the Group's currency exposures and the sensitivity of shareholders' equity and profit to movements in those currencies.

We manage foreign exchange rate risk at a Group level through modeling and monitoring the currency of earnings and Business Unit (BU) dividend remittances and other earnings from our operations across the Asia-Pacific region, and at a local level by matching our local liabilities and assets by currency, including specifically the matching of US\$ and HK\$ liabilities in Hong Kong. In this respect we will sometimes use cross-currency swaps.

Equity Price Risk

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

The extent of our exposure to equities at any time is at the discretion of our Investment function operating within the terms of the Group's and local BUs' strategic asset allocations.

From a risk perspective, particular emphasis is placed on managing concentrations and volatility in the Group's equity exposures. The Group's "Margin of Safety Investment" approach is designed to limit volatility and target value in our equity selections and equity exposures are also included in our aggregate credit exposure reports on individual counterparties to ensure concentrations are avoided. Note 20 to the financial statements provides further details of the Group's financial investments in equity securities, including the basis on which they are carried in the Financial Statements. Note 36 to the financial statements indicates the sensitivity of profit and net assets to changes in equity prices.

Property Price Risk

Property price risk arises from our interests in real estate assets, which form part of our investment portfolios and are subject to market value changes. A considerable number of our real estate assets are self-occupied and used for own business purposes. Real estate assets are expected to provide useful diversification benefits and a long-term return with some inflation protection.

The price risk in property can be driven by broader economic and social factors, notably tenant supply and demand, liquidity of individual buildings, evolving infrastructure and government actions that may directly or indirectly influence the market.

The Investment Committee oversees all major investment activities in respect of real estate to ensure that these additional risk factors are considered when making investment decisions.

Risk Management

Liquidity Risk

Liquidity risk refers to the risk that we have insufficient cash available to meet our payment obligations to counterparties as they fall 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 36 to the financial statements provides a maturity analysis of the Group's financial assets and its liabilities and insurance contracts.

At the local business unit level we seek to manage liquidity risk through insurance product design and by matching our near-term expected cash flows from our liabilities and assets. We are assisted in this by the positive cash flows from our business that provide an important source of liquidity. As disclosed in note 20 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. At the AIA Group Limited level we hold sufficient cash and liquid assets to cover expected Group obligations and commitments.

Our policy is to remain as fully invested as prudent and we will therefore occasionally use the bond repurchase markets to manage our liquidity and to take advantage of market opportunities.

Insurance Risk

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

- Product design risk;
- Underwriting and expense overrun risk;
- Lapse risk; and
- Claims risk.

Note 25 to the financial statements details our insurance contract liabilities, the nature of insurance products and their principal risks.

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.

Product Design Risk

Product design risk refers to potential defects in the development of a particular insurance product or product group. Our product development process is overseen by local Product Development Committees working to Group standards for product design, validation, pricing and risk management. All aspects of a product are assessed through pre-launch reviews conducted by the Group Product Actuarial department supported by Group Operational Risk Management. We closely monitor 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.

Underwriting and Expense Overrun Risk

Underwriting and expense overrun risk refers to the possibility of product-related income being inadequate to support future obligations arising from an insurance product.

We seek to manage 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 risk appetite and underwriting strategy. A second layer of underwriting review is conducted at the Group level for complex and large risks, and quality assurance of local underwriting capabilities is performed.

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 reduce risks and obtain product pricing and underwriting expertise.

To manage expense overrun risk 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 and expense inflation. 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 Risk

Claims risk refers to the possibility that the frequency or severity of claims arising from insurance products exceeds the levels assumed when the products were priced. We seek to mitigate claims risk by conducting regular experience studies, including reviews of mortality and morbidity experience, reviews of internal and external data, and considering the impact of such information on reinsurance needs, product design and pricing.

The Group has a broad geographical footprint across the Asia-Pacific region, which provides a degree of natural geographical diversification of claims experience. We mitigate and manage this risk by adhering to the underwriting and claims management policies and procedures that have been developed based on our extensive historical experience. Our broad product offering and large in-force product portfolio also reduce our exposure to concentration risk. Finally, we use reinsurance solutions to help reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophes.

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. Business unit managements are responsible for managing their business and operational risks, supported by their local risk management functions. The Group's Risk and Control Self-Assessment (RCSA) process is used to identify and assess the impact of operational risks. The RCSA is an exercise whereby management considers possible or actual risk events, ascribes likelihood of occurrence and potential severity, and then agrees mitigation strategies to reduce these risks. These strategies are then monitored and the exercise repeated, with the results stored in a dedicated operational risk database.

At the Group level, agreed operational risks common to the Group are measured using Key Risk Indicators (KRIs), with each Key Risk assigned to a specific risk owner. Each quarter, the operational risk team in Group Risk draws together the results of this activity in a common framework and reporting structure for consideration by the ORC, with updates provided to the Risk Committee.

The ORC will also review new activities where there is deemed to be a material operational risk. For all new products, derivative instruments and "Restricted Investments", an operational risk checklist is completed covering potential reputational issues, operational readiness, technical dependencies, etc.

AIA protects itself against the financial losses by purchasing insurance coverage against a range of operational loss events including business disruption, property damage and internal fraud. The attachment points and extent of coverage take into consideration the results of scenario modeling as described above.

Reputational Risk

Reputational 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. Consideration of reputational risk is a key element in our operational risk checklists and is actively monitored by our operational risk teams working closely with Group Law, Group Compliance, Group Corporate Communications and business unit management.

Strategic Risk

Strategic risk refers to adverse impacts from unexpected changes to the Group's operating and market environment. Strategic risk is addressed as part of the business planning process and ongoing monitoring of and response to economic, political, regulatory, competitive and technical changes that may impact AIA's business.

Our People



We held our Leadership Conference with the participation of around 300 top executives from across the Group and focused on the annual theme of “Doing the Right Thing, in the Right Way, with the Right People”.

The quality and professionalism of our employees and agents is paramount to us in ensuring that we are well positioned to fulfil our goals, meet our customers’ needs and deliver value to shareholders. Building an environment where high-quality people are excited to work and motivated to achieve is our priority.

In 2012, we continued to build on the strength of our multicultural workforce with more than 20 nationalities involved in management. We believe that this is reflective of a work environment where merit leads to recognition and advancement.

LAUNCH OF THE OPERATING PRINCIPLES

In 2012, we invested a great deal of time and energy to articulate our “Operating Philosophy”. Employees across the Group have rallied around the concept of “Doing the Right Thing, in the Right Way, with the Right People”.

Underlying our Operating Philosophy are 12 Operating Principles that help guide and shape our employees’ actions and behaviours; informing how we interact with one another and how we behave externally with our customers, shareholders and other stakeholders, including the community at large.

In 2012, these Operating Principles were launched in all of AIA’s markets. Workshops were held across the Group to ensure that the Principles were properly cascaded to all levels of the organisation. We will continue to take action to ensure that the Operating Principles are embodied in all of our actions as we continue to create a very distinctive culture.



Employees across the Group have rallied around the Operating Philosophy of “Doing the Right Thing, in the Right Way, with the Right People”.

EMPOWERING OUR OPERATIONS

We believe in empowering our local business units to run their businesses with guidance from our Regional Chief Executives and where appropriate our Group Office functions. The long-term benefits emerging from a management structure of empowered local teams include increased efficiency, better and faster decision-making, better response times to customers and improved levels of employee engagement. We anticipate the benefits of this model will grow over time, which will translate into further benefits to our customers, shareholders and employees.

TRAINING AND DEVELOPMENT

In 2012, we maintained our commitment to providing a comprehensive programme of tailored learning and development for all employees. Our approach starts with a thorough employee orientation programme and then identifies regular opportunities provided throughout the employee's career in multiple formats, including on-the-job training, coaching and mentoring and classroom learning. In 2012, each of our employees was given the challenge to enhance their capabilities through committing to undertaking at least one learning action per year.

Included in our development programmes are extensive online learning opportunities. Online learning modules provide employees with a platform to learn and absorb new concepts at their own pace. During the year, a wide range of modules was made available and promoted to our employees, including AIA Code of Conduct, Fraud Awareness, Anti-Money Laundering, Performance Management, Equal Employment Opportunity, Security and Safety, Prevention of Insider Trading and Market Misconduct Policy, Handling of Price Sensitive Information and Data Privacy.

Our two signature managerial programmes targeting middle to senior managers – the “AIA Manager Programme” and “AIA Manager As Coach Programme” – focus on helping leaders understand their own strengths, how they can better leverage those strengths to make a greater impact on teams and the wider organisation, and ensuring their leadership styles are conducive to performance delivery and AIA's long-term growth.

In order to ensure that we maximise the development of our existing human capital, we provide secondment opportunities for employees to work in different countries and in positions that will broaden their experience with the ultimate goal of enhancing their skills. In 2012, over 80 employees were selected to be transferred to or participate in initiatives in different markets and business units to help develop their technical and leadership skills and expand their career opportunities.

The AIA Mentoring programme pairs up experienced managers and employees as an important additional support and guidance channel.

As in previous years, our top executives from across the Group (approximately 300 people) came together at a Leadership Conference in Hong Kong. The theme in 2012 was “Doing the Right Thing, in the Right Way, with the Right People” – in recognition of the critical importance of embedding the Operating Principles into our culture as we work to fulfil the Group's growing potential. The Leadership Conference focused on how AIA can best achieve the next critical phase of growth, and provided updates on our strategy, our people and our brand, as well as the innovative thinking and actions taking place right across the business.



We maintained our commitment to providing a comprehensive programme of tailored learning and development for all employees.

Our People

REWARDING PERFORMANCE

AIA is a meritocracy. We are committed to offering compensation and benefits that are fair and competitive. At the same time, we recognise the importance of creating sustainable value for shareholders and therefore, our compensation programmes ensure that employees are rewarded based on both individual performance as well as that of the Group.

Our Employee Share Purchase Plan allows employees to buy AIA shares through a monthly allotment from their salary with one additional matching share from the Company for every two shares purchased by the individual, provided the employee remains with the Company throughout the three-year vesting period. Since its launch in 2011, the scheme has been adopted in 13 locations across the region, with 25% of eligible employees in 2012 enrolling in the scheme.

HEALTHY LIVING

The Group has a mission to promote healthy living for our customers as well as our employees. In 2012 we implemented a broad range of wellness initiatives to encourage good health and well-being amongst our employees.



Employees were encouraged to be active and were supported in taking up new activities.

To help prevent illness we provided subsidised influenza vaccinations. To encourage healthy eating, our canteen menu was revised to provide a much greater selection of healthy choices. Group Office's Recreational Club organised a "Fruit Monday" campaign whereby staff received a different piece of fruit each Monday to encourage their regular consumption. Our Inside AIA internal magazine was also revised to include a



To encourage healthy eating, our canteen menu was revised to provide a much greater selection of healthy choices.

Healthy Living section, which provided both nutritional information and healthy recipes. This has proved popular with our readers who now contribute their own Healthy Living recipes for inclusion in the magazine.

Employees were also encouraged to be active and were supported in taking up new activities. Sporting competitions were organised right across the region, with employees playing sports as diverse as badminton, basketball, football and ten-pin bowling. These competitions have the added benefit of allowing employees to get to know each other better and enhance the sense of community amongst employees. We also recognise the importance of mental health and have introduced initiatives to enable employees to have their stress levels measured and to receive advice on managing and reducing stress.

LISTENING TO OUR EMPLOYEES

Listening to our 18,000 employees is an important starting point as we look to meet their expectations and help fulfil their potential. In 2011, we introduced the first Gallup Q12® Employee Engagement survey to allow employees to share their views on what makes AIA a great place to work. The survey also helps our managers understand those areas where employees think we could improve and allows us to develop appropriate action plans to ensure that AIA continues to engage employees. We conducted the survey again in 2012 with a very encouraging 95% employee response rate. The results in 2012 have improved by 6.2% over 2011, thanks to a number of tangible actions implemented in response to employees' feedback, such as increased clarity around job roles and more effective two-way communication at different levels of the Group.



Listening to our employees is an important starting point as we look to meet their expectations and help fulfil their potential.

Corporate Social Responsibility



In Thailand, the AIA-sponsored football clinics provided basic training and coaching to 4,660 youths.

Showing care for the communities which we serve as an organisation has always been one of the key tenets of AIA's corporate values. Regardless of national boundaries and cultures, the products and services we offer are designed to serve a common purpose – to help people fulfil their hopes and dreams for a better future for themselves and their families. Doing what we can to help people lead longer, healthier lives not only fits our business values, but also complements the business activities we engage in every day.

Therefore, our Corporate Social Responsibility (CSR) activities are guided by the following principles:

- Contribute positively to further the social and economic development of the communities in which we operate;
- Show care for our customers, our employees and the communities we serve and also extend our support to those in need; and
- Contribute to the health and well-being of the people in our markets across the region.

Our goal is to support local initiatives that encourage broad, active participation at the grass roots level, eventually creating a “multiplier effect” that would have the greatest positive impact on the well-being of the people and communities across Asia-Pacific.

FOCUS ON HEALTHY LIVING

Providing opportunities for people to engage in healthy activities

The importance of health and well-being to people across the region was underscored by our landmark 2011 Healthy Living Index Survey, which was conducted among over 10,000 adults in the 15 markets where we operate. The results confirmed 98 per cent of adults believe “living a healthy life is important”. However, their Healthy Living Index scores averaged only 6.1 out of 10, which showed much room for improvement. Our Healthy Living Index Survey also confirmed healthy living extends beyond physical exercise to also include eating healthier foods, having enough sleep, managing stress, losing weight, getting regular check-ups and maintaining a happy frame of mind.

In 2012, we were active supporters in a number of good-for-health events with the capacity to attract large numbers of participants.

In Hong Kong, we were active supporters of the Community Chest Walk for Millions, which attracted more than 14,000 public participants and also raised funds for family and child welfare services. AIA in Hong Kong was also the Corporate Partner of Médecins Sans Frontières' (MSF) annual Orienteering Competition, the largest of its kind in Hong Kong, attracting 2,800 participants.

In Singapore, AIA was a Presenting Sponsor of the Jurong Lake Run 2012, an event that attracted more than 15,000 participants.

In Indonesia, we were the main partner of the Jakarta Race 2012 where over 3,000 participants ran, walked, jogged and even used wheelchairs to complete the designated route to support the Indonesian Cancer Foundation.

In India, Tata AIA sponsored two non-governmental organisations (NGOs), namely Child Relief and You (CRY) and Childline India Foundation, through participation in the Mumbai Marathon 2012, which attracted a record 38,775 participants.

In Thailand, the AIA-sponsored football clinics provided basic training and coaching to 4,660 youths.

In Australia, we were a major sponsor of Droptober, an annual fundraising event aimed at combating the obesity crisis by encouraging participants to lose two kilogrammes in weight in October. In 2012, more than 550 people participated to mark the beginning of their healthy living journey.

Since our Healthy Living Index Survey also confirmed the importance of healthy living to our employees, we encouraged our employees, agents and even their families to participate in the various walkathons and marathons that we sponsored.



In Hong Kong, we were active supporters of the Community Chest Walk for Millions, which attracted more than 14,000 public participants.



In Singapore, AIA was a Presenting Sponsor of the Jurong Lake Run 2012, an event that attracted more than 15,000 participants.

Our employees and agents lending a helping hand

Our employees and agents are generous in helping others across the region. They showed great enthusiasm in organising and participating in community events and volunteering activities, many of which also raised money for those in need.

To assist children with cancer, 40 employees and agents from AIA in Singapore gamely shaved their heads and raised over US\$81,000 for Hair for Hope. In addition, 500 employees, agents as well as their families and policyholders participated in the Jurong Lake Run raising over US\$130,000 for the Children's Cancer Fund.

Corporate Social Responsibility

More than 1,200 employees and agents from our offices in Hong Kong and in Macau participated in the 2012 Walk for Millions and raised over US\$43,000 for the Community Chest. This year, 550 of our Hong Kong employees and agents took part in the MSF Orienteering Competition and raised over US\$75,000.

In Indonesia, some 500 employees and agents took part in the Jakarta Race 2012 to raise funds for direct patient support, cancer education and prevention. In Taiwan, 340 employees, agents and their families joined the AIA Healthy Living Charity Hike and raised money to prepare healthy lunches for 200 school children from low-income families.

In Thailand, our employees volunteered to provide healthy lunches and basic check-ups for 150 school children. They also built a gymnasium so disadvantaged children residing in remote areas have a good place to exercise.

In Australia, our employees participated in a range of volunteering activities that benefited 500 disadvantaged young people, including students and the disabled. Such initiatives ranged from refreshing a garden to supporting literacy education.



Our employees in Vietnam provided meals and financial support to 1,500 inpatient children in Ho Chi Minh City, Vietnam.

In the Philippines, more than 350 employees took part in volunteering events organised under Philam Life's KaAkabay Volunteer Programme. In addition to building houses for the disadvantaged and reading bedside stories to paediatric patients, our staff also made cash donations.

Our employees in Vietnam provided meals and financial support to 1,500 inpatient children at the Ho Chi Minh City Paediatric Hospital and also spent time with 300 handicapped children in two outlying provinces.

Using healthy activities to commemorate special occasions

Further demonstrating their commitment to health and well-being, some of our employees and agents also chose to celebrate special occasions with meaningful healthy living activities.

To commemorate the 25th anniversary of AIA in Korea, more than 1,000 of our employees and telemarketers participated in a 2.5-hour walkathon in Seoul, which raised US\$23,000 for the Korea Association for Children with Leukaemia and Cancer. AIA in Korea also donated 300 bicycles to disadvantaged children at the Happy Home School.

In China, our employees, customers and the general public participated in a charity run to celebrate the 10th anniversary of our presence in Suzhou. For each of the 816 participants, AIA donated RMB10 to the China Children's Teenager Fund to assist children with cancer.

To celebrate the second anniversary of AIA's public listing, our colleagues from the Investment teams across the region participated in various community activities such as visiting elderly homes and orphanages.



Tata AIA gave free BMI tests to 1,774 students in India.

PROMOTING HEALTHCARE HABITS

According to the AIA Healthy Living Index Survey, about nine in 10 adults across the region agree “obesity among the younger generation is a worrying trend.” In response to this, AIA in Hong Kong engaged dietitians to help students in six secondary schools reduce their weight via better eating habits. In India, Tata AIA gave free body mass index (BMI) tests to 1,774 students in Delhi, Mumbai, Kolkata and Bangalore.



AIA in Indonesia organised free cervical cancer examinations for 2,500 women.

To raise awareness about life-threatening illnesses, AIA in Indonesia organised two rounds of free cervical cancer examinations for 2,500 women in Makassar and Surabaya. In Malaysia, AIA hosted an event about heart health at the country's largest heart-health exhibition, which attracted approximately 20,000 participants.

Under our Philam Paaralan Programme in the Philippines, there is the Fit for School partnership scheme to promote proper hygiene by providing a full year's supply of soap, toothpaste and toothbrushes to more than 500 students.



Under our Philam Paaralan Programme in the Philippines, there is the Fit for School partnership scheme to promote proper hygiene to more than 500 students.

In Thailand, we provided fibreglass water tanks to communities in remote areas benefiting over 7,800 people in need of clean drinking water.

In 2012, we continued to support our long-standing commitments that cover crucial surgeries for children in need. In Thailand, we helped bring hope for a better future for children with facial deformities through our Operation Smile Project, a collaboration we have had with the Operation Smile Foundation since 2000. In 2012, AIA funded operations for another 170 young patients with cleft lips, cleft palates and other facial deformities.

In Malaysia, AIA continued to support the AIA Have-A-Heart Fund (HAHF) covering surgical costs for children with congenital heart conditions. In 2012, the HAHF raised over US\$38,000 to cover the surgical costs of eight children through a combination of donations from AIA in Malaysia and its agents.

Corporate Social Responsibility

CARING FOR THE ENVIRONMENT

With our deep roots in Asia and our commitment to improving people's health and well-being, we are naturally concerned about environmental issues, which ultimately impact people's health. As such, we do our best to support environmentally friendly initiatives.

To help raise awareness about the new environmental challenge of electronic waste (e-waste), AIA in Hong Kong and the Chinese University of Hong Kong (CUHK) launched a landmark survey of 1,200 adults in Hong Kong, where approximately 70,000 tonnes of electrical and electronic waste are generated each year. With average ownership of 3.5 portable electronic devices (e-devices) among adults, e-waste is a burgeoning challenge – and something the people of Hong Kong agree also impacts their health.

The survey is part of a larger collaboration between AIA and CUHK to raise awareness about e-waste, which was also supported by the launch of the WeCareAboutEwaste.com website in August 2012 and the distribution of over 3,500 “Breathe new life into your old e-devices” posters. The posters encourage donation of old e-devices to a qualified NGO where data can be purged and new software installed for use by those less able to afford such devices.

Collaborating with CUHK – with its 20,000 students and eventual access to hundreds of secondary schools – means we are not just helping the next generation of business leaders to become more environmentally conscious but also the generation after that.

Our employees and agents across the region also engaged in a variety of environmentally friendly “green initiatives”. In China, our employees and their families helped plant trees in the suburbs of Beijing for the fourth consecutive year, and in Hong Kong and in Macau, we encouraged employees to “go green” in their daily lives through regular “green tips” reminders via the intranet.

AIA is also securing more recognition from green building authorities. In China, our new AIA Financial Centre will be the first commercial building in Foshan to be certified a “green building” by the well-recognised green building authority Leadership in Energy and Environmental Design (LEED). In Thailand, the two commercial buildings AIA is investing in – the AIA Capital Centre (to be completed in 2014) and AIA Sathorn Tower in Bangkok (to be completed in 2015) – are both designed to meet “green building” certification by LEED.

In 2012, AIA Central, our headquarters building in Hong Kong became the first Grade-A commercial building to receive the Silver Certification for Existing Buildings: Operations & Maintenance from LEED for its continued promotion of environmentally friendly initiatives.

In general, we also try to conserve use of electricity and water by motion-sensitive devices as well as reducing lift services after office hours. In addition to recycling of paper, more simply, we encourage double-sided and black-and-white printing.

EXTENDING THE POWER OF EDUCATION

We are a firm believer in the power of education as a very good way to develop future generations of responsible individuals who will make positive contributions to society.

In China, we sponsored the construction of a new AIA Library in a Guangdong Province primary school for 3,000 migrant workers' children, including donations for a computer room and improvements for other facilities. Through its AIA Scholarship Programme, AIA in China granted scholarships to 30 students majoring in insurance studies. Additionally, our long-standing AIA Actuarial Centre sponsored 132 students to take examinations to become qualified actuaries.

In the Philippines, we partnered with the Department of Education through our Philam Paaralan Programme to build fully furnished classrooms in underserved areas, while in Thailand we built fully equipped libraries for schools to provide educational opportunities for 1,500 children living in the outlying communities.

In India, we gave scholarships to outstanding young people through the Foundation for Academic Access and Excellence, a Delhi-based organisation committed to providing opportunities for economically disadvantaged groups to access quality education.

Across Vietnam, we donated school supplies and books to 2,000 students and also granted scholarships to more than 400 disadvantaged children.

In Hong Kong, we continued to nurture future leaders through the AIA Foundation's Young Leaders Development Programme – our 15th year of supporting this worthwhile initiative. This programme aims to strengthen the leadership skills of capable young men and women, highlighting the importance of community service and personal integrity. More than 400 university students have participated in the programme since its inception in 1996. Separately, AIA Foundation granted scholarships worth US\$37,600 to 22 deserving students.



Over the past 15 years, over 400 university students have participated in our Young Leaders Development Programme.

OTHER COMMUNITY SUPPORT

We are committed to helping the local communities in times of natural disasters but thankfully 2012 was not a year of major disasters in the Asia-Pacific region. Nonetheless, we extended special community support where there was need.

In China, we built the AIA Deyang Orphanage in Sichuan Province to house 184 children.

In celebration of Philam Life's 65th anniversary, for every Philam Life policy sold between June 2012 and the end of the year, we donated 65 pesos to the Philam Paaralan Programme to help build more schools in underserved and calamity-stricken areas in the Philippines.

In Thailand, we built police booths for 1,600 traffic police to ensure their safety while also shielding them from extreme weather conditions. AIA in Thailand also constructed a multi-purpose town hall building for 200 people in the local community.

To minimise paediatric drowning, one of the leading causes of accidental deaths in Vietnam among children, AIA donated more than 1,600 lifesaver (flotation) school bags to children in 10 provinces.

Embracing diversity of local cultures is also one of our key business values. AIA in New Zealand sponsored a reality television series called "Marae DIY" to highlight some of the deep-rooted traditions for the Maori community.

SUMMARY

In 2012, we are proud to have helped provide good-health-oriented activities for over 110,000 members of the general public across the region, not counting participation by over 24,000 of our employees and agents. Our other caring initiatives benefited over 15,000 children, students and adults in need through active participation and efforts by over 2,400 of our employees and agents.

With our long and deep roots in the Asia-Pacific region, we will continue to care for our customers, our employees, our agents and the communities we serve as well as extend our support to those in need – helping as many people as we can achieve their hope for a better future which includes leading a longer, healthier life.



Experienced
Leadership

We have the right people to continue
to deliver sustainable and profitable
growth in the right way.

In the
Right Way

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Company's consolidated financial statements in accordance with applicable laws and regulations.

In preparing the consolidated financial statements of the Company, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with International Financial Reporting Standards and Hong Kong Financial Reporting Standards; and
- Prepare the financial statements on a going concern basis, unless it is not appropriate to make the presumption that the Group will continue in business.

The Directors are responsible for keeping proper accounting records that give a true and fair view of the state of the Company's affairs and explain its transactions.

The Directors are responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Under applicable laws and regulations, the Directors are also responsible for preparing a Report of the Directors and the Corporate Governance Report on pages 80 to 93 of this Annual Report.

The Directors confirm, to the best of their knowledge, that:

1. the consolidated financial statements of the Company, prepared in accordance with International Financial Reporting Standards and Hong Kong Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position, cash flows and results of the Company and its undertakings included in the consolidated financial statements taken as a whole; and
2. the section headed "Financial and Operating Review" included in this Annual Report presents a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties they face.

Board of Directors and Executive Committee



Mr. Edmund Sze-Wing Tse



Mr. Mark Edward Tucker



Mr. Jack Chak-Kwong So



Mr. Chung-Kong Chow



Dr. Qin Xiao



Mr. John Barrie Harrison



Mr. Barry Chun-Yuen Cheung



Mr. George Yong-Boon Yeo



Dr. Narongchai Akrasanee

NON-EXECUTIVE CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. Edmund Sze-Wing Tse

Aged 75, is the Non-executive Chairman and a Non-executive Director of the Company. He is also the Chairman of The Philippine American Life and General Insurance Company. Amongst Mr. Tse's appointments during more than 40 years with the Group, he served as Honorary Chairman of AIA Co. from July 2009 to December 2010, Chairman and Chief Executive Officer of AIA Co. from 2000 to June 2009 and its President and Chief Executive Officer from 1983 to 2000. Mr. Tse is a Non-executive Director of PCCW Limited and PICC Property and Casualty Company Limited. He has also been a Non-executive Director of PineBridge Investments Limited since May 2012. In recognition of his outstanding contributions to the development of Hong Kong's insurance industry, Mr. Tse was awarded the Gold Bauhinia Star by the HKSAR Government in 2001. Mr. Tse received an honorary fellowship and an honorary degree of Doctor of Social Sciences from The University of Hong Kong in 1998 and 2002 respectively. In 2003, Mr. Tse was elected to the prestigious Insurance Hall of Fame. Mr. Tse was appointed as a Non-executive Director of the Company on 27 September 2010 and Non-executive Chairman on 1 January 2011.

EXECUTIVE DIRECTOR

Mr. Mark Edward Tucker

Aged 55, is an Executive Director and the Group Chief Executive and President of the Company. For the period from 12 October 2010 to 31 December 2010, he served as Group Executive Chairman and Group Chief Executive Officer of the Company. Mr. Tucker joined the Group in July 2010 and is also Chairman of AIA Co. and AIA-B. He is responsible for the strategic direction and overall management and performance of the Group. In addition to his responsibilities with the Group, Mr. Tucker has been an Independent Director of The Goldman Sachs Group, Inc. since 5 November 2012. Prior to joining the Group, Mr. Tucker served as Group Chief Executive of Prudential plc from 2005 to 2009. Amongst the leadership positions that Mr. Tucker occupied during his time at Prudential, he was the founder and Chief Executive of Prudential Corporation Asia Limited from 1994 to 2003 and an Executive Director of Prudential plc from 1999 to 2003. During the period from 2004 to 2005, Mr. Tucker was Group Finance Director of HBOS plc. Mr. Tucker was a Non-executive Director of the Court of The Bank of England from June 2009 to May 2012, also serving as a member of its Financial Stability Committee and Audit and Risk Committee. Mr. Tucker qualified as a Chartered Accountant (ACA) in 1985.

Board of Directors and Executive Committee

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jack Chak-Kwong So

Aged 67, is an Independent Non-executive Director of the Company. From August 2007 to September 2010, Mr. So served as an Independent Non-executive Director of AIA Co., a wholly-owned subsidiary of the Company. He is currently an Independent Non-executive Director of Cathay Pacific Airways Limited and an independent Senior Advisor to Credit Suisse. Mr. So also served as an Executive Director of the Hong Kong Trade Development Council from 1985 to 1992 and was appointed as its Chairman in October 2007. He was also appointed by the HKSAR Government as the Chairman of the Film Development Council in 2007 and was awarded the Gold Bauhinia Star in 2011. He has been a member of the Chinese People's Political Consultative Conference since 2008 and is a member of the International Business Leader Advisory Council for the Mayor of Beijing. Mr. So was appointed as a Non-executive Director of the Company on 28 September 2010 and re-designated as an Independent Non-executive Director of the Company on 26 September 2012.

Mr. Chung-Kong Chow

Aged 62, is an Independent Non-executive Director of the Company. Mr. Chow is the Chairman of Hong Kong Exchanges and Clearing Limited. He has been an Independent Non-executive Director of Anglo American plc since 2008. Mr. Chow was Chief Executive Officer of MTR Corporation Limited, Hong Kong from 2003 to 2011 and Chief Executive Officer of Brambles Industries plc, a global support services company, from 2001 to 2003. From 1997 to 2001, Mr. Chow was the Chief Executive of GKN plc, a leading engineering company based in the United Kingdom. Mr. Chow has been appointed as a non-official member of the Executive Council of Hong Kong from 1 July 2012 and the Chairman of Advisory Committee on Corruption, Independent Commission Against Corruption from 1 January 2013. He is the Chairman of the Hong Kong General Chamber of Commerce. He has also been a Steward of The Hong Kong Jockey Club since March 2011. In 2000, Mr. Chow was knighted in the United Kingdom for his contribution to industry. Mr. Chow was appointed as an Independent Non-executive Director of the Company on 28 September 2010.

Dr. Qin Xiao

Aged 65, is an Independent Non-executive Director of the Company. Dr. Qin served as Chairman of China Merchants Bank Co., Ltd. from April 2001 to September 2010 and as Chairman of China Merchants Group Limited from December 2000 to August 2010; President of China International Trust and Investment Corporation (CITIC) from April 1995 to July 2000; Vice Chairman of CITIC from July 2000 to December 2001 and Chairman of CITIC Industrial Bank from 1998 to 2000. Dr. Qin has been appointed as Non-executive Chairman of Amex Resources Limited since April 2012. He has served as Independent Non-executive Director of HKR International Limited since 2009 and of China Telecom Corporation Limited and China World Trade Center Co., Ltd. since 2008 and 2010, respectively. He has been a member of Lafarge's International Advisory Board since 2007, Chairman of the Asia Business Council since 2009 and a member of the Financial Services Development Council since 17 January 2013. Dr. Qin was appointed as an Independent Non-executive Director of the Company on 28 September 2010.

Mr. John Barrie Harrison

Aged 56, is an Independent Non-executive Director of the Company. Mr. Harrison is currently an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited and an Independent Non-executive Director of The London Metal Exchange Limited. He is also an Independent Non-executive Director of BW Group Limited. He has been a member of the Asian Advisory Committee of AustralianSuper Pty Ltd since 30 June 2012. Mr. Harrison is a council member, standing committee member and honorary treasurer of The Hong Kong University of Science and Technology. From 2008 to 2010, he was Deputy Chairman, KPMG International. In 2003, Mr. Harrison was elected Chairman of KPMG, China and Hong Kong and Chairman of KPMG Asia Pacific. Mr. Harrison began his career with KPMG in London in 1977 and was made a partner of KPMG Hong Kong in 1987. Mr. Harrison is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Harrison was appointed as an Independent Non-executive Director of the Company on 1 July 2011.

Mr. Barry Chun-Yuen Cheung

Aged 55, is an Independent Non-executive Director of the Company. Mr. Cheung is currently a non-official member of the Executive Council of Hong Kong, Chairman of the Hong Kong Mercantile Exchange Limited, Chairman of the Urban Renewal Authority, and Chairman of the Standing Committee on Disciplined Services Salaries and Conditions of Service. He is a member of the Honours Committee, the Non-official Justices of the Peace Selection Committee and the Long Term Housing Strategy Steering Committee. He has served as an Independent Non-executive Director of UC RUSAL Plc since January 2010 and was elected as its Chairman from March 2012 to September 2012. He is also an Independent Non-executive Director of Gateway Energy & Resource Holdings, Ltd. From 1987 to 1994, Mr. Cheung was with McKinsey & Company, Inc. in Los Angeles and Hong Kong during which time he advised major financial institutions in the United States and Asia, and was seconded to the Hong Kong Government's Central Policy Unit as a full-time member. Mr. Cheung was appointed as an Independent Non-executive Director of the Company on 20 September 2012.

Mr. George Yong-Boon Yeo

Aged 58, is an Independent Non-executive Director of the Company. Mr. Yeo is currently the Vice-chairman of Kerry Group Limited and the Chairman of Kerry Logistics Network Limited. He is a member of the Foundation Board of the World Economic Forum and the Nicolas Berggruen Institute's 21st Century Council. In 2012 Mr. Yeo was presented with the Order of Sikatuna by the Philippines Government and the Padma Bhushan by the Indian Government, and became an Honorary Officer of the Order of Australia. From 1988 to 2011, Mr. Yeo was a Member of the Singapore Parliament and held various Cabinet positions, including Minister for Foreign Affairs, Minister for Trade and Industry, Minister for Health, Minister for Information and the Arts and Minister of State for Finance. From 1972 to 1988, Mr. Yeo served in the Singapore Armed Forces and attained the rank of Brigadier-General in 1988 when he was Director of Joint Operations and Planning in the Ministry of Defence. Mr. Yeo was appointed as an Independent Non-executive Director of the Company on 2 November 2012.

Dr. Narongchai Akrasanee

Aged 67, is an Independent Non-executive Director of the Company. Dr. Narongchai is a former Minister of Commerce for Thailand and Senator and has acted as adviser to several Thai Prime Ministers. He retired as Chairman of the Export-Import Bank of Thailand in June 2010. Dr. Narongchai also served as a Director of the Office of the Insurance Commission of Thailand during the period from October 2007 to August 2012. He is currently a Director of the National Economic and Social Development Board, Chairman of the Thailand National Committee for the Pacific Economic Cooperation Council and a member of the Monetary Policy Committee of the Bank of Thailand. Dr. Narongchai also acts as a director for certain entities listed on the Stock Exchange of Thailand, including acting as Chairman of MFC Asset Management Public Company Limited, Chairman of Ananda Development Public Company Limited, Vice Chairman and an independent director of Thai-German Products Public Company Limited and as an independent director of Malee Sampran Public Company Limited. He is also Chairman and an independent director of The Brooker Group Public Company Limited, which is listed on the Stock Exchange of Thailand's Market for Alternative Investment. Dr. Narongchai was appointed as an Independent Non-executive Director of the Company on 21 November 2012.

Board of Directors and Executive Committee



From left to right (back) : Ng Keng Hooi, Shulamite Khoo, Gordon Watson, William Lisle, Simeon Preston, Paul Groves, Huynh Thanh Phong
(front) : John Tai-Wo Chu, Mitchell New, Mark Edward Tucker, Garth Jones

EXECUTIVE COMMITTEE

Mr. Mark Edward Tucker

Mr. Tucker's biography is set out above.

Mr. Garth Jones

Aged 50, is the Group Chief Financial Officer, responsible for leading the Group in all aspects of finance and risk management as well as managing relationships with key external stakeholders, including regulators and rating agencies. He is also responsible for the Annual Business Planning and Budgeting process and the Group Corporate Transaction team which supports merger and acquisition activity across the Group. He joined the Group in April 2011. Prior to joining the Group, Mr. Jones was the Executive Vice President of CPIC Life, the life insurance arm of China Pacific Insurance (Group) Co., Ltd. (CPIC). He also held a number of senior management positions during 12 years with Prudential Corporation Asia Limited, including Chief Financial Officer of the Asian life insurance operations. Prior to joining Prudential, Mr. Jones led the development of reinsurer Swiss Re's Asia life business. Mr. Jones is a Fellow of the Institute of Actuaries in the United Kingdom.

Mr. Ng Keng Hooi

Aged 58, is the Regional Chief Executive responsible for the Group's businesses operating in Singapore, Brunei, Malaysia, China and Taiwan as well as Group product strategy. He is a

director of various companies within the Group including AIA Co. and AIA-B. He joined the Group in October 2010. Prior to joining the Group, Mr. Ng was Group Chief Executive Officer and Director of Great Eastern Holdings Limited from December 2008. Mr. Ng worked for Prudential plc from 1989 to 2008, serving as a Managing Director of Insurance of Prudential Corporation Asia Limited from 2005 to 2008 responsible for its operations in Malaysia, Singapore, Indonesia and the Philippines. He has been a Fellow of the Society of Actuaries (U.S.) since 1985.

Mr. Huynh Thanh Phong

Aged 46, is the Regional Chief Executive responsible for the Group's businesses operating in Thailand, Indonesia, Vietnam, India and Sri Lanka. He is a director of various companies within the Group including AIA Co. and AIA-B. He joined the Group in October 2010. Prior to joining the Group, Mr. Huynh was the Executive Vice President for Insurance of Fullerton Financial Holdings Pte. Ltd. in Singapore from 2009. Mr. Huynh worked for Prudential plc from 1996 to 2005, serving as the founding Chief Executive Officer of Prudential Vietnam Assurance Private Ltd. and as a Managing Director of Insurance of Prudential Corporation Asia Limited from 2005 to 2008 responsible for its operations in China, India, Vietnam, Thailand and the Middle East. Mr. Huynh is a qualified actuary and a Fellow of both the Society of Actuaries (U.S.) and the Canadian Institute of Actuaries.

Mr. Gordon Watson

Aged 49, is the Regional Chief Executive responsible for the Group's businesses operating in Hong Kong, Macau, Korea, the Philippines, Australia and New Zealand as well as the Group Corporate Solutions business and the Group's partnership distribution. He is a director of various companies within the Group including AIA Co. and AIA-B. Mr. Watson rejoined the Group in January 2011. He has worked in various parts of AIG (including within AIA) for over 27 years, during which time he served as Global Vice Chairman of ALICO and Chairman and Chief Executive Officer of ALICO Asia. He also served as Global Chief Operating Officer and as Chairman of ALICO Japan, driving the profitable growth of that major business. He is a Fellow of the Chartered Insurance Institute and Chartered Institute of Marketing.

Mr. John Tai-Wo Chu

Aged 73, is the Group Chief Investment Officer responsible for providing oversight to the management of the investment portfolios of the Group. He is a director of various companies within the Group. Mr. Chu joined the Group in June 1993 as Senior Vice President and Chief Investment Officer of AIA Co. Prior to joining the Group, Mr. Chu spent 19 years with Bank of America in various senior management positions, including Country Senior Credit Officer, Head of Corporate Banking in Hong Kong and Country Manager of Bank of America in China.

Mr. Simeon Preston

Aged 42, is the Group Chief Strategy and Operations Officer responsible at the Group level for business strategy development and execution, and since August 2012 also for the Group's technology and operations. He joined the Group in September 2010. Prior to joining the Group, Mr. Preston served as a senior partner in the financial services practice of global management consultants Bain & Company, where he specialised in the Asia life insurance sector. He previously spent almost nine years with consulting firm Marakon Associates and was named a partner in 2006.

Mr. William Lisle

Aged 47, is the Group Chief Agency Officer responsible for the Group Distribution function for Agency. He is also the Chief Executive Officer of AIA Malaysia and has been leading the integration of ING with the Group's business in Malaysia since the completion of the acquisition of ING Malaysia. He joined the Group in January 2011. Prior to joining the Group, Mr. Lisle was the Managing Director, South Asia of Aviva from May 2009 until 2010. Mr. Lisle also occupied a number of senior positions in Prudential Corporation Asia Limited,

including Chief Executive Officer in Malaysia (2008 to 2009) and Korea (2005 to 2008), Chief Agency Officer for ICICI Prudential from 2002 to 2004 and Director of Agency Development, South Asia in 2001.

Ms. Shulamite Khoo

Aged 51, is the Group Human Resources Director responsible for the development of human capital strategies and their implementation across the Group; as well as providing support to human resources functions within country operation. She is also responsible for the Group Corporate Security and Facility functions. She joined the Group in January 2011. Prior to joining the Group, Ms. Khoo was Group Executive Vice President, Global Head of Human Resources of the AXA Group, based in Paris. Prior to AXA, she was Regional Head of Human Resources for Prudential Corporation Asia Limited based in Hong Kong.

Mr. Paul Groves

Aged 50, is the Group Chief Marketing Officer responsible for Marketing and Communications at the Group level and in providing support on marketing issues for country operations. He joined the Group in January 2011. Prior to joining the Group, Mr. Groves served as Senior Vice President, Head of International Marketing & Direct to Consumer Channel of MetLife International (formerly ALICO). Mr. Groves also worked with GE Money where he served as Chief Marketing Officer for the United Kingdom and Ireland. Mr. Groves spent 27 years with Barclays and Barclaycard in the United Kingdom, serving latterly as Chief Marketing Officer of Barclaycard International.

Mr. Mitchell New

Aged 49, is the Group General Counsel, responsible for the provision of legal services and company secretarial services for the Group and providing support to legal and corporate governance functions within country operations. He joined the Group in April 2011. Prior to joining the Group, Mr. New occupied various senior roles with Manulife Financial where he was most recently Senior Vice President & Chief Legal Officer for Asia, based in Hong Kong and with responsibility for providing legal services to its operations in 10 countries in Asia. He also managed several strategic initiatives including Manulife's demutualisation in Asia, which led to the listing by Manulife of its shares on the stock exchanges of Hong Kong and the Philippines. In addition to the Asia division, he was also previously Senior Vice President and General Counsel to Manulife's Canadian division.

Report of the Directors

The Board is pleased to present this Annual Report and the audited consolidated financial statements of the Company for the year ended 30 November 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the provision of products and services to individuals and businesses for their insurance, protection, savings, investment and retirement needs.

Details of the activities and other particulars of the Company's principal subsidiaries are set out in note 42 to the financial statements.

RESULTS

The results of the Group for the year ended 30 November 2012 and the state of the Group's affairs at that date are set out in the financial statements on pages 105 to 210 of this Annual Report.

DIVIDEND

An interim dividend of 12.33 Hong Kong cents per share (2011: 11.00 Hong Kong cents per share) was paid on 31 August 2012. The Board has recommended a final dividend of 24.67 Hong Kong cents per share (2011: 22.00 Hong Kong cents per share) in respect of the year ended 30 November 2012. Together with the interim dividend already paid, this will result in a total dividend of 37.00 Hong Kong cents per share (2011: 33.00 Hong Kong cents per share) for the year ended 30 November 2012.

Under the Trust Deed of the Company's Restricted Share Unit Scheme (RSU Scheme), shares of the Company are held by the trustee in either of two trust funds. These shares are held against the future entitlements of scheme participants. Provided the shares of the Company are held by the trustee and no beneficial interest in those shares has been vested in any beneficiary, the trustee shall waive any right to dividend payments or other distributions in respect of those shares (unless the Company determines otherwise).

As of 31 August 2012 (being the payment date of the interim dividend), 52,831,920 shares were held by the trustee. The amount of interim dividend waived was US\$0.8 million. Pursuant to the Trust Deed, the trustee will waive the right to final dividend if it is declared.

Subject to shareholders' approval at the AGM, the final dividend will be payable on Thursday, 30 May 2013 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 15 May 2013.

DIRECTORS

The Directors of the Company during the year and up to the date of this Annual Report are as follows:

Non-executive Chairman and Non-executive Director

Mr. Edmund Sze-Wing Tse

Executive Director

Mr. Mark Edward Tucker
(Group Chief Executive and President)

Independent Non-executive Directors

Mr. Jack Chak-Kwong So ⁽¹⁾

Mr. Chung-Kong Chow ⁽²⁾

Dr. Qin Xiao

Mr. John Barrie Harrison ⁽²⁾

Mr. Barry Chun-Yuen Cheung

Mr. George Yong-Boon Yeo

Dr. Narongchai Akrasanee

Mr. Rafael Si-Yan Hui ⁽³⁾

Non-executive Directors

Mr. Jeffrey Joy Hurd ⁽³⁾

Mr. Jay Steven Wintrob ⁽³⁾

Notes:

- (1) Mr. So was appointed as Non-executive Director on 28 September 2010. Mr. So was re-elected as Non-executive Director by shareholders at the 2012 Annual General Meeting of the Company held on 8 May 2012. Mr. So was re-designated as Independent Non-executive Director with effect from 26 September 2012.
- (2) Mr. Chow and Mr. Harrison were appointed as Independent Non-executive Directors on 28 September 2010 and 1 July 2011 respectively. Mr. Chow and Mr. Harrison were re-elected as Independent Non-executive Directors by shareholders at the 2012 Annual General Meeting of the Company held on 8 May 2012.
- (3) Mr. Hui resigned as Independent Non-executive Director with effect from 29 March 2012. Mr. Hurd and Mr. Wintrob resigned as Non-executive Directors with effect from 8 March 2012.

During the year ended 30 November 2012, Mr. Barry Chun-Yuen Cheung, Mr. George Yong-Boon Yeo and Dr. Narongchai Akrasanee were appointed as Independent Non-executive Directors on 20 September 2012, 2 November 2012 and 21 November 2012 respectively. Mr. Cheung, Mr. Yeo and Dr. Narongchai will retire from office at the

forthcoming annual general meeting pursuant to Article 105 of the Company's Articles of Association and offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Dr. Qin Xiao and Mr. Mark Edward Tucker will retire from office by rotation at the forthcoming annual general meeting and offer themselves for re-election.

BIOGRAPHIES OF DIRECTORS AND MEMBERS OF THE EXECUTIVE COMMITTEE

Biographies of Directors and members of the Executive Committee are set out on pages 75 to 79 of this Annual Report.

SHARE CAPITAL

Details of movements in share capital of the Company are set out in note 33 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 30 November 2012, the following are the persons, other than the Directors or Chief Executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name of Shareholder	Number of shares		Class	Percentage of the total number of shares in issue		Capacity
	Long Position (L) Short Position (S) Lending Pool (P)			Long Position (L) Short Position (S) Lending Pool (P)		
American International Group, Inc.	1,648,903,201(L)		Ordinary	13.69(L)		(Note 1)
Citigroup Inc.	1,083,128,432(L)		Ordinary	8.99(L)		(Note 2)
	6,083,940(S)			0.05(S)		
	3,703,592(P)			0.03(P)		
Citigroup Financial Products Inc.	1,074,197,000(L)		Ordinary	8.92(L)		(Note 3)
	856,100(S)			0.01(S)		
Citigroup Global Markets Holdings Inc.	1,074,197,000(L)		Ordinary	8.92(L)		(Note 3)
	856,100(S)			0.01(S)		
Citigroup Global Markets (International) Finance AG	1,074,077,000(L)		Ordinary	8.92(L)		(Note 4)
	856,100(S)			0.01(S)		
Citigroup Global Markets Asia Limited	1,054,334,400(L)		Ordinary	8.75(L)		Interest of controlled corporation
Citigroup Global Markets Hong Kong Holdings Limited	1,054,334,400(L)		Ordinary	8.75(L)		Interest of controlled corporation
Citigroup Global Markets Overseas Finance Limited	1,054,334,400(L)		Ordinary	8.75(L)		Interest of controlled corporation
JPMorgan Chase & Co.	845,472,036(L)		Ordinary	7.02(L)		(Note 5)
	45,198,143(S)			0.38(S)		
	548,173,853(P)			4.55(P)		
The Capital Group Companies, Inc.	753,388,416(L)		Ordinary	6.26(L)		Interest of controlled corporation
BlackRock, Inc.	618,991,718(L)		Ordinary	5.13(L)		Interest of controlled corporation
	48,158,356(S)			0.40(S)		

Notes:

(1) American International Group, Inc. is a beneficial owner of 1,529,754,951 shares. 119,148,250 shares were held by a company controlled by American International Group, Inc. It has fully divested its entire holding of shares in the Company on 20 December 2012.

(2) The interests held by Citigroup Inc. were held in the following capacities:

Capacity	Number of shares (Long position)	Number of shares (Short position)
Interests held jointly with another person	1,054,334,400	–
Interests of controlled corporation	10,009,240	6,083,940
Custodian corporation / approved lending agent	3,703,592	–
Security interest in shares	15,081,200	–

(3) The interests held by each of Citigroup Financial Products Inc. and Citigroup Global Markets Holdings Inc. were held in the following capacities:

Capacity	Number of shares (Long position)	Number of shares (Short position)
Interest of controlled corporation	1,059,115,800	856,100
Security interest in shares	15,081,200	–

(4) The interests held by Citigroup Global Markets (International) Finance AG were held in the following capacities:

Capacity	Number of shares (Long position)	Number of shares (Short position)
Interest of controlled corporation	1,058,995,800	856,100
Security interest in shares	15,081,200	–

(5) The interests held by JPMorgan Chase & Co. were held in the following capacities:

Capacity	Number of shares (Long position)	Number of shares (Short position)
Beneficial owner	61,696,440	45,198,143
Investment manager	235,601,743	–
Custodian corporation / approved lending agent	548,173,853	–

Save as disclosed above, as at 30 November 2012, no person, other than the Directors and Chief Executive of the Company, whose interests are set out in the section “Directors’ and Chief Executive’s Interests and Short Positions in Shares and Underlying Shares” below, was recorded to hold any interests or short positions in the shares or underlying shares of the Company in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 30 November 2012, the Directors’ and Chief Executive’s interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code, are as follows:

(i) Interests and short positions in the shares and underlying shares of the Company:

Name of Director	Number of shares	Class	Percentage of the total number of shares in issue	Capacity
Mr. Mark Edward Tucker	11,838,218(L)	Ordinary	0.10	Beneficial owner
Mr. Edmund Sze-Wing Tse	3,560,400(L)	Ordinary	0.03	Interest of controlled corporation
Mr. Chung-Kong Chow	86,000(L)	Ordinary	< 0.01	Beneficial owner

(ii) Interests and short positions in the shares and underlying shares of associated corporations:

Name of Director	Associated Corporation	Number of shares	Class	Percentage of the total number of shares in issue	Capacity
Mr. Edmund Sze-Wing Tse	Philam Life	1(L)	Ordinary	< 0.01	Trustee

Save as disclosed above, as at 30 November 2012, none of the Directors and Chief Executive of the Company holds any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under his service contract, Mr. Mark Edward Tucker (by virtue of his role as Group Chief Executive and President) is entitled to an annual discretionary earned incentive award, which includes payment in the form of shares of the Company. Details of Mr. Tucker's incentive award are set out in the Remuneration Report.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party, and in which any Director of the Company had a material interest, subsisted at 30 November 2012 or at any time during the year.

PROPERTY, PLANT AND EQUIPMENT

Details of acquisitions and other movements in property, plant and equipment are set out in note 15 to the financial statements.

RESERVES

As at 30 November 2012, the aggregate amount of reserves available for distribution to shareholders of the Company, as calculated under the provision Section 79B of the Companies Ordinance (Laws of Hong Kong, Chapter 32), was US\$1,303 million (2011: US\$593 million).

Details of the movements in the reserves of the Group for the year ended 30 November 2012 are set out in the Consolidated Statement of Changes in Equity on page 110 of this Annual Report.

BANK LOANS AND OTHER BORROWINGS

Bank loans and other borrowings of the Group as at 30 November 2012 amounted to US\$766 million (2011: US\$559 million). Particulars of the borrowings are set out in note 28 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to US\$1 million (2011: US\$1 million).

SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the Company's principal subsidiaries and associated companies as at 30 November 2012 are set out in note 42 and note 14 to the financial statements respectively.

CHANGES IN EQUITY

Details of changes in equity of the Group during the year ended 30 November 2012 are set out in the Consolidated Statement of Changes in Equity on page 110 of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 30 November 2012, the percentage of the aggregate purchases attributable to the Group's five largest suppliers was less than 30% of the Group's total value of purchases and the percentage of the aggregate sales attributable to the Group's five largest customers was less than 30% of the Group's total value of sales.

Report of the Directors

RETIREMENT SCHEMES

The Group operates a number of defined benefit plans and defined contribution plans. Particulars of these plans are set out in note 37 to the financial statements.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events after the year ended 30 November 2012 are set out in note 43 to the financial statements.

SHARE-BASED INCENTIVE SCHEMES

Restricted Share Unit Scheme

During the year ended 30 November 2012, 22,348,056 restricted share units were awarded by the Company under the Restricted Share Unit Scheme adopted by the Company on 28 September 2010. Details of the awards are set out in the Remuneration Report.

Share Option Scheme

During the year ended 30 November 2012, 7,816,367 share options were awarded by the Company under the Share Option Scheme adopted by the Company on 28 September 2010. Details of the awards are set out in the Remuneration Report.

NON-EXEMPT CONNECTED TRANSACTIONS

During the year ended 30 November 2012, the Group had not entered into any connected transactions which are not exempt under either Rule 14A.31 or Rule 14A.33 of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group during the year in the ordinary course of business are set out in note 40 to the financial statements. Such related party transactions are all exempt connected transactions.

PURCHASE, SALE AND REDEMPTION OF THE SECURITIES OF THE COMPANY

Save for the purchase of 23,504,675 shares of the Company under the Restricted Share Unit Scheme and the Employee Share Purchase Plan at a total consideration of approximately US\$84 million, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 30 November 2012. These

purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled. Please refer to note 38 to the financial statements for details.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as approved by the Hong Kong Stock Exchange and as permitted under the Listing Rules as at the date of this Annual Report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Details of the compliance by the Company with the Corporate Governance Code are set out in the Corporate Governance Report on page 85 of this Annual Report.

MODEL CODE

Details of the compliance by the Company with the Model Code are set out in the Corporate Governance Report on page 85 of this Annual Report.

AUDITOR

PricewaterhouseCoopers was re-appointed as auditor of the Company in 2012.

PricewaterhouseCoopers will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board



Edmund Sze-Wing Tse

Non-executive Chairman

27 February 2013

Corporate Governance Report

CORE PRINCIPLES

The Board believes that strong corporate governance is essential for delivering sustainable value, enhancing a culture of business integrity and maintaining investor confidence. The Board is ultimately responsible for the sustainable performance of the Group, including the consistent achievement of business plans and compliance with statutory as well as corporate obligations. The Board is also responsible for the development and implementation of the Group's corporate governance practices. This Corporate Governance Report explains the Company's corporate governance principles and practices, including how the Board manages the business to deliver long-term shareholder value and to promote the development of the Group.

As a company listed on the Main Board of the Hong Kong Stock Exchange, the Company is committed to high standards of corporate governance and sees the maintenance of good corporate governance practices as essential to its sustainable growth. To promote effective governance across all of its operations, the Board has approved a governance framework, which maps out the internal approval processes and those matters which may be delegated. It is vital that Board members, in aggregate, have their requisite skills and expertise supported by a structure that enables delegation, where appropriate, between the Board, its committees and management, whilst ensuring that the Board retains overall control.

Throughout the year ended 30 November 2012, the Company complied with all the applicable code provisions set out in the Corporate Governance Code save as disclosed below:

- (i) Code Provision A.4.1 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, who resigned as Non-executive Directors of the Company with effect from 8 March 2012, were not appointed for a specific term but were subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company. Subsequent to the resignation of Mr. Hurd and Mr. Wintrob, the Company has been in compliance with Code Provision A.4.1.

- (ii) Code Provision A.5.1 provides that the Nomination Committee should comprise a majority of independent non-executive directors. As a result of the resignation of Mr. Rafael Si-Yan Hui on 29 March 2012 as Independent Non-executive Director of the Company and therefore as a member of the Nomination Committee, the then Nomination Committee comprised four members: two Independent Non-executive Directors (Mr. Chung-Kong Chow and Dr. Qin Xiao) and two Non-executive Directors (Mr. Jack Chak-Kwong So and Mr. Edmund Sze-Wing Tse). Following the re-designation of Mr. So as Independent Non-executive Director on 26 September 2012, the Company has been in compliance with Code Provision A.5.1.
- (iii) Code Provision A.6.7 provides that independent non-executive directors should attend general meetings of the company. Due to an unexpected business engagement external to the Company, Dr. Qin Xiao was unable to attend the 2012 Annual General Meeting of the Company held on 8 May 2012.
- (iv) Code Provision F.1.3 provides that the company secretary should report to the chairman of the board and/or the chief executive. The Company operates under a variant of this model whereby the Company Secretary reports to the Group General Counsel who is ultimately accountable for the Company Secretarial function and who in turn reports directly to the Group Chief Executive.

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 of the Directors confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code and the Directors' and Chief Executives' Dealing Policy throughout the year ended 30 November 2012.

BOARD OF DIRECTORS

Roles and Responsibilities

The Board is accountable to shareholders for the affairs of the Company. It meets these obligations by ensuring the maintenance of high standards of governance in all aspects of the Company's business, setting the strategic direction for the Group and maintaining appropriate levels of review, challenge and guidance to management. It is also the ultimate decision-making body for all matters considered material to the Group

Corporate Governance Report

and is responsible for ensuring that, as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively.

The Board is therefore responsible for the sustainable performance of the Group, including the consistent achievement of business plans. The Board is also responsible for the implementation of the Group's corporate governance practices and compliance with statutory as well as corporate obligations. During the year ended 30 November 2012, the Board conducted a review of the Group's corporate governance framework and updated the Board Charter and terms of reference of the Board Committees by reference to the latest amendments to the Listing Rules and reviewed the Corporate Governance Report included in the 2011 Annual Report of the Company.

In these matters, the Board provides leadership to the Company through the Group Chief Executive, who is authorised to act on behalf of the Board in the executive management of the Company. Any responsibilities not so delegated by the Board to the Group Chief Executive remain the responsibility of the Board.

Board Composition

As of the end of the financial period, the Board consists of nine members, comprising one Executive Director and eight Non-executive Directors, seven of whom are Independent Non-executive Directors. All Directors are expressly identified by reference to such categories in all corporate communications that disclose their names. The composition of the Board is well balanced with each Director having sound experience and expertise relevant to the business operations and development of the Group. Biographies of the Directors are set out on pages 75 to 77 of this Annual Report.

Board Independence

Each of the Independent Non-executive Directors of the Company meets the independence guidelines set out in Rule 3.13 of the Listing Rules and has provided to the Company the requisite annual confirmation as to his independence. None of the Independent Non-executive Directors of the Company has any business or significant financial interests with the Company or its subsidiaries and therefore all the Independent Non-executive Directors continue to be considered by the Company to be independent.

No Director has any family relationship with another Director.

Board Meetings

During the period under review, there were seven scheduled Board meetings, all of which were convened in accordance with the Articles of Association of the Company and attended by the Directors either in person or through electronic means of communication.

The attendance records of individual Directors are as follows:

Name of Director	No. of Board Meetings Attended / Eligible to Attend
Non-executive Chairman and Non-executive Director	
Mr. Edmund Sze-Wing Tse	7/7
Executive Director	
Mr. Mark Edward Tucker	7/7
Independent Non-executive Directors	
Mr. Jack Chak-Kwong So	7/7
Mr. Chung-Kong Chow	7/7
Dr. Qin Xiao	5/7
Mr. John Barrie Harrison	7/7
Mr. Barry Chun-Yuen Cheung ⁽¹⁾	1/1
Mr. George Yong-Boon Yeo ⁽¹⁾	1/1
Dr. Narongchai Akrasanee ⁽²⁾	n/a
Mr. Rafael Si-Yan Hui ⁽³⁾	1/1
Non-executive Directors	
Mr. Jeffrey Joy Hurd ⁽³⁾	1/1
Mr. Jay Steven Wintrob ⁽³⁾	1/1

Notes:

- (1) Mr. Cheung and Mr. Yeo were appointed as Independent Non-executive Directors of the Company on 20 September 2012 and 2 November 2012 respectively. They have attended the sole Board meeting held during the period from their respective date of appointment to 30 November 2012.
- (2) Dr. Narongchai was appointed as Independent Non-executive Director of the Company on 21 November 2012. No Board meeting was held during the period from the date of his appointment to 30 November 2012.
- (3) Mr. Hurd and Mr. Wintrob resigned as Non-executive Directors of the Company with effect from 8 March 2012 and Mr. Hui resigned as Independent Non-executive Director of the Company with effect from 29 March 2012. They each attended the sole Board meeting held during the period from December 2011 to the date of their respective resignations.

Board Process

Board meetings will be held at least four times a year to determine overall strategies, receive management updates, approve business plans as well as interim and annual results and to consider other significant matters. During the year ended 30 November 2012, the Board has engaged an independent consultant to conduct an evaluation of the Board's performance.

Minutes of the meetings of the Board and all committees are kept by the Company Secretary. Such minutes are open for inspection on reasonable notice by any Director.

Chairman and Group Chief Executive

Mr. Edmund Sze-Wing Tse, Non-executive Chairman of the Company, plays the critical role of leading the Board in its responsibilities. With the support of the Group Chief Executive and President and senior management, Mr. Tse seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate and reliable information in a timely manner. He is also responsible for making sure that good corporate governance practices and procedures are followed.

Mr. Mark Edward Tucker, Group Chief Executive and President of the Company, reports to the Board and is responsible for the overall leadership, strategic and executive management and profit performance of the Group, including all day-to-day operations and administration. Mr. Tucker discharges his responsibilities within the framework of the Company's policies, reserved powers and routine reporting requirements and is advised and assisted by the Executive Committee of the Group.

Appointment of Directors

The Company uses a formal and transparent procedure for the appointment of new Directors. Recommendations for the appointment of new Directors are received by the Board from the Nomination Committee. The Board then deliberates over such recommendations prior to approval.

Save for Mr. Jeffrey Joy Hurd and Mr. Jay Steven Wintrob who resigned as Non-executive Directors during the period under review, the other Non-executive Director and all the Independent Non-executive Directors of the Company were appointed for a specific term, subject to re-nomination and re-election when appropriate in a general meeting in

accordance with the Articles of Association of the Company. The terms of appointment of the Non-executive Directors and Independent Non-executive Directors are as follows:

Name of Director	Term of Appointment
Non-executive Chairman and Non-executive Director	
Mr. Edmund Sze-Wing Tse	(Note 1)
Independent Non-executive Directors	
Mr. Jack Chak-Kwong So	3 years (Note 2)
Mr. Chung-Kong Chow	3 years (Note 3)
Dr. Qin Xiao	3 years (Note 3)
Mr. John Barrie Harrison	(Note 4)
Mr. Barry Chun-Yuen Cheung	3 years (Note 5)
Mr. George Yong-Boon Yeo	3 years (Note 6)
Dr. Narongchai Akrasanee	3 years (Note 7)
Mr. Rafael Si-Yan Hui	(Note 8)
Non-executive Directors	
Mr. Jeffrey Joy Hurd	(Note 8)
Mr. Jay Steven Wintrob	(Note 8)

Notes:

- (1) Mr. Tse was appointed as Non-executive Director for a term of three years from 27 September 2010. Mr. Tse was elected as Non-executive Chairman for a term of two years from 1 January 2011 and has been re-elected for a further term of two years from 1 January 2013.
- (2) Mr. So was appointed as Non-executive Director on 28 September 2010 for a term of three years. Mr. So was re-designated as Independent Non-executive Director on 26 September 2012. Subject to any renewal, Mr. So's service contract expires on 27 September 2013.
- (3) Mr. Chow and Dr. Qin were appointed as Independent Non-executive Directors for a term of three years from 28 September 2010 to 27 September 2013.
- (4) Mr. Harrison was appointed as Independent Non-executive Director for a period from 1 July 2011 to 27 September 2013.
- (5) Mr. Cheung was appointed as Independent Non-executive Director for a term of three years from 20 September 2012 to 19 September 2015.
- (6) Mr. Yeo was appointed as Independent Non-executive Director for a term of three years from 2 November 2012 to 1 November 2015.
- (7) Dr. Narongchai was appointed as Independent Non-executive Director for a term of three years from 21 November 2012 to 20 November 2015.
- (8) Mr. Hurd and Mr. Wintrob resigned as Non-executive Directors of the Company with effect from 8 March 2012 and Mr. Hui resigned as Independent Non-executive Director of the Company with effect from 29 March 2012.

Corporate Governance Report

Induction and Ongoing Development

The Company provides each Director with personalised induction, training and development. On appointment, each Director receives a comprehensive and tailored induction covering, amongst other things, the principal basis of accounting for the Group's results, the role of the Board and its key committees, and the ambit of the internal audit and risk management functions.

Each Director receives detailed briefings on the Group's principal businesses, the markets in which it operates and the overall competitive environment. Other areas addressed include legal and compliance issues affecting directors of financial services companies, the Group's governance arrangements, its investor relations programme and its remuneration policies. The Directors are continually updated

on the Group's business and the latest developments to the Listing Rules and other applicable statutory requirements to ensure compliance and continuous good corporate governance practice. During the period under review, the Company provided an update on the new amendments to the Corporate Governance Code and associated Listing Rules and a briefing on the new Hong Kong Competition Law for the Directors. A Board Strategy Day was also held for the Directors to review the strategies of the Group.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All Directors provided their training records during the year to the Company. The training received by the Directors during the period under review since 1 April 2012 is summarised as follows:

Name of Director	Types of Training		
	Reading regulatory updates	Attending / hosting briefings / seminars / conferences relevant to regulatory updates / corporate governance	Attending corporate events / briefings relevant to the Group's business
Non-executive Chairman and Non-executive Director			
Mr. Edmund Sze-Wing Tse	√	√	√
Executive Director, Group Chief Executive and President			
Mr. Mark Edward Tucker	√	√	√
Independent Non-executive Directors			
Mr. Jack Chak-Kwong So	√	√	√
Mr. Chung-Kong Chow	√	√	√
Dr. Qin Xiao	√	√	√
Mr. John Barrie Harrison	√	√	√
Mr. Barry Chun-Yuen Cheung	–	√	–
Mr. George Yong-Boon Yeo	–	√	–
Dr. Narongchai Akrasanee ^(Note)	–	–	–

Note:

Dr. Narongchai was appointed as Independent Non-executive Director of the Company on 21 November 2012 and did not participate in any professional training during the 10-day period from his appointment to 30 November 2012.

COMMITTEES OF THE BOARD

The Company's corporate governance is implemented through a structured hierarchy, which includes the Board of Directors and four committees of the Board established by resolutions of the Board, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee. In addition, the Group Chief Executive has established a number of management committees including, among others, an Executive Committee and Financial and Operational Risk Committees.

Subsequent to the appointment of Mr. Cheung, Mr. Yeo and Dr. Narongchai to the Board and the re-designation of Mr. So as Independent Non-executive Director, the Board reviewed and restructured the composition of the committees of the Board to enhance efficiency and to take advantage of the range of experience of the Board members during the period under review. Further details of the roles and functions and the composition of the committees of the Board are set out below.

Audit Committee

The Audit Committee consists of five members. This includes four Independent Non-executive Directors: Mr. Harrison, who serves as chairman of the Committee, Mr. So, Mr. Cheung and Mr. Yeo as well as the Non-executive Director, Mr. Tse who became a member on 25 February 2013. Dr. Qin was a member of the Audit Committee until 24 February 2013. Mr. Hui was also a member of the Audit Committee until the date of his resignation. The primary duties performed by the Audit Committee during the year included the oversight of the Group's financial reporting system and internal control procedures, monitoring the integrity of preparation of the Company's financial information including interim and annual results of the Group, providing oversight for and management of the relationship with the Group's external auditor, including reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, reviewing the Group's financial and accounting policies and practices, reviewing whistle-blowing arrangements and providing oversight of the internal audit process carried out by the internal audit department of the Group.

Four meetings were held by the Audit Committee during the year ended 30 November 2012. The attendance records of Audit Committee members are as follows:

Name of Audit Committee Member	No. of Meetings Attended / Eligible to Attend
Mr. John Barrie Harrison (Chairman)	4/4
Mr. Jack Chak-Kwong So ⁽¹⁾	4/4
Dr. Qin Xiao	4/4
Mr. Barry Chun-Yuen Cheung ⁽²⁾	n/a
Mr. George Yong-Boon Yeo ⁽²⁾	n/a
Mr. Rafael Si-Yan Hui ⁽³⁾	1/1

Notes:

- (1) Mr. So was re-designated as Independent Non-executive Director with effect from 26 September 2012.
- (2) Mr. Cheung and Mr. Yeo were appointed as members of the Audit Committee on 9 November 2012. No meeting of the Committee was held during November 2012.
- (3) Mr. Hui ceased to be a member of the Audit Committee as a result of his resignation as Independent Non-executive Director of the Company with effect from 29 March 2012.

Nomination Committee

The Nomination Committee consists of eight members. This includes the Non-executive Chairman, Mr. Tse, chairman of the Committee since 9 November 2012, and seven Independent Non-executive Directors: Mr. Chow, who served as chairman of the Committee until 8 November 2012, Mr. So, Dr. Qin, Mr. Harrison, Mr. Cheung, Mr. Yeo and Dr. Narongchai. Mr. Hui was also a member of the Committee until the date of his resignation. The primary duties of the Nomination Committee are to make recommendations to the Board on the structure, size and composition of the Board, the selection of new directors, succession planning for directors and determining the membership of Board committees.

The Committee's processes and criteria for selection and recommendation of Board members are designed to satisfy high standards of corporate governance. These processes meet or exceed the Hong Kong Stock Exchange requirement to ensure that every director of the Company has the requisite character, experience and integrity and is able to demonstrate a standard of competence, commensurate with his position as a director of a listed issuer, and where the nomination of Independent Non-executive Directors is under consideration that the requirements of Rule 3.13 of the Listing Rules are satisfied.

Corporate Governance Report

One meeting was held by the Nomination Committee during the year ended 30 November 2012. The attendance records of the Nomination Committee members are as follows:

Name of Nomination Committee Member	No. of Meetings Attended / Eligible to Attend
Mr. Edmund Sze-Wing Tse (Chairman) ⁽¹⁾	1/1
Mr. Chung-Kong Chow ⁽¹⁾	1/1
Mr. Jack Chak-Kwong So ⁽²⁾	1/1
Dr. Qin Xiao	0/1
Mr. John Barrie Harrison ⁽³⁾	n/a
Mr. Barry Chun-Yuen Cheung ⁽³⁾	n/a
Mr. George Yong-Boon Yeo ⁽³⁾	n/a
Dr. Narongchai Akrasanee ⁽³⁾	n/a
Mr. Rafael Si-Yan Hui ⁽⁴⁾	1/1

Notes:

- (1) Mr. Tse was appointed as Chairman of the Nomination Committee in place of Mr. Chow on 9 November 2012.
- (2) Mr. So was re-designated as Independent Non-executive Director with effect from 26 September 2012.
- (3) Mr. Harrison, Mr. Cheung and Mr. Yeo were each appointed to the Nomination Committee on 9 November 2012 and Dr. Narongchai was appointed a member of the Nomination Committee on 21 November 2012. No meeting was held by the Committee during November 2012.
- (4) Mr. Hui ceased to be a member of the Nomination Committee as a result of his resignation as a director of the Company with effect from 29 March 2012.

Remuneration Committee

The Remuneration Committee consists of four members. This includes three Independent Non-executive Directors: Mr. So, appointed chairman of the Committee on 9 November 2012, Dr. Qin and Mr. Cheung. The lone Executive Director, Mr. Tucker, rounds out the Committee's membership. Mr. Chow was a member and Dr. Qin acted as chairman of the Committee until 8 November 2012. Mr. Hui was also the Chairman and a member of the Committee until the date of his resignation. The primary duties of the Remuneration Committee are to evaluate and make recommendations to the Board on the remuneration policy covering the Directors and senior management of the Group. Mr. Tucker is not present at or involved in discussion of his own remuneration.

Four meetings were held by the Remuneration Committee during the year ended 30 November 2012. Details of the attendance records and key activities performed by the Remuneration Committee during the year have been set out in the Remuneration Report, which forms part of this Corporate Governance Report.

Risk Committee

The Risk Committee consists of five members. Three of the members are Independent Non-executive Directors including the Committee chairman Mr. Chow, Mr. Harrison and Dr. Narongchai. Also included on the Risk Committee are Non-executive Director, Mr. Tse; and Executive Director, Mr. Tucker. Mr. So and Dr. Qin were members of the Risk Committee until 8 November 2012. The primary duties performed by the Risk Committee during the year included provision of advice to the Board on the risk profile and risk management strategy of the Group, considering, reviewing and approving risk management policies and guidelines, deciding on risk levels and considering, among other things, the Company's risk governance structure and major risks, including capital adequacy, asset-liability management and operational risks.

During the year ended 30 November 2012, four meetings were held by the Risk Committee. The attendance records of the Risk Committee members are as follows:

Name of Risk Committee Member	No. of Meetings Attended / Eligible to Attend
Mr. Chung-Kong Chow (Chairman)	4/4
Mr. John Barrie Harrison	4/4
Dr. Narongchai Akrasanee ⁽¹⁾	n/a
Mr. Edmund Sze-Wing Tse	4/4
Mr. Mark Edward Tucker	4/4
Mr. Jack Chak-Kwong So ⁽²⁾	4/4
Dr. Qin Xiao ⁽²⁾	4/4

Notes:

- (1) Dr. Narongchai was appointed as a member of the Risk Committee on 21 November 2012. No meeting was held by the Committee during November 2012.
- (2) Mr. So and Dr. Qin ceased to be members of the Risk Committee on 9 November 2012.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Level and Make-Up of Remuneration and Disclosure

The Company has established a Remuneration Committee with written terms of reference. Further information regarding the Remuneration Committee is set out in the Remuneration Report. In particular, the Remuneration Committee is delegated with the specific task of ensuring that no Director or any of his associates is involved in deciding his own remuneration.

A description of the remuneration policy and long-term incentive schemes of the Group, as well as the basis of determining the remuneration payable to the Directors, has been set out in the Remuneration Report, which forms part of this Corporate Governance Report.

AUDITOR'S REMUNERATION

The external auditor of the Company is PricewaterhouseCoopers. For the year ended 30 November 2012, the total remuneration paid by the Company to PricewaterhouseCoopers was approximately US\$14.3 million (2011: US\$11.0 million), an analysis of which is set out below:

US\$ millions	2012	2011
Audit services	10.0	10.0
Non-audit services	4.3	1.0
Total	14.3	11.0

The Audit Committee is responsible for making recommendations to the Board as to the appointment, re-appointment and removal of the external auditor, which is subject to the approval by the Board and at the general meetings of the Company by its shareholders. In assessing the external auditor, the Audit Committee will take into account audit performance, objectivity and independence of the auditor.

ACCOUNTABILITY AND AUDIT

Financial Report

The annual results of the Company and other financial information were published in accordance with the requirements of the Listing Rules and other applicable regulations and industry best practice. When preparing the Company's financial reports, the Board of Directors had in mind the shareholders of the Company as the recipient and end user and endeavoured to present such information in a comprehensible, informative and user-friendly manner.

The Directors acknowledge their responsibility for preparing the Company's consolidated financial statements and ensuring that the preparation of the Company's consolidated financial statements is in accordance with the relevant requirements and applicable standards.

The statement of the Company's auditor concerning its reporting responsibilities on the Company's consolidated financial statements is set out in the Independent Auditor's Report on pages 105 and 106 of this Annual Report.

Internal Control

Throughout this Corporate Governance Report, the Board of Directors seeks to set out the Company's corporate governance structure and policies, inform shareholders of the corporate governance undertakings of the Company and demonstrate to shareholders the value of such practices.

The Board of Directors has, through the Audit Committee, reviewed and is generally satisfied with the effectiveness of the Group's internal control system, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function.

Corporate Governance Report

COMMUNICATIONS WITH SHAREHOLDERS

The Board recognises the importance of communication and undertakes to maintain an ongoing dialogue with the shareholders of the Company through general meetings, releases, announcements and corporate communications such as annual report, interim report and circular. The Board is committed to the timely disclosure of information. The latest information regarding the Group's activities, announcements, results presentation, webcasts and corporate communications are made available on the Company's website at www.aia.com in a timely manner. The financial calendar highlighting the key dates for shareholders are set out on page 234 of this Annual Report.

The Board welcomes views, questions and concerns from shareholders and stakeholders. Shareholders and stakeholders may at any time send their enquiries and concerns to the Board. The contact details are set out on pages 235 to 236 of this Annual Report.

2012 Annual General Meeting

The most recent general meeting of the Company was the 2012 Annual General Meeting of the Company (2012 AGM) held at The Grand Ballroom, Kowloon Shangri-La, Hong Kong, 64 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on 8 May 2012 at 11:00 a.m. Except for Dr. Qin who was unable to attend the 2012 AGM due to an unexpected business engagement external to the Company, the Chairman and all other members of the Board of Directors, together with the senior management and external auditor, attended the 2012 AGM. The major items resolved at the 2012 AGM are set out below:

- Received the audited consolidated financial statements of the Company, Report of the Directors and the Independent Auditor's Report for the year ended 30 November 2011;
- Declaration of a final dividend of 22 Hong Kong cents per share for the year ended 30 November 2011;

- Re-election of Mr. So as Non-executive Director and Mr. Chow and Mr. Harrison as Independent Non-executive Directors;
- General mandate to Directors to cause the Company to issue additional shares of the Company, not exceeding 10 per cent of the issued share capital of the Company at the date of the 2012 AGM and the discount for any shares to be issued shall not exceed 15% to the benchmarked price;
- General mandate to Directors to cause the Company to repurchase shares of the Company, not exceeding 10 per cent of the issued share capital of the Company at the date of the 2012 AGM; and
- General mandate to Directors to cause the Company to issue additional shares of the Company, not exceeding 2.5 per cent of the issued share capital of the Company at the date of the 2012 AGM under the restricted share unit scheme.

All resolutions put to shareholders were passed at the 2012 AGM and the poll voting results are available on the website of the Company.

The forthcoming annual general meeting of the Company will be held on Friday, 10 May 2013. Further details will be set out in the circular to the shareholders of the Company to be sent together with this Annual Report.

SHAREHOLDERS' RIGHTS

Extraordinary General Meeting

Shareholder(s) holding not less than one-twentieth of the paid-up capital of the Company can make a written request to convene an extraordinary general meeting pursuant to Section 113 of the Hong Kong Companies Ordinance. The written request must state the objects of the meeting, and must be signed by the relevant shareholder(s) and may consist of several documents in like form, each signed by one or more of those shareholder(s). Such written request must be deposited at the registered office of the Company at 35/F, AIA Central, No. 1 Connaught Road Central, Hong Kong for the attention of the Company Secretary.

If the Directors do not within 21 days from the date of deposit of the written request proceed duly to convene a meeting for a day not more than 28 days after the date on which the notice convening the meeting is given, the relevant shareholder(s), or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Moving a Resolution at Annual General Meeting

Shareholder(s) can deposit a written request to move a resolution at an annual general meeting pursuant to Section 115A of the Hong Kong Companies Ordinance. The shareholder(s) necessary for a requisition shall be:

- (a) Representing not less than one-fortieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the annual general meeting; or
- (b) Not less than 50 members holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK\$2,000.

The written request must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the annual general meeting and signed by all the relevant shareholder(s). Such written request must be deposited at the registered office of the Company at 35/F, AIA Central, No. 1 Connaught Road Central, Hong Kong for the attention of the Company Secretary, in case of a requisition requiring notice of a resolution, not less than six weeks before the meeting and in case of any other requisition, not less than one week before the meeting with a sum reasonably sufficient to meet the Company's expenses in serving the notice of the proposed resolution and circulating the statement to all shareholders as required by the applicable laws and rules.

Proposing a Person for Election as A Director

Shareholders can propose a person (other than a retiring Director or himself/herself) for election as a director at a general meeting of the Company. Relevant procedures are available on the Company's website at www.aia.com.

CONSTITUTIONAL DOCUMENTS

During the year, amendments to the Articles of Association of the Company for the removal of the exemption of voting by a director on a board resolution in which he or his associates has an interest of less than 5% were approved by the shareholders at the 2012 AGM. Details of the amendments were set out in the 2012 AGM notice to the shareholders dated 23 March 2012. An updated version of the Memorandum and Articles of Association of the Company is available on the Company's website at www.aia.com.

By Order of the Board



Lai Wing Nga
Company Secretary
27 February 2013

Remuneration Report

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for determining the specific remuneration packages of the Executive Director and Key Management Personnel (senior executives who, by the nature and accountabilities of their respective positions, participate directly in the development, monitoring and reporting of the overall business strategies of the Group) and making recommendations to the Board on the remuneration policy and structure to be applied for the Chairman and Non-executive Directors.

The Remuneration Committee is also responsible for establishing formal and transparent procedures for developing such remuneration policies and structures. In making its determinations and recommendations, the Remuneration Committee considers such factors as the responsibilities of the Executive Director and Key Management Personnel, the remuneration paid by comparable companies, remuneration levels within the Group and the application of performance-based remuneration programmes. The Remuneration Committee also oversees the operation of the Company's share option scheme and other equity schemes, recommending employee awards to the Board for approval, and amending terms of the schemes as may be required.

The Remuneration Committee is authorised by the Board to discharge its duties as outlined in its terms of reference. It is also authorised to seek any remuneration information it requires from the Executive Director and/or Key Management Personnel and may obtain external independent professional advice if necessary.

The full terms of reference of the Remuneration Committee can be accessed at www.aia.com.

Meetings in 2012

As at 30 November 2012, the Committee consisted of four members: three Independent Non-executive Directors, being Mr. Jack Chak-Kwong So, who has served as the Chairman of the Committee since 9 November 2012, Dr. Qin Xiao, who served as the Chairman of the Committee from 29 March 2012 to 8 November 2012, and Mr. Barry Chun-Yuen Cheung; and one Executive Director, being Mr. Mark Edward Tucker. Mr. Rafael Si-Yan Hui was the Chairman and a member of the Committee until the date of his resignation and Mr. Chung-Kong Chow was also a member of the Committee until 8 November 2012.

During the year ended 30 November 2012, four meetings were held by the Remuneration Committee. The attendance records of the Remuneration Committee members are as follows:

Name of Remuneration Committee Member	No. of Meetings Attended / Eligible to Attend
Mr. Jack Chak-Kwong So (Chairman) ⁽¹⁾	1/1
Dr. Qin Xiao ⁽²⁾	2/2
Mr. Barry Chun-Yuen Cheung ⁽³⁾	1/1
Mr. Mark Edward Tucker	4/4
Mr. Chung-Kong Chow ⁽⁴⁾	3/3
Mr. Rafael Si-Yan Hui ⁽⁵⁾	2/2

Notes:

- (1) Mr. So was appointed as Chairman and a member of the Remuneration Committee with effect from 9 November 2012.
- (2) Dr. Qin was appointed as a member of the Remuneration Committee with effect from 29 March 2012 and acted as its Chairman until 8 November 2012.
- (3) Mr. Cheung was appointed as a member of the Remuneration Committee with effect from 9 November 2012.
- (4) Mr. Chow ceased to be a member of the Remuneration Committee with effect from 9 November 2012.
- (5) Mr. Hui ceased to be Chairman and a member of the Remuneration Committee as a result of his resignation from the Board with effect from 29 March 2012.

During the year, major activities performed by the Remuneration Committee in relation to the Executive Director, Key Management Personnel, Chairman and Non-Executive Director remuneration are as follows:

- Reviewed the executive benchmark results and approved the 2012 remuneration packages for the Executive Director and Key Management Personnel (the Executive Director was not involved in discussion of his own remuneration and the long-term incentive awards for the Executive Director were approved by the Independent Non-executive Directors);
- Reviewed and approved the performance measures to be used for the short-term incentive plan and 2011 short-term incentive payout;
- Reviewed and approved the vesting level of the 2010 long-term incentive award, the performance measures to be used in long-term incentive awards, and the 2012 long-term incentive award;

- Reviewed fee benchmarking results for the Chairman and Non-Executive Directors and recommended no change to the current arrangement;
- Recommended the fees of the newly appointed Directors to the Board for approval; and
- Reviewed and approved the 2011 remuneration report.

REMUNERATION POLICY

Objectives

The Company's executive remuneration policy is based on the principle of providing an equitable, motivating and

competitive remuneration package to foster a strong performance-oriented culture within an appropriate overall risk management framework. The policy aims to ensure that rewards and incentives relate directly to the performance of individuals, the operations and functions in which they work or for which they are responsible, and the overall performance of the Group.

Main Components of Remuneration

The table below summarises the Company's remuneration policies regarding the elements of the remuneration structure as it applied to the Executive Director and Key Management Personnel during the year.

Element	Purpose	Basis of determination	Notes on practices
Base salary	Fixed cash element of remuneration to recruit and retain talent	Base salary is determined with reference to the specific roles and responsibilities of the position, internal relativities, market practice, individual experience, performance and other factors to attract and retain employees with required capabilities to achieve the Group's business objectives	The Remuneration Committee reviews salaries annually for the Executive Director against a peer group of publicly listed insurance companies, and Key Management Personnel against relevant industry survey sources Salary increases, if any, typically take effect from 1 March
Short-term incentive	Short-term incentives are delivered in the form of a performance-based cash award to recognise and reward achievement of the Group's objectives and individual contribution	Short-term incentive target and maximum opportunities are determined with reference to the market appropriateness of total compensation and the role and responsibilities of the individual	Annual short-term incentive based on the achievement of financial performance measures and relevant strategic objectives, as well as individual contribution
Long-term incentive	Long-term incentive plans focus key contributors on the long-term success of the Group and are used to align the interests of executives with those of shareholders using a range of share-based awards and share options to deliver a balanced mix of ownership and incentives	Long-term incentive target awards are determined with reference to the competitiveness of the total compensation package and the role and responsibilities of the individual	Awards are discretionary and determined on an annual basis Awards are made in Restricted Share Units (RSU) and/or Share Options (SO), and generally vest after a three-year period, subject to performance and eligibility requirements
Benefits	Benefits form part of the long-term employment relationship and contribute to the value of total remuneration provided at market competitive levels	The benefits programme is determined such that it is market competitive. It remains fully compliant with local regulations	The Executive Director and Key Management Personnel receive certain benefits, for example participation in pension schemes, medical and life insurance, use of company car and/or driver
Employee share purchase plan (ESPP)	Share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees, and provide a long-term retention mechanism	The ESPP is open to all employees who have completed probation and subject to a maximum contribution indicated as a percentage of base salary or the plan maximum limit	Participants receive matching shares for shares purchased at a rate approved by the Remuneration Committee Matching shares vest after three years

SHORT-TERM INCENTIVES

For 2012, short-term incentive targets were determined and communicated to the Executive Director and Key Management Personnel at the beginning of the year. The performance measures for 2012 short-term incentive were:

- Value of new business;
- Excess embedded value growth; and
- Operating profit after tax.

Value of new business (VONB) is an estimate of the economic value of one year's sales as published by the Company.

Excess embedded value growth (EEV Growth) is the sum of the operating experience variances (current year performance against the operating assumptions for calculating embedded value or EV) and operating assumption changes (value of future operating outperformance considered permanent enough for recognition in the current year) in the EV operating profit.

Operating profit after tax (OPAT) is the IFRS operating profit after tax based on the IFRS results published by the Company.

The weighting of the three performance measures described above is 60 per cent, 15 per cent, and 25 per cent, for VONB, EEV Growth, and OPAT respectively. Based on the level of achievement of the performance measures, short-term incentive awards in respect of 2012 will be paid to the Executive Director and Key Management Personnel in March 2013. The total value of short-term incentive awards accrued for the Executive Director and Key Management Personnel for the financial year ended 30 November 2012 is US\$12,099,300. Such amount is included in note 39 to the financial statements as the Bonuses to the Executive Director and as part of the "Salaries and other short-term employee benefits" to the Key Management Personnel.

LONG-TERM INCENTIVE (LTI) PLANS

Legacy LTI Plans

The Remuneration Committee continues to operate the two cash-based long-term incentive plans for 2009 and 2010 in order to facilitate payments under the plans to eligible participants, after which time the plans will cease to operate. No further awards have been made under these plans since the date of listing of the Company and no further award will be made in the future. Only one existing member of the Key Management Personnel has an outstanding award. Such award will vest in 2013 subject to the member's continued employment with the Group.

50 per cent of the 2009 LTI award was vested and paid in April 2011; 25 per cent was vested and paid in January 2012; and the remaining 25 per cent vested on 1 January 2013.

2010 LTI award vested one-third in December 2011 and paid in March 2012; another one-third vested on 1 December 2012; and the remaining one-third will vest on 1 December 2013.

AIA LTI Plans

The Restricted Share Unit Scheme and the Share Option Scheme were adopted on 28 September 2010 and have a life of 10 years from the date of adoption. Summary details are provided in the pages that follow and in detail in note 38 to the financial statements. In future periods, the Remuneration Committee will continue to determine the appropriate awards and performance conditions for the Executive Director and Key Management Personnel under these schemes.

Restricted Share Unit Scheme

Under the Restricted Share Unit Scheme, the Company may award restricted share units to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. The objectives of the Restricted Share Unit Scheme are to retain participants, align their interests with those of the Company's investors and

reward the creation of value for shareholders through the award of share units to participants.

During the year ended 30 November 2012, 22,348,056 restricted share units were awarded by the Company under the Restricted Share Unit Scheme. Movements in restricted share unit awards are summarised below:

Executive Director, Key Management Personnel, and other eligible employees	Date of grant (day/month/year) ⁽¹⁾	Vesting date(s) (day/month/year)	Restricted share units outstanding as at 1 December 2011	Restricted share units awarded during the year ended 30 November 2012	Restricted share units vested during the year ended 30 November 2012	Restricted share units cancelled/lapsed during the year ended 30 November 2012 ⁽⁷⁾	Restricted share units outstanding as at 30 November 2012
Executive Director							
Mr. Mark Edward Tucker	1/6/2011	See note ⁽²⁾	984,087	–	246,021	–	738,066
	1/6/2011	1/4/2014 ⁽³⁾	1,433,149	–	–	–	1,433,149
	1/6/2011	See note ⁽⁴⁾	806,147	–	–	–	806,147
	15/3/2012	15/3/2015 ⁽³⁾	–	1,434,842	–	–	1,434,842
Key Management Personnel (excluding Executive Director)							
Key Management Personnel (excluding Executive Director)	1/6/2011	1/4/2014 ⁽³⁾	2,958,575	–	–	–	2,958,575
	1/6/2011	See note ⁽⁴⁾	5,246,778	–	–	–	5,246,778
	15/3/2012	15/3/2015 ⁽³⁾	–	2,645,704	–	–	2,645,704
Other eligible employees							
Other eligible employees	1/6/2011	See note ⁽⁴⁾	1,989,145	–	–	–	1,989,145
	1/6/2011	See note ⁽⁵⁾	151,738	–	120,659	–	31,079
	1/6/2011	1/4/2014 ⁽³⁾	16,292,777	–	–	1,921,139	14,371,638
	18/10/2011	1/8/2014 ⁽³⁾	146,193	–	–	–	146,193
	18/10/2011	18/10/2014 ⁽³⁾	1,134,649	–	–	103,180	1,031,469
	18/10/2011	18/10/2014 ⁽⁶⁾	59,581	–	–	–	59,581
	15/3/2012	15/3/2015 ⁽³⁾	–	17,967,015	–	709,245	17,257,770
	15/3/2012	15/3/2015 ⁽⁶⁾	–	81,831	–	–	81,831
6/9/2012	6/9/2015 ⁽³⁾	–	218,664	–	–	218,664	

Notes:

- (1) The measurement dates for awards made in 2011 were determined to be 15 June 2011 and 2 November 2011. The measurement dates for awards made in 2012 were determined to be 15 March 2012 and 6 September 2012. The measurement dates were determined in accordance with IFRS 2.
- (2) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). 25 per cent of the restricted share units (246,021 restricted share units) vested on 1 June 2012; 25 per cent vest on 1 June 2013; and 50 per cent vest on 1 June 2014.
- (3) The vesting of these restricted share units is subject to the achievement of performance conditions.
- (4) The vesting of these restricted share units is service-based only. One-third of restricted share units vest on 1 April 2014; one-third vest on 1 April 2015; and one-third vest on 1 April 2016.
- (5) The vesting of these restricted share units is service-based only. 48,812 restricted share units vested on 1 April 2012; 71,847 restricted share units vested on 1 August 2012; and the remaining vest on 1 April 2013.
- (6) The vesting of these restricted share units is service-based only.
- (7) These restricted share units lapsed during the year ended 30 November 2012. There are no cancelled restricted share units during the year.

Remuneration Report

Performance Measures and Vesting

Vesting of performance-based restricted share unit awards will be contingent on the extent of achievement of three-year performance targets as outlined below for the following metrics:

- Value of new business;
- Embedded value; and
- Total shareholder return.

Value of new business (VONB) is an estimate of the economic value of one year's sales.

Embedded value (EV) is an estimate of the economic value of in-force life insurance business, including the net worth on the Group's balance sheet but excluding any economic value attributable to future new business.

Value of new business and embedded value performance are based on the Group value of new business and embedded value results published by the Group.

Total shareholder return (TSR) is the compound annual return from the ownership of a share over a period of time, measured by calculating the change in the share price and the gross value of dividends received (and reinvested) during that period. AIA's TSR will be calculated in the same way and compared with the TSR of companies in the Dow Jones Insurance Titans 30 Index over the performance period.

The three performance measures are equally weighted. Achievement of each performance measure will independently determine the vesting of one-third of the award. Threshold performance levels are required for restricted share units to vest; at target performance levels (for TSR, median relative performance measured against the TSR of the constituents of the index) 50 per cent of the restricted share units will vest; and at maximum performance levels (for TSR, top quartile relative performance measured against the TSR of the constituents of the index) the full allocation of restricted share units will vest.

Share Option Scheme

The objective of the Share Option Scheme is to align participants' interests with those of the Company's shareholders by allowing participants to share in the value created at the point they exercise their share options. Under the Share Option Scheme, the Company may award share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries. During the year ended 30 November 2012, 7,816,367 share options were awarded by the Company under the Share Option Scheme to employees and officers of the Company and employees, officers and directors of a number of its subsidiaries. The exercise price of such share options was determined by applying the highest of (i) the closing price of the shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of a share.

The Share Option Scheme has a life of 10 years from the date of adoption. No amount is payable by the eligible participants on the acceptance of a share option.

The total number of share options that can be awarded under the scheme is 301,100,000, representing 2.5 per cent of the number of shares in issue as at the date of this annual report. Unless shareholders' approval is obtained in accordance with the relevant procedural requirements under the Listing Rules, the maximum number of shares under options that may be awarded to any employee in any 12-month period up to and including a proposed date of grant is 0.25 per cent of the number of shares in issue as of the proposed date of grant. No share options have been awarded to substantial shareholders, or in excess of the individual limit.

The share option awards in year 2012 will be vested entirely on 15 March 2015. In order to be eligible to receive the vested awards, participants are required to remain in employment with the Group as of the vesting date. The share options awarded expire 10 years from the date of grant and each share option entitles the eligible participant to subscribe for one ordinary share. Movements in share options awards are summarised on the next page:

Executive Director, Key Management Personnel, and other eligible employees	Date of grant (day/month/year) ⁽¹⁾	Period during which share options exercisable (day/month/year)	Share options outstanding as at 1 December 2011	Share options awarded during the year ended 30 November 2012	Share options vested during the year ended 30 November 2012	Share options cancelled/lapsed during the year ended 30 November 2012 ⁽⁵⁾	Share options exercised during the year ended 30 November 2012	Exercise price (HK\$)	Share options outstanding as at 30 November 2012	Closing price of shares immediately before the date on which share options were awarded (HK\$)
Executive Director										
Mr. Mark Edward Tucker	1/6/2011	1/4/2014 – 31/5/2021 ⁽²⁾	2,149,724	–	–	–	–	27.35	2,149,724	27.45
	1/6/2011	1/4/2014 – 31/5/2021 ⁽³⁾	2,418,439	–	–	–	–	27.35	2,418,439	27.45
	15/3/2012	15/3/2015 – 14/3/2022 ⁽⁴⁾	–	2,152,263	–	–	–	28.40	2,152,263	27.95
Key Management Personnel (excluding Executive Director)	1/6/2011	1/4/2014 – 31/5/2021 ⁽²⁾	4,437,861	–	–	–	–	27.35	4,437,861	27.45
	1/6/2011	1/4/2014 – 31/5/2021 ⁽³⁾	6,831,120	–	–	–	–	27.35	6,831,120	27.45
	15/3/2012	15/3/2015 – 14/3/2022 ⁽⁴⁾	–	3,968,554	–	–	–	28.40	3,968,554	27.95
Other eligible employees	1/6/2011	1/4/2014 – 31/5/2021 ⁽²⁾	1,534,327	–	–	71,629	–	27.35	1,462,698	27.45
	1/6/2011	1/4/2014 – 31/5/2021 ⁽³⁾	3,055,048	–	–	–	–	27.35	3,055,048	27.45
	15/3/2012	15/3/2015 – 14/3/2022 ⁽⁴⁾	–	1,695,550	–	–	–	28.40	1,695,550	27.95

Notes:

- (1) The measurement date for awards made in 2011 was determined to be 15 June 2011. The measurement date for awards made in 2012 was determined to be 15 March 2012. The measurement dates were determined in accordance with IFRS 2.
- (2) The vesting of share options is service-based only and has no further performance conditions. All share options vest on 1 April 2014.
- (3) The vesting of share options is service-based only and has no further performance conditions. One-third of share options vest on 1 April 2014; one-third vest on 1 April 2015; and one-third vest on 1 April 2016.
- (4) The vesting of share options is service-based only and has no further performance conditions. All share options vest on 15 March 2015.
- (5) These options lapsed during the year ended 30 November 2012. There are no cancelled options during this period.

Performance Measures and Vesting

Share options awarded under the Share Option Scheme have a life of 10 years before expiry. Generally, share options become exercisable three years after the grant date and remain exercisable for another seven years, subject to

participants' continued employment in good standing.

There are no performance conditions attached to the vesting of share options. Benefits are realised only to the extent that share price exceeds exercise price. Details of the valuation of the share options are set out in note 38 to the financial statements.

DIRECTORS AND KEY MANAGEMENT PERSONNEL EMOLUMENTS

Executive Director

The Group Chief Executive and President, Mr. Mark Edward Tucker, is the sole Executive Director on the Company's Board. He receives his remuneration exclusively for his role as Group Chief Executive and receives no separate fees for his role as a Board Director.

The table below provides details of target remuneration for the Group Chief Executive during the years of 2011 and 2012. Details of remuneration cost incurred to the Company during the period from 1 December 2011 to 30 November 2012 are included in note 39 to the financial statements.

US\$	Base salary	Target short-term incentive	Target long-term incentive	Total
Executive Director				
Mr. Mark Edward Tucker				
Year 2012	1,308,100	1,962,150	5,232,400	8,502,650
Year 2011	1,257,800	1,886,700	5,031,200	8,175,700

Non-executive Directors

The remuneration of the Non-executive Directors and Independent Non-executive Directors of the Company during the year ended 30 November 2012 is included in the table on the next page.

Remuneration for the Non-executive Directors and Independent Non-executive Directors was paid in respect of the period from 1 December 2011 to 30 November 2012. Mr. Rafael Si-Yan Hui resigned as a director of the Company with effect from 29 March 2012 and his remuneration was paid in respect of the period from 1 December 2011 to 28 March 2012. Mr. Barry Chun-Yuen Cheung, Mr. George Yong-Boon Yeo and Dr. Narongchai Akrasanee were

appointed as Independent Non-executive Director on 20 September 2012, 2 November 2012 and 21 November 2012 respectively and their remuneration was paid in respect of the period from their respective date of appointment to 30 November 2012. Mr. Jack Chak-Kwong So was re-designated as Independent Non-executive Director with effect from 26 September 2012 and his remuneration was governed by a service contract dated 28 September 2010, as amended. The remuneration paid to the Non-executive Directors and Independent Non-executive Directors included the fees for their services provided to the Board Committees. During the period under review, the Board reviewed and restructured the Board Committees. Details of the changes have been set out on pages 89 to 90 of this Annual Report.

US\$	2012 Directors' fees
Non-executive Chairman and Non-executive Director	
Mr. Edmund Sze-Wing Tse ⁽¹⁾	610,709
Independent Non-executive Directors	
Mr. Jack Chak-Kwong So ⁽²⁾	215,301
Mr. Chung-Kong Chow ⁽³⁾	233,197
Dr. Qin Xiao ⁽⁴⁾	233,142
Mr. John Barrie Harrison ⁽⁵⁾	225,601
Mr. Barry Chun-Yuen Cheung ⁽⁶⁾	33,798
Mr. George Yong-Boon Yeo ⁽⁷⁾	14,385
Dr. Narongchai Akrasanee ⁽⁸⁾	5,191
Mr. Rafael Si-Yan Hui ⁽⁹⁾	71,530
Non-executive Directors	
Mr. Jeffrey Joy Hurd ⁽⁹⁾	–
Mr. Jay Steven Wintrob ⁽⁹⁾	–
Total	1,642,854

Notes:

- (1) Included in director's fee is US\$18,940 which represents the remuneration to Mr. Tse in respect of his services as a director of a subsidiary of the Company and US\$75,168 being the value of the benefits in kind received by Mr. Tse as a director of the Company. Mr. Tse was appointed as Chairman of the Nomination Committee with effect from 9 November 2012.
- (2) Mr. So was re-designated as Independent Non-executive Director with effect from 26 September 2012. Mr. So was appointed as Chairman and a member of the Remuneration Committee and ceased to be a member of the Risk Committee with effect from 9 November 2012.
- (3) Mr. Chow ceased to be Chairman of the Nomination Committee and a member of the Remuneration Committee with effect from 9 November 2012.
- (4) Dr. Qin was appointed as a member of the Remuneration Committee with effect from 29 March 2012 and acted as its Chairman until 8 November 2012. Dr. Qin ceased to be a member of the Risk Committee with effect from 9 November 2012.
- (5) Mr. Harrison was appointed as a member of the Nomination Committee with effect from 9 November 2012.
- (6) Mr. Cheung was appointed as Independent Non-executive Director with effect from 20 September 2012 and a member of the Audit Committee, Nomination Committee and Remuneration Committee with effect from 9 November 2012.
- (7) Mr. Yeo was appointed as Independent Non-executive Director with effect from 2 November 2012 and a member of the Audit Committee and Nomination Committee with effect from 9 November 2012.
- (8) Dr. Narongchai was appointed as Independent Non-executive Director and a member of the Risk Committee and Nomination Committee with effect from 21 November 2012.
- (9) Mr. Hurd and Mr. Wintrob resigned as directors of the Company with effect from 8 March 2012. Neither was entitled to any fees from the Company for acting as a director. Mr. Hui resigned as a director of the Company with effect from 29 March 2012.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming AGM has any service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

Key Management Personnel

The total remuneration cost charged to the consolidated income statement for the Key Management Personnel during the year ended 30 November 2012 is US\$42,051,884. Details of remuneration during the year are included in note 39 to the financial statements.

EMPLOYEE SHARE PURCHASE PLAN

Under the Employee Share Purchase Plan (ESPP), in year 2012 the employees of the Company and its subsidiaries participated in the plan to purchase shares and received a matching offer of shares from the Company. The objectives of the ESPP are to facilitate and motivate share ownership by employees and to align their interests with those of the Company's shareholders. Currently the ESPP is designed such that participants are eligible to contribute up to 5% of their base salary or the plan maximum limit of US\$15,000 per annum approved by the Remuneration Committee, whichever is lower, to purchase shares. For every two shares purchased by a participant, the Company will match with one additional share.

Performance Measures and Vesting

The ESPP has no performance conditions and vesting occurs after three years, at which time participants receive ownership over the matched shares. For employees that leave prior to the end of the vesting period, matched shares will generally be forfeited, subject to certain special circumstances, in which case pro rata vesting may be permitted.

Proven Execution

We have achieved record financial performance across our key metrics through effective execution of our growth strategy and focus on shareholder value.





With the
Right People

Contents

105	Independent Auditor's Report	
107	Consolidated Income Statement	
108	Consolidated Statement of Comprehensive Income	
109	Consolidated Statement of Financial Position	
110	Consolidated Statement of Changes in Equity	
111	Consolidated Statement of Cash Flows	
112	Notes to the Consolidated Financial Statements and Significant Accounting Policies	
	1. Corporate information	
	2. Significant accounting policies	
	3. Critical accounting estimates and judgements	
	4. Exchange rates	
	5. Operating profit before tax	
	6. Total weighted premium income and annualised new premium	
	7. Segment information	
	8. Revenue	
	9. Expenses	
	10. Income tax	
	11. Earnings per share	
	12. Dividends	
	13. Intangible assets	
	14. Investments in associates	
	15. Property, plant and equipment	
	16. Investment property	
	17. Fair value of investment property and property held for use	208
	18. Reinsurance assets	
	19. Deferred acquisition and origination costs	
	20. Financial investments	
	21. Derivative financial instruments	
	22. Fair value of financial instruments	
	23. Other assets	
	24. Cash and cash equivalents	
	25. Insurance contract liabilities	
	26. Investment contract liabilities	
	27. Effect of changes in assumptions and estimates	
	28. Borrowings	
	29. Obligations under securities lending and repurchase agreements	
	30. Impairment of financial assets	
	31. Provisions	
	32. Other liabilities	
	33. Share capital and reserves	
	34. Non-controlling interests	
	35. Group capital structure	
	36. Risk management	
	37. Employee benefits	
	38. Share-based compensation	
	39. Remuneration of directors and key management personnel	
	40. Related party transactions	
	41. Commitments and contingencies	
	42. Subsidiaries	
	43. Events after the reporting period	
	Financial Statements of the Company	
	Statement of Financial Position of the Company	
	Notes to Financial Statements of the Company	
211	Supplementary Embedded Value Information	

Independent Auditor's Report



羅兵咸永道

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 107 to 210, which comprise the consolidated and company statements of financial position as at 30 November 2012 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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 Standards Board (IASB) and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

Independent Auditor's Report



羅兵咸永道

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 2012 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.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script, positioned above a horizontal line.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

27 February 2013

Consolidated Income Statement

US\$m	Notes	Year ended 30 November 2012	Year ended 30 November 2011
Revenue			
Turnover			
Premiums and fee income		13,816	12,935
Premiums ceded to reinsurers		(762)	(634)
Net premiums and fee income		13,054	12,301
Investment return	8	7,206	1,973
Other operating revenue	8	127	114
Total revenue		20,387	14,388
Expenses			
Insurance and investment contract benefits		14,077	9,601
Insurance and investment contract benefits ceded		(703)	(529)
Net insurance and investment contract benefits		13,374	9,072
Commission and other acquisition expenses		1,641	1,649
Operating expenses		1,340	1,253
Restructuring and other non-operating costs		80	50
Investment management expenses		233	225
Finance costs		19	12
Change in third-party interests in consolidated investment funds		2	(29)
Total expenses	9	16,689	12,232
Profit before share of profit from associates		3,698	2,156
Share of profit from associates	14	16	12
Profit before tax		3,714	2,168
Income tax expense attributable to policyholders' returns		(104)	(47)
Profit before tax attributable to shareholders' profits		3,610	2,121
Tax expense	10	(685)	(560)
Tax attributable to policyholders' returns		104	47
Tax expense attributable to shareholders' profits		(581)	(513)
Net profit		3,029	1,608
<i>Net profit attributable to:</i>			
Shareholders of AIA Group Limited		3,019	1,600
Non-controlling interests		10	8
Earnings per share (US\$)			
Basic	11	0.25	0.13
Diluted	11	0.25	0.13

Dividends to shareholders of the Company attributable to the year:

US\$m	Notes	Year ended 30 November 2012	Year ended 30 November 2011
Interim dividend declared and paid of 12.33 Hong Kong cents per share (2011: 11.00 Hong Kong cents per share)	12	191	170
Final dividend proposed after the reporting date of 24.67 Hong Kong cents per share (2011: 22.00 Hong Kong cents per share)	12	382	339
		573	509

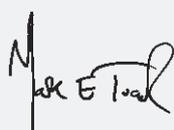
Consolidated Statement of Comprehensive Income

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Net profit	3,029	1,608
Fair value gains on available for sale financial assets (net of tax of: 2012: US\$(211)m; 2011: US\$(69)m)	2,617	558
Fair value gains on available for sale financial assets transferred to income on disposal (net of tax of: 2012: US\$3m; 2011: US\$3m)	(47)	(36)
Foreign currency translation adjustments	377	(75)
Share of other comprehensive income/(expense) from associates	12	(24)
Other comprehensive income	2,959	423
Total comprehensive income	5,988	2,031
<i>Total comprehensive income attributable to:</i>		
Shareholders of AIA Group Limited	5,956	2,017
Non-controlling interests	32	14

Consolidated Statement of Financial Position

US\$m	Notes	As at 30 November 2012	As at 30 November 2011
Assets			
Intangible assets	13	272	276
Investments in associates	14	91	61
Property, plant and equipment	15	412	359
Investment property	16, 17	1,035	896
Reinsurance assets	18	1,153	858
Deferred acquisition and origination costs	19	14,161	12,818
Financial investments:			
Loans and deposits	20, 22	6,425	4,565
Available for sale			
Debt securities		62,268	51,018
At fair value through profit or loss			
Debt securities		18,594	16,934
Equity securities		23,656	19,012
Derivative financial instruments	21	638	725
		111,581	92,254
Deferred tax assets	10	5	4
Current tax recoverable		46	44
Other assets	23	2,735	2,588
Cash and cash equivalents	24	2,948	4,303
Total assets		134,439	114,461
Liabilities			
Insurance contract liabilities	25	90,574	78,752
Investment contract liabilities	26	8,865	8,360
Borrowings	28	766	559
Obligations under securities lending and repurchase agreements	29	1,792	670
Derivative financial instruments	21	41	38
Provisions	31	204	180
Deferred tax liabilities	10	2,229	1,810
Current tax liabilities		328	290
Other liabilities	32	2,812	2,387
Total liabilities		107,611	93,046
Equity			
Issued share capital	33	12,044	12,044
Share premium	33	1,914	1,914
Employee share-based trusts	33	(188)	(105)
Other reserves	33	(12,060)	(12,101)
Retained earnings		17,843	15,354
Fair value reserve	33	5,979	3,414
Foreign currency translation reserve	33	1,165	793
Amounts reflected in other comprehensive income		7,144	4,207
<i>Total equity attributable to:</i>			
Shareholders of AIA Group Limited		26,697	21,313
Non-controlling interests	34	131	102
Total equity		26,828	21,415
Total liabilities and equity		134,439	114,461

Approved and authorised for issue by the Board of Directors on 27 February 2013.



Mark Edward Tucker
Director



Edmund Sze-Wing Tse
Director

Consolidated Statement of Changes in Equity

US\$m	Notes	Issued share capital and share premium	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Non-controlling interests	Total equity
Balance at									
1 December 2010		13,958	–	(12,117)	13,924	2,914	876	80	19,635
Net profit		–	–	–	1,600	–	–	8	1,608
Fair value gains on available for sale financial assets		–	–	–	–	554	–	4	558
Fair value gains on available for sale financial assets transferred to income on disposal		–	–	–	–	(36)	–	–	(36)
Foreign currency translation adjustments		–	–	–	–	–	(77)	2	(75)
Share of other comprehensive expense from associates		–	–	–	–	(18)	(6)	–	(24)
Total comprehensive income/(expense) for the year		–	–	–	1,600	500	(83)	14	2,031
Capital contributions		–	–	–	–	–	–	10	10
Dividends	12	–	–	–	(170)	–	–	(2)	(172)
Share-based compensation		–	–	16	–	–	–	–	16
Purchase of shares held by employee share-based trusts		–	(105)	–	–	–	–	–	(105)
Balance at 30 November 2011		13,958	(105)	(12,101)	15,354	3,414	793	102	21,415
Net profit		–	–	–	3,019	–	–	10	3,029
Fair value gains on available for sale financial assets		–	–	–	–	2,599	–	18	2,617
Fair value gains on available for sale financial assets transferred to income on disposal		–	–	–	–	(47)	–	–	(47)
Foreign currency translation adjustments		–	–	–	–	–	373	4	377
Share of other comprehensive income/(expense) from associates		–	–	–	–	13	(1)	–	12
Total comprehensive income for the year		–	–	–	3,019	2,565	372	32	5,988
Dividends	12	–	–	–	(530)	–	–	(3)	(533)
Share-based compensation		–	–	41	–	–	–	–	41
Purchase of shares held by employee share-based trusts		–	(84)	–	–	–	–	–	(84)
Transfer of vested shares from employee share-based trusts		–	1	–	–	–	–	–	1
Balance at 30 November 2012		13,958	(188)	(12,060)	17,843	5,979	1,165	131	26,828

Consolidated Statement of Cash Flows

Cash flows presented in this statement cover all the Group's activities and include flows from unit-linked contracts, participating funds, and other policyholder and shareholder activities.

US\$m	Notes	Year ended 30 November 2012	Year ended 30 November 2011
Cash flows from operating activities			
Profit before tax		3,714	2,168
Adjustments for:			
Financial instruments	20	(13,856)	(2,963)
Insurance and investment contract liabilities		8,613	3,823
Obligations under securities lending and repurchase agreements	29	1,081	(441)
Other non-cash operating items, including investment income		(3,665)	(3,665)
Operating cash items:			
Interest received		3,848	3,476
Dividends received		387	336
Interest paid		(24)	(11)
Tax paid		(510)	(601)
Net cash (used in)/provided by operating activities		(412)	2,122
Cash flows from investing activities			
Distribution from investments in associates	14	4	–
Payments for investment property and property, plant and equipment	15, 16	(302)	(88)
Payments for leasehold land	23	(104)	–
Proceeds from sale of investment property and property, plant and equipment		–	23
Payments for intangible assets	13	(58)	(54)
Net cash used in investing activities		(460)	(119)
Cash flows from financing activities			
Dividends paid during the year		(533)	(172)
Proceeds from borrowings	28	490	–
Repayment of borrowings	28	(453)	(39)
Purchase of shares held by employee share-based trusts		(84)	(105)
Capital contributions from non-controlling interests		–	10
Net cash used in financing activities		(580)	(306)
Net (decrease)/increase in cash and cash equivalents		(1,452)	1,697
Cash and cash equivalents at beginning of the financial year		4,303	2,595
Effect of exchange rate changes on cash and cash equivalents		97	11
Cash and cash equivalents at end of the financial year	24	2,948	4,303

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, No. 1 Connaught Road Central, Hong Kong.

AIA Group Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code “1299” with American Depositary Receipts (Level 1) being traded on the over-the-counter market (ticker symbol: “AAGIY”).

AIA Group Limited and its subsidiaries (collectively “AIA” or “the Group”) is a life insurance based financial services provider operating in 15 jurisdictions throughout the Asia-Pacific region. The Group extended its footprint into a 16th jurisdiction through an acquisition in Sri Lanka subsequent to the year end (see note 43). The Group’s principal activity is the writing of life insurance business, providing life, pension and accident and health insurance throughout Asia, and distributing related investment and other financial services products to its customers.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), Hong Kong Financial Reporting Standards (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, International Accounting Standards (IAS) and Interpretation developed by the International Financial Reporting Interpretation Committee (IFRIC) in these consolidated financial statements should be read as referring to the equivalent HKFRS, Hong Kong Accounting Standards (HKAS) and Hong Kong (IFRIC) Interpretations (HK(IFRIC) – Int) 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 27 February 2013.

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.

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 Company and the Group.

The accounting policies adopted are consistent with those of the previous financial year, except as described below.

(a) The following amendments to standards and interpretation are mandatory for the first time for the financial year beginning 1 December 2011 and have no material impact for the Group:

- IAS 24, Related Party Disclosures, Revised definition of related parties (as revised in 2009);
- Amendment to IAS 1, Presentation of Financial Statements, Clarification of statement of changes in equity;
- Amendments to IFRS 7, Financial Instruments: Disclosures, Clarification of disclosures;
- Amendments to IFRS 7, Financial Instruments: Disclosures, Enhancing disclosures about transfers of financial assets; and
- Amendment to IFRIC Int – 14, Prepayments of a minimum funding requirement.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

(b) The following new standards and amendments to standards have been issued but are not effective for the financial year ended 30 November 2012 and 2011 and have not been early adopted (the financial years for which the adoption is planned and required are stated in parenthesis). The Group is yet to assess the full impact of these new standards on its financial position and results of operations; however, they are not expected to have a material impact on the financial position or results of operations of the Group but may require additional disclosures:

- IFRS 11, Joint Arrangements (2014);
- IFRS 12, Disclosure of Interests in Other Entities (2014);
- IAS 27, Separate Financial Statements (as revised in 2011) (2014);
- IAS 28, Investments in Associates and Joint Ventures (as revised in 2011) (2014);
- Amendment to IAS 1, Presentation of Items of Other Comprehensive Income (2013);
- Amendments to IAS 1, Presentation of Financial Statements, Clarification of the requirements for comparative information (2014);
- Amendments to IAS 12, Income Taxes, Recovery of underlying assets (2013);
- Amendments to IAS 32, Financial Instruments: Presentation on offsetting financial assets and financial liabilities (2015);
- Amendments to IAS 32, Financial Instruments: Presentation, Tax effect of distributions to holders of equity instruments (2014);
- Amendments to IFRS 7, Financial Instruments: Disclosures on offsetting financial assets and financial liabilities (2014);
- Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (2014); and
- Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities (2015).

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year ended 30 November 2012 and 2011 and have not been early adopted (the financial years for which the adoption is planned and required are stated in parenthesis). The Group is yet to assess the full impact of these new standards on its financial position and results of operations; however, they may have a material impact on the financial position or results of operations of the Group and require additional disclosures:

- IFRS 9, Financial Instruments (2016);
- IFRS 10, Consolidated Financial Statements (2014);
- IFRS 13, Fair Value Measurement (2014); and
- IAS 19, Employee Benefits (as revised in 2011) (2014).

All key items are defined upon the first time they are used and included 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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 unit-linked contracts (consisting of dividends, interest income and rental income);
- investment management expenses related to unit-linked contracts;
- corresponding changes in insurance and investment contract liabilities in respect of unit-linked contracts and participating funds (see note 2.4) and changes in third-party interests in consolidated investment funds;
- 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 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 note 2.10 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 reporting 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 per cent 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 per cent 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

Employee share-based trusts

Trusts are set up to acquire shares of the Company for distribution to participants in future periods through the share-based compensation schemes. The consolidation of these trusts is evaluated in accordance with SIC 12; where the Group is deemed to control the trusts, they are consolidated. Shares acquired by the trusts to the extent not provided to the participants upon vesting are carried at cost and reported as “employee share-based trusts” 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 per cent and 50 per cent 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 also accounts for investments in joint ventures that are subject to joint control using the equity method of accounting.

The Company's investments

In the Company's statement of financial position, subsidiaries, associates and joint ventures are stated at cost, unless impaired. The Company's interests in investment funds such as mutual funds and unit trusts are designated at fair value through profit or loss.

2.4 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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification

The Group classified its contracts written as either 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.

In the event that a scenario (other than those lacking commercial substance) exists in which an insured event would require the Group 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. Once a contract has been classified as an insurance or investment contract no reclassification is subsequently performed, unless the terms of the agreement are later amended.

Certain contracts with DPF supplement the amount of guaranteed benefits due to policyholders. These contracts are distinct from other insurance and investment contracts as the Group has discretion in the amount and/or timing of the benefits declared, and how such benefits are allocated between groups of policyholders. Customers may be entitled to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - the profit or loss of the company, fund or other entity that issues the contract.

The Group applies the same accounting policies for the recognition and measurement of obligations and the deferral of acquisition costs arising from investment contracts with DPF as it does to insurance contracts. The Group refers to such contracts as participating business.

In some jurisdictions participating business is written in a participating fund which is distinct from the other assets of the company or branch. The allocation of benefits from the assets held in such participating funds is subject to minimum policyholder participation mechanisms which are established by regulation. The extent of such policy participation may change over time. The current policyholder participation in declared dividends for locations with participating funds is set out below:

Country	Current policyholder participation
Singapore	90%
Malaysia	90%
China	70%
Australia	80%
Brunei	80%

In some jurisdictions participating business is not written in a distinct fund and the Group refers to this as other participating business.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**2.4 Insurance and investment contracts** (continued)**Product classification** (continued)

The Group's products may be divided into the following main categories:

Policy type		Description of benefits payable	Basis of accounting for:	
			Insurance contract liabilities	Investment contract liabilities
Traditional participating life assurance with DPF	Participating funds	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities The timing of dividend and bonus declarations is at the discretion of the insurer. Local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends	Insurance contract liabilities make provision for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders, assuming all performance would be declared as a dividend based upon local regulations	Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts
	Other participating business	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience	Insurance contract liabilities make provision for the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders	Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts
Non-participating life assurance, annuities and other protection products		Benefits payable are not at the discretion of the insurer	Insurance contract liabilities reflect the present value of future policy benefits to be paid less the present value of estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognised	Investment contract liabilities are measured at amortised cost
Universal life		Benefits are based on an account balance, credited with interest at a rate set by the insurer, and a death benefit, which may be varied by the customer	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment return credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded	Not applicable as such contracts generally contain significant insurance risk
Unit-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)

Notes to the Consolidated Financial Statements and Significant Accounting Policies

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

The basis of accounting for insurance and investment contracts is discussed in notes 2.4.1 and 2.4.2 below.

2.4.1 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 unit-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 insurance contracts, including commissions, 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 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 unit-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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

Deferred sales inducements

Deferred sales inducements, consisting of day one bonuses, persistency bonuses and enhanced crediting rates are deferred and amortised using the same methodology and assumptions used to amortise acquisition costs when:

- the sales inducements are recognised as part of insurance contract liabilities;
- they are explicitly identified in the contract on inception;
- they are incremental to amounts credited on similar contracts without sales inducements; and
- they are higher than the expected ongoing crediting rates for periods after the inducement.

Unbundling

The deposit component of an insurance contract is unbundled when both of the following conditions are met:

- the deposit component (including any embedded surrender option) can be measured separately (i.e. without taking into account the insurance component); and
- the Group's accounting policies do not otherwise require the recognition of all obligations and rights arising from the deposit component.

Bifurcation

To the extent that certain of the Group's insurance contracts include embedded derivatives that are not clearly and closely related to the host contract, these are bifurcated from the insurance contracts and accounted for as derivatives.

Benefits and claims

Insurance contract benefits reflect the cost of all maturities, surrenders, withdrawals and claims arising during the year, 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)

Insurance contract liabilities 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.

For contracts with an explicit account balance, such as universal life and unit-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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF) (continued)

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 geographical 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.

2.4.2 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.2 Investment contracts (continued)

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 unit-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 unit-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 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.

2.4.3 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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.3 Insurance and investment contracts (continued)

Reinsurance (continued)

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 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 with discretionary participation feature where financial assets backing insurance and investment contract 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.

2.5 Financial instruments

2.5.1 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
- financial instruments classified as held for trading.

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 unit-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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Classification of and designation of financial instruments (continued)

Financial instruments at fair value through profit or loss (continued)

Financial instruments classified as held for trading include financial assets acquired principally for the purpose of selling them in the near future and those that form part of a portfolio of financial assets in which there is evidence of short-term profit taking, as well as derivative assets and liabilities.

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 unit-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 calculated as if they were carried at amortised cost and so 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 recognised in other comprehensive income and accumulated in a separate fair value reserve within equity. Impairment losses and relevant foreign exchange gains and losses are recognised in the income statement.

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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Classification of and designation of financial instruments (continued)

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 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 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 20 Loans and Deposits. 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 unit-linked products. Cash and cash equivalents are stated at face value.

2.5.2 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 22.

2.5.3 Impairment of financial assets

General

Financial assets are assessed for impairment on a regular basis. 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.

For loans and receivables, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.3 Impairment of financial assets (continued)

Available for sale financial instruments

When a decline in the fair value of an available for sale asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss already recognised directly in other comprehensive income is recognised in current period profit or loss.

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. 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.

2.5.4 Derivative financial instruments

Derivative financial instruments primarily 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.

2.6 Segment reporting

An operating segment is a component of the Group that engages in business activity from which it earns revenues and incurs expenses and, for which, discrete financial information is available, and whose operating results are regularly reviewed by the Group's chief operating decision-maker, considered to be the Executive Committee of the Group (Exco).

Notes to the Consolidated Financial Statements and Significant Accounting Policies

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 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.

2.8 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.

Where the cost of the Group's leasehold 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 or finance leases depending on whether substantially all the risks and rewards incidental to ownership of the land are transferred to the Group. These leases are recorded at original cost and amortised over the term of the lease (see note 2.18).

2.9 Investment property

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 or leasehold land and buildings. Buildings located on leasehold land 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 or finance leases depending on whether substantially all the risks and rewards incidental to ownership of the land are transferred to the Group (see note 2.18). 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 to 40 years.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Investment property (continued)

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 17. 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.

2.10 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 and is carried at cost less any accumulated impairment losses, 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 to 15 years.

The amortisation charge for the year is included in the consolidated income statement under "Operating expenses".

2.11 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 values of goodwill and intangible assets with indefinite useful lives are reviewed at least annually or when circumstances or events indicate that there may be uncertainty over this value.

The Group assesses at the end of each reporting period whether there is any objective evidence that its investments in associates are impaired. Such objective evidence includes whether there has been any significant adverse changes in the technological, market, economic or legal environment in which the associates operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in an associate is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount is lower than the higher of the investment's fair value less costs to sell or value in use. Any reversal of such impairment loss in subsequent periods is reversed through profit or loss.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Impairment of non-financial assets (continued)

Impairment testing of the investments in subsidiaries and associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries or associates in the period the dividend is declared or if the carrying amount of the relevant investment in the Company's statement of financial position exceeds its carrying amount in the consolidated financial statements of the investees' net assets including goodwill.

2.12 Securities lending including repurchase agreements

The Group has been a 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 "Other assets" 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.

2.13 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 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.

2.14 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Income taxes (continued)

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 remeasurement 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.

2.15 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 accrual 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.

2.16 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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

Post-retirement benefit obligations (continued)

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, the 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 per cent of the projected benefit obligations at that date; or
- 10 per cent 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

Following the public listing of the Group on the Stock Exchange of Hong Kong and the divestiture by AIG of more than 50 per cent of the Group on 29 October 2010, the Group launched a number of share-based compensation plans, under which the Group receives services from the agents, employees, directors and officers as consideration for the shares and/or share options of the Company. These share-based compensation plans comprise the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme), the Employee Share Purchase Plan (ESPP) and the Agency Share Purchase Plan (ASPP).

The Group's share-based compensation plans are predominantly equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of shares and/or share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share and/or share options awarded. Non-market vesting conditions are included in assumptions about the number of shares and/or share options that are expected to be vested. At each period end, the Group revises its estimates of the number of shares and/or share options that are expected to be vested. Any impact of the revision to original estimates is recognised in profit or loss with a corresponding adjustment to equity. Where awards of share-based payment arrangements have graded vesting terms, each tranche is recognised as a separate award, and therefore the fair value of each tranche is recognised over the applicable vesting period.

The Group estimates the fair value of share options using a binomial lattice model. This model requires inputs such as share price, implied volatility, risk-free interest rate, expected dividend rate and the expected life of the share 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.

For cash-settled share-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 recognised 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 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.

2.18 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 or investment property, 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 either as an operating lease prepayment or as a component of property, plant and equipment or investment property depending on whether substantially all the risks and rewards incidental to the ownership of the land are transferred to the Group.

There are no freehold land interests in Hong Kong. The Group classifies the amounts paid to acquire leasehold land under operating leases and finance leases as operating lease prepayments and property, plant and equipment or investment property respectively. Operating lease prepayments 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.

2.19 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

Interim dividends on ordinary shares are recognised when they have been paid. Final dividends on ordinary shares are recognised when they have been approved by shareholders.

2.20 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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Earnings per share

Basic earnings per share is calculated by dividing net profit 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.

2.22 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.

2.23 Consolidated statement of cash flow

The consolidated statement of cash flow 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 cash flows from investing activities.

2.24 Related party transactions

Transactions with related parties are recorded at amounts mutually agreed and transacted between the parties to the arrangement.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets, liabilities, and revenue and expenses. 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.

Items that are considered particularly sensitive to changes in estimates and assumptions, and the relevant accounting policies are those which relate to product classification, insurance contract liabilities (including liabilities in respect of investment contracts with DPF), deferred acquisition and origination costs, liability adequacy testing, fair value of financial assets, impairment of financial assets and share-based compensation.

3.1 Product classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Group exercises significant judgement 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. The judgments exercised in determining the level of insurance risk in product classification affect the amounts recognised in the consolidated financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in note 2.4.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

3.2 Insurance contract liabilities (including liabilities in respect of investment contracts with DPF)

The Group calculates the 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 at inception 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 unit-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 based on historical and anticipated future experiences, these estimates are regularly reviewed by the Group.

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. Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 2.4, 25 and 27.

3.3 Deferred acquisition and origination costs

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.

As noted in note 2.4.1, 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.

As noted in note 2.4.1, deferred acquisition costs for universal life and unit-linked contracts are amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits to be realised over the life of the contract or on a straight-line basis. As noted in note 3.2, significant judgment is exercised in making appropriate estimates of gross profits. 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.

Additional details of deferred acquisition and origination costs are provided in notes 2.4 and 19.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.4 Liability adequacy testing

The Group evaluates the adequacy of its insurance and investment contract liabilities with DPF at least annually. Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. 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.

The judgments exercised in liability adequacy testing affect amounts recognised in the consolidated financial statements as commission and other acquisition expenses, deferred acquisition costs, insurance contract benefits and insurance and investment contract liabilities.

3.5 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.

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.

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 unit-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.

Further details of the fair value of financial assets and the sensitivity analysis to interest rates and equity prices are provided in notes 22 and 36.

3.6 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. The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.6 Impairment of financial assets (continued)

- 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; or
 - national or local economic conditions that correlate with increased default risk.

For loans and receivables, impairment loss 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.

Further details of the impairment of financial assets during the year are provided in note 30.

3.7 Share-based compensation

The Group has adopted a number of share-based compensation plans to retain, motivate and align the interests of eligible employees, directors, officers and agents with those of the Group. These share-based compensation plans are predominantly accounted for as equity-settled plans under which shares or options to purchase shares are awarded. The Group utilises a binomial lattice model to calculate the fair value of the share option grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the other share awards. These models require assumption inputs that may differ from actual results due to changes in economic conditions. Further details of share-based compensation are provided in notes 2.16 and 38.

4. 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 2012	Year ended 30 November 2011
Hong Kong	7.76	7.78
Thailand	31.12	30.40
Singapore	1.26	1.26
Malaysia	3.10	3.06
China	6.32	6.49
Korea	1,132.50	1,107.01

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

	US dollar exchange rates	
	As at 30 November 2012	As at 30 November 2011
Hong Kong	7.75	7.79
Thailand	30.68	31.21
Singapore	1.22	1.30
Malaysia	3.04	3.18
China	6.23	6.37
Korea	1,082.25	1,145.48

Exchange rates are expressed in units of local currency per US\$1.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

5. OPERATING PROFIT BEFORE TAX

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

US\$m	Note	Year ended 30 November 2012	Year ended 30 November 2011
Operating profit before tax	7	2,651	2,381
Non-operating investment return:			
Investment experience		2,743	(2,177)
Investment income related to unit-linked contracts		186	204
Investment management expenses related to unit-linked contracts		(86)	(98)
Other investment management expenses		(20)	(15)
Corresponding changes in insurance and investment contract liabilities for unit-linked contracts		(1,147)	1,622
Corresponding changes in insurance contract liabilities for participating funds		(578)	213
Corresponding changes in third-party interests in consolidated investment funds		(2)	29
Non-operating investment return		1,096	(222)
Other non-operating items:			
Changes in insurance and investment contract liabilities for policyholders' tax on operating profit before tax		47	59
Restructuring and other non-operating costs		(80)	(50)
Non-operating items		1,063	(213)
Profit before tax		3,714	2,168
Tax on operating profit before tax		(482)	(451)
Non-operating tax expense		(156)	(50)
Policyholders' tax on operating profit before tax		(47)	(59)
Tax expense		(685)	(560)
Net profit		3,029	1,608
<i>Net profit attributable to:</i>			
Shareholders of AIA Group Limited		3,019	1,600
Non-controlling interests		10	8
Operating profit before tax		2,651	2,381
Tax on operating profit before tax		(482)	(451)
Operating profit after tax		2,169	1,930
<i>Operating profit after tax attributable to:</i>			
Shareholders of AIA Group Limited		2,159	1,922
Non-controlling interests		10	8

Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Other non-operating costs primarily consist of due diligence and acquisition-related expenses.

6. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUM

For management decision-making and internal performance management purposes, the Group measures business volumes during the year 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 premium (ANP).

TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded, and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the Group's accounting policies.

Management considers that TWPI 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.

ANP is a key internal measure of new business activities, which consists of 100 per cent of annualised first year premium and 10 per cent of single premium, before reinsurance ceded. ANP excludes new business of corporate pension business, personal lines and motor insurance.

TWPI US\$m	Year ended 30 November 2012	Year ended 30 November 2011
TWPI by geography		
Hong Kong	3,372	3,142
Thailand	3,119	2,976
Singapore	2,035	1,949
Malaysia	964	928
China	1,446	1,313
Korea	1,942	2,029
Other Markets	2,482	2,105
Total	15,360	14,442
First year premiums by geography		
Hong Kong	519	471
Thailand	474	420
Singapore	219	189
Malaysia	118	124
China	208	201
Korea	202	244
Other Markets	582	452
Total	2,322	2,101
Single premiums by geography		
Hong Kong	678	308
Thailand	187	147
Singapore	881	585
Malaysia	123	29
China	39	72
Korea	45	120
Other Markets	445	238
Total	2,398	1,499

Notes to the Consolidated Financial Statements and Significant Accounting Policies

6. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUM (continued)

TWPI US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Renewal premiums by geography		
Hong Kong	2,785	2,640
Thailand	2,627	2,541
Singapore	1,728	1,702
Malaysia	834	801
China	1,234	1,105
Korea	1,735	1,773
Other Markets	1,856	1,629
Total	12,799	12,191
ANP by geography		
Hong Kong	604	522
Thailand	532	465
Singapore	339	264
Malaysia	151	142
China	215	215
Korea	237	270
Other Markets	618	594
Total	2,696	2,472

7. SEGMENT INFORMATION

The Group's operating segments, based on the reports received by the Exco, are each of the geographical markets in which the Group operates. Each of the reportable segments, other than the "Group Corporate Centre" segment, writes life insurance business, providing life, pension 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, Malaysia, China, Korea, Other Markets and Group Corporate Centre. 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 Group Corporate Centre segment consist of the Group's corporate functions, shared services, certain internal reinsurance and eliminations of intragroup transactions.

Because each reportable segment other than the Group Corporate Centre 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:

- ANP;
- TWPI;
- investment income (excluding investment income in respect of unit-linked contracts);
- operating expenses;
- operating profit after tax (see note 5);
- expense ratio, measured as operating expenses divided by TWPI;
- operating margin, measured as operating profit before tax (see above) expressed as a percentage of TWPI; and
- operating return on allocated equity, measured as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a percentage of the 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 Group Corporate Centre segment and capital inflows consist of capital injections into reportable segments by the Group Corporate Centre 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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

7. SEGMENT INFORMATION (continued)

US\$m	Key markets							Group Corporate Centre	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets		
Year ended 30 November 2012									
ANP	604	532	339	151	215	237	618	–	2,696
TWPI	3,372	3,119	2,035	964	1,446	1,942	2,482	–	15,360
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	2,818	3,176	1,947	845	1,352	1,443	1,539	61	13,181
Investment income ⁽¹⁾	999	885	718	292	364	355	522	142	4,277
Total revenue	3,817	4,061	2,665	1,137	1,716	1,798	2,061	203	17,458
Net insurance and investment contract benefits ⁽²⁾	2,476	2,801	1,925	776	1,217	1,304	1,184	13	11,696
Commission and other acquisition expenses	299	448	194	88	127	199	281	5	1,641
Operating expenses	212	173	139	81	180	127	299	129	1,340
Investment management expenses and finance costs ⁽³⁾	34	34	14	6	12	4	31	11	146
Total expenses	3,021	3,456	2,272	951	1,536	1,634	1,795	158	14,823
Share of profit/(loss) from associates	–	(1)	–	–	–	–	17	–	16
Operating profit before tax	796	604	393	186	180	164	283	45	2,651
Tax on operating profit before tax	(60)	(152)	(61)	(45)	(29)	(39)	(69)	(27)	(482)
Operating profit after tax	736	452	332	141	151	125	214	18	2,169
<i>Operating profit after tax attributable to:</i>									
Shareholders of AIA Group Limited	732	452	332	142	151	125	207	18	2,159
Non-controlling interests	4	–	–	(1)	–	–	7	–	10
Key operating ratios:									
Expense ratio	6.3%	5.5%	6.8%	8.4%	12.4%	6.5%	12.0%	–	8.7%
Operating margin	23.6%	19.4%	19.3%	19.3%	12.4%	8.4%	11.4%	–	17.3%
Operating return on allocated equity	18.9%	11.8%	22.8%	24.2%	16.7%	8.0%	12.3%	–	11.8%
Operating profit before tax includes:									
Finance costs	6	3	2	1	7	–	3	(3)	19
Depreciation and amortisation	9	9	12	8	10	6	21	13	88

Notes:

- (1) Excludes investment income related to unit-linked contracts.
- (2) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for unit-linked contracts and participating funds and investment income and investment management expenses related to unit-linked contracts. It also excludes policyholders' share of tax relating to the change in insurance and investment contract liabilities.
- (3) Excludes investment management expenses related to unit-linked contracts.

7. SEGMENT INFORMATION (continued)

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

US\$m	Key markets							Group Corporate Centre	Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets		
Year ended 30 November 2012									
Operating profit before tax	796	604	393	186	180	164	283	45	2,651
Non-operating items	215	656	167	19	(70)	4	59	13	1,063
Profit before tax	1,011	1,260	560	205	110	168	342	58	3,714
Tax on operating profit before tax	(60)	(152)	(61)	(45)	(29)	(39)	(69)	(27)	(482)
Policyholders' tax on operating profit before tax	-	-	(29)	(14)	-	-	(4)	-	(47)
Non-operating tax expense	-	(91)	(36)	(12)	17	(17)	(12)	(5)	(156)
Tax expense	(60)	(243)	(126)	(71)	(12)	(56)	(85)	(32)	(685)
Net profit	951	1,017	434	134	98	112	257	26	3,029
<i>Net profit attributable to:</i>									
Shareholders of AIA Group Limited	947	1,017	434	135	98	112	250	26	3,019
Non-controlling interests	4	-	-	(1)	-	-	7	-	10

Allocated equity may be analysed as follows:

US\$m	Key markets							Group Corporate Centre ⁽⁴⁾	Total
	Hong Kong	Thailand ⁽⁴⁾	Singapore	Malaysia	China	Korea	Other Markets ⁽⁴⁾		
30 November 2012									
Assets before investments in associates	32,869	24,197	27,234	8,589	10,587	11,615	13,598	5,659	134,348
Investments in associates	-	-	1	8	-	-	82	-	91
Total assets	32,869	24,197	27,235	8,597	10,587	11,615	13,680	5,659	134,439
Total liabilities⁽⁴⁾	26,121	18,834	24,724	7,844	9,511	9,539	10,315	723	107,611
Total equity	6,748	5,363	2,511	753	1,076	2,076	3,365	4,936	26,828
Non-controlling interests	11	-	-	9	-	-	107	4	131
Amounts reflected in other comprehensive income:									
Fair value reserve	2,936	798	463	42	(59)	524	1,274	1	5,979
Foreign currency translation reserve	-	463	389	96	132	(65)	145	5	1,165
Allocated equity	3,801	4,102	1,659	606	1,003	1,617	1,839	4,926	19,553
Net capital (out)/in flows	(1,104)	(503)	(23)	(98)	100	-	45	1,011	(572)

Note:

(4) Group Corporate Centre, Thailand and Other Markets adjusted for subordinated intercompany debt provided to Thailand and Other Markets of US\$13m and US\$29m, respectively.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

7. SEGMENT INFORMATION (continued)

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

US\$m	Segment information	Investment experience	Investment income related to unit-linked contracts	Investment management expenses related to unit-linked contracts	Related changes in insurance and investment contract benefits			Other non-operating items	Consolidated income statement	
					Unit-linked contracts	Participating funds	Third-party interests in consolidated investment funds			
Year ended 30 November 2012										
	Total revenue	17,458	2,743	186	-	-	-	-	20,387	Total revenue
Of which:										Of which:
	Net premiums, fee income and other operating revenue	13,181	-	-	-	-	-	-	13,181	Net premiums, fee income and other operating revenue
	Investment return	4,277	2,743	186	-	-	-	-	7,206	Investment return
	Total expenses	14,823	-	-	86	1,147	578	2	16,689	Total expenses
Of which:										Of which:
	Net insurance and investment contract benefits	11,696	-	-	-	1,147	578	(47)	13,374	Net insurance and investment contract benefits
	Restructuring and other non-operating costs	-	-	-	-	-	-	80	80	Restructuring and other non-operating costs
	Investment management expenses and finance costs	146	-	-	86	-	-	20	252	Investment management expenses and finance costs
	Change in third-party interests in consolidated investment funds	-	-	-	-	-	-	2	2	Change in third-party interests in consolidated investment funds
	Share of profit from associates	16	-	-	-	-	-	-	16	Share of profit from associates
	Operating profit before tax	2,651	2,743	186	(86)	(1,147)	(578)	(2)	3,714	Profit before tax

Other non-operating items in 2012 consist of restructuring and other non-operating costs of US\$80m (see note 5).

7. SEGMENT INFORMATION (continued)

US\$m	Key markets							Group Corporate Centre ⁽⁴⁾	Total
	Hong Kong ⁽⁴⁾	Thailand	Singapore	Malaysia	China	Korea	Other Markets		
Year ended 30 November 2011									
ANP	522	465	264	142	215	270	594	–	2,472
TWPI	3,142	2,976	1,949	928	1,313	2,029	2,105	–	14,442
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	2,483	3,027	1,921	813	1,245	1,517	1,343	66	12,415
Investment income ⁽¹⁾	904	835	720	288	299	342	486	72	3,946
Total revenue	3,387	3,862	2,641	1,101	1,544	1,859	1,829	138	16,361
Net insurance and investment contract benefits ⁽²⁾	2,132	2,670	1,878	769	1,120	1,331	1,049	17	10,966
Commission and other acquisition expenses	307	432	223	87	97	246	251	6	1,649
Operating expenses	192	167	131	75	178	125	263	122	1,253
Investment management expenses and finance costs ⁽³⁾	6	33	19	7	9	4	26	20	124
Total expenses	2,637	3,302	2,251	938	1,404	1,706	1,589	165	13,992
Share of profit from associates	–	–	1	3	–	–	8	–	12
Operating profit/(loss) before tax	750	560	391	166	140	153	248	(27)	2,381
Tax on operating profit/(loss) before tax	(52)	(165)	(55)	(34)	(21)	(29)	(78)	(17)	(451)
Operating profit/(loss) after tax	698	395	336	132	119	124	170	(44)	1,930
<i>Operating profit/(loss) after tax attributable to:</i>									
Shareholders of AIA Group									
Limited	694	395	336	133	119	124	165	(44)	1,922
Non-controlling interests	4	–	–	(1)	–	–	5	–	8
Key operating ratios:									
Expense ratio	6.1%	5.6%	6.7%	8.1%	13.6%	6.2%	12.5%	–	8.7%
Operating margin	23.9%	18.8%	20.1%	17.9%	10.7%	7.5%	11.8%	–	16.5%
Operating return on allocated equity	16.4%	11.1%	24.2%	23.6%	15.7%	8.6%	11.3%	–	11.7%
Operating profit/(loss) before tax includes:									
Finance costs	3	1	4	1	3	–	1	(1)	12
Depreciation and amortisation	10	9	11	9	11	13	19	9	91

Notes:

- (1) Excludes investment income related to unit-linked contracts.
- (2) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for unit-linked contracts and participating funds and investment income and investment management expenses related to unit-linked contracts. It also excludes policyholders' share of tax relating to the change in insurance and investment contract liabilities.
- (3) Excludes investment management expenses related to unit-linked contracts.
- (4) Results of certain internal reinsurance have been reclassified from Hong Kong segment to Group Corporate Centre segment to conform to current year presentation. As a result, operating profit before and after tax of Hong Kong segment have been decreased by US\$42m. The reclassification has no impact to the operating profit before and after tax, allocated equity and net capital outflow of the Group as of 30 November 2011.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

7. SEGMENT INFORMATION (continued)

Operating profit/(loss) before tax may be reconciled to net profit/(loss) as follows:

US\$m	Key markets							Group Corporate Centre ⁽⁴⁾	Total
	Hong Kong ⁽⁴⁾	Thailand	Singapore	Malaysia	China	Korea	Other Markets		
Year ended 30 November 2011									
Operating profit/(loss) before tax	750	560	391	166	140	153	248	(27)	2,381
Non-operating items	(196)	103	21	15	(136)	(11)	72	(81)	(213)
Profit/(loss) before tax	554	663	412	181	4	142	320	(108)	2,168
Tax on operating profit/(loss) before tax	(52)	(165)	(55)	(34)	(21)	(29)	(78)	(17)	(451)
Policyholders' tax on operating profit before tax	–	–	(40)	(14)	–	–	(5)	–	(59)
Non-operating tax expense	–	(46)	19	(2)	34	2	(53)	(4)	(50)
Tax expense	(52)	(211)	(76)	(50)	13	(27)	(136)	(21)	(560)
Net profit/(loss)	502	452	336	131	17	115	184	(129)	1,608

Net profit/(loss) attributable to:

Shareholders of AIA Group

Limited

Shareholders of AIA Group Limited	498	452	336	132	17	115	179	(129)	1,600
-----------------------------------	-----	-----	-----	-----	----	-----	-----	-------	-------

Non-controlling interests	4	–	–	(1)	–	–	5	–	8
---------------------------	---	---	---	-----	---	---	---	---	---

Allocated equity may be analysed as follows:

US\$m	Key markets							Group Corporate Centre ⁽⁴⁾⁽⁵⁾	Total
	Hong Kong ⁽⁴⁾	Thailand	Singapore	Malaysia	China	Korea	Other Markets ⁽⁵⁾		
30 November 2011									
Assets before investments in associates	28,030	21,519	23,215	7,601	8,850	9,827	11,021	4,337	114,400
Investments in associates	–	1	1	12	–	–	47	–	61
Total assets	28,030	21,520	23,216	7,613	8,850	9,827	11,068	4,337	114,461
Total liabilities⁽⁵⁾	22,700	16,724	21,449	6,931	8,000	8,137	8,518	587	93,046
Total equity	5,330	4,796	1,767	682	850	1,690	2,550	3,750	21,415
Non-controlling interests	9	–	–	9	–	–	81	3	102
Amounts reflected in other comprehensive income:									
Fair value reserve	1,364	815	250	38	(61)	334	827	(153)	3,414
Foreign currency translation reserve	(1)	393	269	66	106	(149)	104	5	793
Allocated equity	3,958	3,588	1,248	569	805	1,505	1,538	3,895	17,106
Net capital (out)/in flows ⁽⁴⁾	(1,058)	(401)	(618)	(120)	80	–	(26)	1,884	(259)

Notes:

(4) Results of certain internal reinsurance have been reclassified from Hong Kong segment to Group Corporate Centre segment to conform to current year presentation. As a result, operating profit before and after tax of Hong Kong segment have been decreased by US\$42m. The reclassification has no impact to the operating profit before and after tax, allocated equity and net capital outflow of the Group as of 30 November 2011.

(5) Group Corporate Centre and Other Markets adjusted for subordinated intercompany debt provided to Other Markets of US\$27m.

7. SEGMENT INFORMATION (continued)

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

US\$m	Segment information	Investment experience	Investment income related to unit-linked contracts	Investment management expenses related to unit-linked contracts	Related changes in insurance and investment contract benefits		Third-party interests in consolidated investment funds	Other non-operating items	Consolidated income statement	
					Unit-linked contracts	Participating funds				
Year ended 30 November 2011										
Total revenue	16,361	(2,177)	204	–	–	–	–	–	14,388	Total revenue
Of which:										Of which:
Net premiums, fee income and other operating revenue	12,415	–	–	–	–	–	–	–	12,415	Net premiums, fee income and other operating revenue
Investment return	3,946	(2,177)	204	–	–	–	–	–	1,973	Investment return
Total expenses	13,992	–	–	98	(1,622)	(213)	(29)	6	12,232	Total expenses
Of which:										Of which:
Net insurance and investment contract benefits	10,966	–	–	–	(1,622)	(213)	–	(59)	9,072	Net insurance and investment contract benefits
Restructuring and other non-operating costs	–	–	–	–	–	–	–	50	50	Restructuring and other non-operating costs
Investment management expenses and finance costs	124	–	–	98	–	–	–	15	237	Investment management expenses and finance costs
Change in third-party interests in consolidated investment funds	–	–	–	–	–	–	(29)	–	(29)	Change in third-party interests in consolidated investment funds
Share of profit from associates	12	–	–	–	–	–	–	–	12	Share of profit from associates
Operating profit before tax	2,381	(2,177)	204	(98)	1,622	213	29	(6)	2,168	Profit before tax

Other non-operating items in 2011 consist of restructuring and other non-operating costs of US\$50m (see note 5).

Notes to the Consolidated Financial Statements and Significant Accounting Policies

8. REVENUE

Investment return

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Interest income	3,957	3,685
Dividend income	409	389
Rental income	97	76
Investment income	4,463	4,150
Available for sale		
Net realised gains from debt securities	50	39
Net gains of available for sale financial assets reflected in the consolidated income statement	50	39
At fair value through profit or loss		
Net gains/(losses) of financial assets designated at fair value through profit or loss		
Net gains of debt securities	579	44
Net gains/(losses) of equity securities	2,328	(2,181)
Net gains of financial instruments held for trading		
Net gains of debt investments	1	–
Net fair value movement on derivatives	140	47
Net gains/(losses) in respect of financial instruments at fair value through profit or loss	3,048	(2,090)
Net foreign exchange losses	(287)	(129)
Other net realised (losses)/gains	(68)	3
Investment experience	2,743	(2,177)
Investment return	7,206	1,973

Other net realised (losses)/gains include impairment of intangible assets of US\$62m (2011: US\$3m).

Foreign currency movements resulted in the following losses recognised in the consolidated income statement (other than gains and losses arising on items measured at fair value through profit or loss):

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Foreign exchange losses	(55)	(57)

Other operating revenue

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

9. EXPENSES

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Insurance contract benefits	7,879	7,036
Change in insurance contract liabilities	5,658	3,426
Investment contract benefits	540	(861)
Insurance and investment contract benefits	14,077	9,601
Insurance and investment contract benefits ceded	(703)	(529)
Insurance and investment contract benefits, net of ceded reinsurance	13,374	9,072
Commission and other acquisition expenses incurred	2,840	2,506
Deferral and amortisation of acquisition costs	(1,199)	(857)
Commission and other acquisition expenses	1,641	1,649
Employee benefit expenses	858	812
Depreciation	64	65
Amortisation	24	26
Operating lease rentals	99	101
Other operating expenses	295	249
Operating expenses	1,340	1,253
Restructuring and other non-operating costs	80	50
Investment management expenses	233	225
Finance costs	19	12
Change in third-party interests in consolidated investment funds	2	(29)
Total	16,689	12,232

Other operating expenses include auditors' remuneration of US\$14m (2011: US\$11m).

Investment management expenses may be analysed as:

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Investment management expenses including fees paid to related parties	224	221
Depreciation on investment property	9	4
Total	233	225

Finance costs may be analysed as:

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Securities lending and repurchase agreements (see note 29 for details)	14	8
Bank and other loans	5	4
Total	19	12

Finance costs include interest expense of US\$5m (2011: US\$4m) on bank loans, overdrafts and related party loans wholly repayable within five years.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

9. EXPENSES (continued)

Employee benefit expenses consist of:

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Wages and salaries	682	683
Share-based compensation	45	16
Pension costs – defined contribution plans	46	41
Pension costs – defined benefit plans	16	11
Other employee benefit expenses	69	61
Total	858	812

10. INCOME TAX

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Tax charged/(credited) in the consolidated income statement		
Current income tax – Hong Kong Profits Tax	54	44
Current income tax – overseas	479	538
Deferred income tax on temporary differences	152	(22)
Total	685	560

The tax benefit or expense attributable to Singapore, Brunei, Malaysia, Indonesia, Australia and the Philippines 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\$104m (2011: US\$47m).

The provision for Hong Kong Profits Tax is calculated at 16.5 per cent. 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 2012	Year ended 30 November 2011
Thailand	23%	30%
Singapore	17%	17%
Korea	24.2%	24.2%
Malaysia	25%	25%
China	25%	25%
Hong Kong	16.5%	16.5%
Other	17% – 30%	17% – 30%

10. INCOME TAX (continued)

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 year in each jurisdiction.

During the year, Thailand and Korea enacted changes in corporate tax rates. For Thailand, the corporate income tax rate reduced to 23 per cent for assessment year 2012 and will reduce to 20 per cent for assessment years 2013 and 2014 and is assumed to be 30 per cent from assessment year 2015 onward. This change resulted in a reduction in deferred tax liabilities of US\$72m, which is recognised as a non-operating item.

For Korea, the corporate income tax rate was previously reduced to 22 per cent for the assessment years beginning April 2012. After the change in tax rate, the corporate tax rate on the portion of assessable profits exceeding 20 billion Korean Won increased from 22 per cent to 24.2 per cent for the assessment years beginning April 2012. The increase in tax rate resulted in an increase of deferred tax liability of US\$26m, of which US\$16m is recognised as a non-operating item and US\$10m is recognised in other comprehensive income.

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Income tax reconciliation		
Profit before income tax	3,714	2,168
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective jurisdictions	720	479
Reduction in tax payable from:		
Exempt investment income	(66)	(68)
Amount over-provided in prior years	(6)	–
Changes in tax rate and law	(56)	–
Other	(93)	(39)
	(221)	(107)
Increase in tax payable from:		
Life insurance tax ⁽¹⁾	35	48
Withholding taxes	31	20
Disallowed expenses	18	18
Amounts under-provided in prior years	–	6
Unrecognised deferred tax assets	40	38
Provisions for uncertain tax positions	62	58
	186	188
Total income tax expense	685	560

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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

10. INCOME TAX (continued)

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 ⁽²⁾	Foreign exchange	
30 November 2012					
Revaluation of financial instruments	(924)	(73)	(208)	(5)	(1,210)
Deferred acquisition costs	(1,836)	(209)	–	(54)	(2,099)
Insurance and investment contract liabilities	1,495	146	–	37	1,678
Withholding taxes	(95)	(15)	–	(5)	(115)
Provision for expenses	99	18	–	2	119
Losses available for offset against future taxable income	6	19	–	–	25
Life surplus ⁽¹⁾	(441)	(48)	–	(28)	(517)
Other	(110)	10	–	(5)	(105)
Total	(1,806)	(152)	(208)	(58)	(2,224)
30 November 2011					
Revaluation of financial instruments	(959)	90	(66)	11	(924)
Deferred acquisition costs	(1,620)	(234)	–	18	(1,836)
Insurance and investment contract liabilities	1,390	139	–	(34)	1,495
Withholding taxes	(85)	(10)	–	–	(95)
Provision for expenses	(24)	124	–	(1)	99
Losses available for offset against future taxable income	2	5	–	(1)	6
Life surplus ⁽¹⁾	(431)	(5)	–	(5)	(441)
Other	(25)	(87)	–	2	(110)
Total	(1,752)	22	(66)	(10)	(1,806)

Notes:

- (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/(credit) of US\$208m (2011: US\$66m) for 2012, US\$211m (2011: US\$69m) relates to fair value gains and losses on available for sale financial assets and US\$(3)m (2011: US\$(3)m) relates to fair value gains and losses on available for sale financial assets transferred to income on disposal.

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 is insufficient evidence that future profits will be available.

10. INCOME TAX (continued)

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

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Tax losses	100	158
Insurance and investment contract liabilities	32	24
Total	132	182

The Group has not provided deferred tax liabilities of US\$51m (2011: US\$53m) 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, Malaysia, Macau, the Philippines, Indonesia, China, Thailand, Korea and Taiwan. The tax losses of Hong Kong and Malaysia can be carried forward indefinitely. The tax losses of the remaining branches and subsidiaries are due to expire within the periods ending 2015 (Macau and the Philippines), 2016 (Indonesia), 2017 (China and Thailand) and 2022 (Korea and Taiwan).

11. 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 year. The shares held by employee share-based trusts are not considered to be outstanding from the date of the purchase for purposes of computing basic and diluted earnings per share.

	Year ended 30 November 2012	Year ended 30 November 2011
Net profit attributable to shareholders of AIA Group Limited (US\$m)	3,019	1,600
Weighted average number of ordinary shares in issue (million)	11,997	12,031
Basic earnings per share (US cents per share)	25.2	13.3

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 2012 and 2011, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible employees, directors, officers and agents under various share-based compensation plans as described in note 38.

	Year ended 30 November 2012	Year ended 30 November 2011
Net profit attributable to shareholders of AIA Group Limited (US\$m)	3,019	1,600
Weighted average number of ordinary shares in issue (million)	11,997	12,031
Adjustment for restricted share units, restricted stock purchase units and restricted stock subscription units granted under share-based compensation plans	11	1
Weighted average number of ordinary shares for diluted earnings per share (million)	12,008	12,032
Diluted earnings per share (US cents per share)	25.1	13.3

At 30 November 2012, 28,171,257 share options (2011: 20,426,519) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

11. EARNINGS PER SHARE (continued)

Operating profit after tax per share

Operating profit after tax (see note 5) per share is calculated by dividing the operating profit after tax attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the year. As of 30 November 2012 and 2011, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible employees, directors, officers and agents under various share-based compensation plans as described in note 38.

	Year ended 30 November 2012	Year ended 30 November 2011
Basic (US cents per share)	18.0	16.0
Diluted (US cents per share)	18.0	16.0

12. DIVIDENDS

Dividends to shareholders of the Company attributable to the year:

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Interim dividend declared and paid of 12.33 Hong Kong cents per share (2011: 11.00 Hong Kong cents per share)	191	170
Final dividend proposed after the reporting date of 24.67 Hong Kong cents per share (2011: 22.00 Hong Kong cents per share) ⁽¹⁾	382	339
	573	509

Note:

(1) Based upon shares outstanding at 30 November 2012 and 2011 that are entitled to a dividend, other than those held by employee share-based trusts.

The above final dividend was proposed by the Board on 27 February 2013 subject to shareholders' approval at the AGM to be held on 10 May 2013. The proposed final dividend has not been recognised as a liability at the reporting date.

Dividends to shareholders of the Company attributable to the previous financial year, approved and paid during the year:

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Final dividend in respect of the previous financial year, approved and paid during the year of 22.00 Hong Kong cents per share (2011: nil)	339	–

13. INTANGIBLE ASSETS

US\$m	Goodwill	Computer software	Distribution and other rights	Total
Cost				
At 1 December 2010	126	151	44	321
Additions	–	44	10	54
Disposals	–	(3)	(1)	(4)
Foreign exchange movements	–	1	1	2
At 30 November 2011	126	193	54	373
Additions	–	67	10	77
Disposals	–	(4)	–	(4)
Foreign exchange movements	–	7	2	9
At 30 November 2012	126	263	66	455
Accumulated amortisation and impairment				
At 1 December 2010	(6)	(61)	(2)	(69)
Amortisation charge for the year	–	(24)	(2)	(26)
Impairment	–	–	(3)	(3)
Disposals	–	1	–	1
Foreign exchange movements	–	–	–	–
At 30 November 2011	(6)	(84)	(7)	(97)
Amortisation charge for the year	–	(22)	(2)	(24)
Impairment	–	(57)	(5)	(62)
Disposals	–	3	–	3
Foreign exchange movements	–	(3)	–	(3)
At 30 November 2012	(6)	(163)	(14)	(183)
Net book value				
At 30 November 2011	120	109	47	276
At 30 November 2012	120	100	52	272

Of the above, US\$248m (2011: US\$250m) 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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

14. INVESTMENTS IN ASSOCIATES

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Group		
At beginning of financial year	61	69
Distribution from associates	(4)	–
Share of net profit	16	12
Others	19	(14)
Foreign exchange movements	(1)	(6)
At end of financial year	91	61

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

	Place of incorporation	Type of shares held	Principal activity	As at 30 November 2012	As at 30 November 2011
Tata AIA Life Insurance Company Limited (formerly known as Tata AIG Life Insurance Company Limited)	India	Ordinary	Insurance	26%	26%

All associates are unlisted.

Aggregated financial information of associates

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Share of income	144	131
Share of expenses	(128)	(119)
Share of net profit	16	12

US\$m	As at 30 November 2012	As at 30 November 2011
Share of total assets	854	818
Share of total liabilities	(763)	(757)
Share of net assets	91	61

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.

15. PROPERTY, PLANT AND EQUIPMENT

US\$m	Property held for use	Computer hardware	Fixtures and fittings and others	Total
Cost				
At 1 December 2010	517	184	265	966
Additions	2	35	48	85
Disposals	(9)	(30)	(16)	(55)
Net transfers to investment property	(73)	–	–	(73)
Foreign exchange movements	1	1	1	3
At 30 November 2011	438	190	298	926
Additions	25	25	76	126
Disposals	(12)	(14)	(57)	(83)
Net transfers to investment property	(12)	–	–	(12)
Foreign exchange movements	18	6	8	32
At 30 November 2012	457	207	325	989
Accumulated depreciation				
At 1 December 2010	(171)	(152)	(210)	(533)
Depreciation charge	(13)	(18)	(34)	(65)
Disposals	4	21	13	38
Net transfers from investment property	(6)	–	–	(6)
Foreign exchange movements	–	–	(1)	(1)
At 30 November 2011	(186)	(149)	(232)	(567)
Depreciation charge	(14)	(20)	(30)	(64)
Disposals	7	11	50	68
Net transfers to investment property	7	–	–	7
Foreign exchange movements	(9)	(6)	(6)	(21)
At 30 November 2012	(195)	(164)	(218)	(577)
Net book value				
At 30 November 2011	252	41	66	359
At 30 November 2012	262	43	107	412

The Group holds freehold land outside Hong Kong and leasehold land under finance lease in the form of property, plant and equipment. An analysis of the carrying value of the Group's interest in those land and land use rights is set out in note 23.

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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

16. INVESTMENT PROPERTY

US\$m

Cost

At 1 December 2010	882
Additions	3
Disposals	(12)
Net transfers from property, plant and equipment	73
Foreign exchange movements	(4)
At 30 November 2011	942
Additions	133
Disposals	(1)
Net transfers from property, plant and equipment	12
Foreign exchange movements	14
At 30 November 2012	1,100
Accumulated depreciation	
At 1 December 2010	(54)
Charge for the year	(4)
Disposals	6
Net transfers to property, plant and equipment	6
Foreign exchange movements	–
At 30 November 2011	(46)
Charge for the year	(9)
Disposals	–
Net transfers from property, plant and equipment	(7)
Foreign exchange movements	(3)
At 30 November 2012	(65)
Net book value	
At 30 November 2011	896
At 30 November 2012	1,035

The Group holds investment property for long-term use, 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 one 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\$97m (2011: US\$76m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US\$15m (2011: US\$9m).

The Group owns investment property in the form of freehold land outside Hong Kong and leasehold land under finance lease. The Group does not hold freehold land in Hong Kong. An analysis of the carrying value of the Group's interest in those land and land use right is set out in note 23.

16. INVESTMENT PROPERTY (continued)

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 2012	As at 30 November 2011
Leases of investment property		
Expiring no later than one year	78	55
Expiring later than one year and no later than five years	78	97
Expiring after five years or more	2	6
Total	158	158

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

US\$m	As at 30 November 2012	As at 30 November 2011
Carrying value⁽¹⁾		
Investment property	1,035	896
Property held for use (classified as property, plant and equipment)	262	252
Leasehold land under operating lease (classified as prepayments in other assets)	168	64
Total	1,465	1,212
Fair value⁽¹⁾		
Investment property (including land)	2,773	2,477
Property held for use (including land)	1,153	1,054
Total	3,926	3,531

Note:

(1) Carrying and fair values are presented before non-controlling interests and, for assets held in participating funds, before allocation to policyholders.

18. REINSURANCE ASSETS

US\$m	As at 30 November 2012	As at 30 November 2011
Amounts recoverable from reinsurers	95	100
Ceded insurance and investment contract liabilities	1,058	758
Total	1,153	858

Notes to the Consolidated Financial Statements and Significant Accounting Policies

19. DEFERRED ACQUISITION AND ORIGATION COSTS

US\$m	As at 30 November 2012	As at 30 November 2011
Carrying amount		
Deferred acquisition costs on insurance contracts	13,484	12,063
Deferred origination costs on investment contracts	677	755
Total	14,161	12,818

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Movements in the year		
At beginning of financial year	12,818	12,006
Deferral and amortisation of acquisition costs	1,210	869
Foreign exchange movements	356	(24)
Impact of assumption changes	(11)	(12)
Other movements	(212)	(21)
At end of financial year	14,161	12,818

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 unit-linked products, approximates to the amount which is expected to be realised within 12 months of the end of the reporting period.

20. FINANCIAL INVESTMENTS

The following tables analyse the Group's financial investments by type and nature. The Group manages its financial investments in two distinct categories: Unit-linked Investments and Policyholder and Shareholder Investments. The investment risk in respect of Unit-linked Investments is generally wholly borne by our customers, and does not directly affect the profit for the year before tax. Furthermore, unit-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 Unit-linked Investments, the investment return from such financial investments is included in the Group's profit for the year before tax, as the Group has elected the fair value option for all Unit-linked Investments with corresponding changes in insurance and investment contract liabilities for unit-linked contracts. Policyholder and Shareholder Investments include all financial investments other than Unit-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 above.

20. FINANCIAL INVESTMENTS (continued)

Other Policyholder and Shareholder Investments are distinct from Unit-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 classified 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	AAA
AA+ to AA-	Aa1 to Aa3	2+ to 2-	AA
A+ to A-	A1 to A3	3+ to 3-	A
BBB+ to BBB-	Baa1 to Baa3	4+ to 4-	BBB
BB+ and below	Ba1 and below	5+ and below	Below investment grade ⁽¹⁾

Note:

(1) Unless otherwise identified individually.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

20. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following:

US\$m	Rating	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Total
		Participating funds	Other policyholder and shareholder				
		FVTPL	FVTPL	AFS			
30 November 2012							
Government bonds							
– issued in local currency							
Singapore	AAA	1,864	–	1,230	3,094	216	3,310
Thailand	A	–	–	10,568	10,568	–	10,568
Philippines	BB	–	–	2,901	2,901	43	2,944
Malaysia	A	1,352	–	288	1,640	–	1,640
China	AA	407	–	2,325	2,732	–	2,732
Indonesia	BB	2	–	870	872	145	1,017
Korea	AA	–	–	3,044	3,044	128	3,172
Other ⁽¹⁾		15	10	406	431	3	434
Subtotal		3,640	10	21,632	25,282	535	25,817
Government bonds							
– foreign currency							
Mexico	BBB	8	19	203	230	2	232
South Africa	BBB	–	5	180	185	2	187
Philippines	BB	7	14	474	495	115	610
Malaysia	A	77	–	105	182	2	184
Indonesia	BB	68	18	293	379	2	381
Korea	A	20	–	232	252	4	256
China	AA	–	–	18	18	2	20
Other ⁽¹⁾		51	135	456	642	7	649
Subtotal		231	191	1,961	2,383	136	2,519
Government agency bonds⁽²⁾							
AAA		1,238	–	1,000	2,238	118	2,356
AA		358	–	1,147	1,505	46	1,551
A		433	–	4,731	5,164	24	5,188
BBB		111	–	1,313	1,424	2	1,426
Below investment grade		–	–	87	87	–	87
Not rated		–	–	–	–	–	–
Subtotal		2,140	–	8,278	10,418	190	10,608

Notes:

(1) Of the total government bonds listed as "Other" at 30 November 2012, 86 per cent are rated as investment grade and a further 11 per cent are rated BB- and above. The balance is rated below BB- or not rated.

(2) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.

20. FINANCIAL INVESTMENTS (continued)**Debt securities** (continued)

US\$m	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Total
	Participating funds	Other policyholder and shareholder				
	FVTPL	FVTPL	AFS			
30 November 2012						
Corporate bonds						
AAA	80	–	128	208	16	224
AA	905	38	2,583	3,526	117	3,643
A	3,810	224	13,273	17,307	495	17,802
BBB	4,171	102	12,171	16,444	389	16,833
Below investment grade	455	2	1,349	1,806	48	1,854
Not rated	19	14	87	120	113	233
Subtotal	9,440	380	29,591	39,411	1,178	40,589
Structured securities⁽³⁾						
AAA	4	–	–	4	–	4
AA	–	–	7	7	–	7
A	43	18	657	718	–	718
BBB	285	–	131	416	3	419
Below investment grade	34	73	–	107	–	107
Not rated	36	25	11	72	2	74
Subtotal	402	116	806	1,324	5	1,329
Total	15,853	697	62,268	78,818	2,044	80,862

Notes:

(3) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

(4) Debt securities of US\$1,967m are restricted due to local regulatory requirements or other pledge restrictions.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

20. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

US\$m	Rating	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Total
		Participating funds FVTPL	Other policyholder and shareholder FVTPL	AFS			
30 November 2011							
Government bonds							
– issued in local currency							
Singapore	AAA	1,486	–	1,004	2,490	116	2,606
Thailand	A	–	–	9,702	9,702	–	9,702
Philippines	BB	–	1	2,347	2,348	33	2,381
Malaysia	A	1,514	–	307	1,821	15	1,836
China	AA	407	–	1,495	1,902	31	1,933
Indonesia	BB	–	–	760	760	142	902
Korea	A	–	–	2,361	2,361	78	2,439
Other ⁽¹⁾		20	13	321	354	–	354
Subtotal		3,427	14	18,297	21,738	415	22,153
Government bonds							
– foreign currency							
Mexico	BBB	7	15	184	206	2	208
South Africa	BBB	–	7	194	201	2	203
Philippines	BB	–	11	430	441	105	546
Malaysia	A	76	–	102	178	2	180
Indonesia	BB	61	13	221	295	2	297
Korea	A	18	–	242	260	4	264
China	AA	–	–	15	15	2	17
Other ⁽¹⁾		48	148	442	638	19	657
Subtotal		210	194	1,830	2,234	138	2,372
Government agency bonds⁽²⁾							
AAA		1,100	–	998	2,098	117	2,215
AA		4	–	250	254	–	254
A		772	–	4,389	5,161	209	5,370
BBB		127	–	1,324	1,451	1	1,452
Below investment grade		–	3	80	83	–	83
Not rated		–	–	–	–	–	–
Subtotal		2,003	3	7,041	9,047	327	9,374

Notes:

- (1) Of the total government bonds listed as "Other" at 30 November 2011, 88 per cent are rated as investment grade and a further 8 per cent are rated BB- and above. The balance is rated below BB- or not rated.
- (2) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.

20. FINANCIAL INVESTMENTS (continued)**Debt securities** (continued)

US\$m	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Total
	Participating funds FVTPL	Other policyholder and shareholder FVTPL AFS				
30 November 2011						
Corporate bonds						
AAA	7	–	226	233	114	347
AA	1,206	67	2,332	3,605	195	3,800
A	3,133	123	10,978	14,234	673	14,907
BBB	2,997	303	8,301	11,601	245	11,846
Below investment grade	378	2	1,344	1,724	68	1,792
Not rated	6	9	37	52	208	260
Subtotal	7,727	504	23,218	31,449	1,503	32,952
Structured securities⁽³⁾						
AAA	–	17	–	17	–	17
AA	4	–	–	4	–	4
A	20	–	515	535	–	535
BBB	286	–	93	379	6	385
Below investment grade	49	74	17	140	–	140
Not rated	11	–	7	18	2	20
Subtotal	370	91	632	1,093	8	1,101
Total	13,737	806	51,018	65,561	2,391	67,952

Notes:

(3) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

(4) Debt securities of US\$3,248m are restricted due to local regulatory requirements or other pledge restrictions.

The Group's debt securities classified at fair value through profit or loss can be analysed as follows:

US\$m	As at 30 November 2012	As at 30 November 2011
Debt securities – FVTPL		
Designated at fair value through profit or loss	18,545	16,934
Held for trading	49	–
Total	18,594	16,934

Notes to the Consolidated Financial Statements and Significant Accounting Policies

20. FINANCIAL INVESTMENTS (continued)

Equity securities

Equity securities by type comprise the following:

US\$m	Policyholder and shareholder		Subtotal	Unit-linked FVTPL	Third-party interest FVTPL	Total
	Participating funds FVTPL	Other policyholder and shareholder FVTPL				
30 November 2012						
Ordinary shares	2,246	4,708	6,954	3,077	–	10,031
Interests in investment funds	1,288	948	2,236	11,157	232	13,625
Total	3,534	5,656	9,190	14,234	232	23,656

US\$m	Policyholder and shareholder		Subtotal	Unit-linked FVTPL	Third-party interest FVTPL	Total
	Participating funds FVTPL	Other policyholder and shareholder FVTPL				
30 November 2011						
Ordinary shares	1,972	3,216	5,188	2,625	–	7,813
Interests in investment funds	805	1,172	1,977	8,963	259	11,199
Total	2,777	4,388	7,165	11,588	259	19,012

Debt and equity securities

US\$m	As at 30 November 2012	As at 30 November 2011
Debt securities		
Listed		
Hong Kong	3,345	1,877
Overseas	55,051	43,228
	58,396	45,105
Unlisted	22,466	22,847
Total	80,862	67,952
Equity securities		
Listed		
Hong Kong	815	276
Overseas	10,749	8,373
	11,564	8,649
Unlisted	12,092	10,363
Total	23,656	19,012

20. FINANCIAL INVESTMENTS (continued)**Loans and deposits**

US\$m	As at 30 November 2012	As at 30 November 2011
Policy loans	1,998	1,837
Mortgage loans on residential real estate	433	427
Mortgage loans on commercial real estate	16	17
Other loans	674	683
Allowance for loan losses	(7)	(21)
Loans	3,114	2,943
Term deposits	1,632	1,334
Promissory notes ⁽¹⁾	1,679	288
Total	6,425	4,565

Note:

(1) The promissory notes are issued by government.

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within term deposits and promissory notes is US\$1,073m (2011: US\$130m).

21. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's non-hedge derivative exposure was as follows:

US\$m	Notional amount	Fair value	
		Assets	Liabilities
30 November 2012			
Foreign exchange contracts			
Forwards	5,038	15	–
Cross-currency swaps	8,371	596	(41)
Currency options	26	–	–
Total foreign exchange contracts	13,435	611	(41)
Interest rate contracts			
Interest rate swaps	666	18	–
Other			
Warrants and options	125	9	–
Equity index futures	183	–	–
Netting	(183)	–	–
Total	14,226	638	(41)
30 November 2011			
Foreign exchange contracts			
Forwards	846	1	(8)
Cross-currency swaps	8,875	706	(30)
Currency options	7	–	–
Total foreign exchange contracts	9,728	707	(38)
Interest rate contracts			
Interest rate swaps	1,114	14	–
Other			
Warrants and options	81	4	–
Credit default swap	59	–	–
Total	10,982	725	(38)

Notes to the Consolidated Financial Statements and Significant Accounting Policies

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Both pay and receive legs of the transaction have been disclosed in the column “notional amount”.

Of the total derivatives, US\$3m (2011: US\$1m) are listed in exchange or dealer markets and the rest are 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 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 options are agreements that give the buyer the right to exchange the currency of one country for the currency of another country at agreed prices and settlement dates. 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 the foreign exchange contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, implied volatilities of the underlying indices, 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.

Other derivatives

Warrants and options are option agreements that give the owner the right to buy or sell securities at an agreed price and settlement date. Credit default swaps (CDS) represent agreements that allow the transfer of third-party credit risk from the protection buyer to the seller. The Group purchased the CDS as a protection on the specific corporate debt portfolio by making a series of payments to the seller of the CDS. The Group will be compensated if the reference corporate debt defaults during the CDS contract period. Equity index futures contracts are exchange-traded cash-settled contracts on the value of particular stock market index. The Group entered into equity index futures contracts to manage its equity market exposure. The netting adjustment is related to futures contracts executed through clearing house where the settlement arrangement satisfied the IFRS netting criteria.

Collateral and pledges under derivative transactions

At 30 November 2012, the Group had pledged debt securities with carrying value of US\$12m (2011: nil) for liabilities and held cash collateral of US\$321m (2011: nil) in respect of over-the-counter derivative transactions. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreement.

22. 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 present the fair values of the Group's financial assets and financial liabilities:

US\$m	Notes	Fair value				Total fair value
		Fair value through profit or loss	Available for sale	Cost/amortised cost	Total carrying value	
30 November 2012						
Financial investments	20					
Loans and deposits		–	–	6,425	6,425	6,455
Debt securities		18,594	62,268	–	80,862	80,862
Equity securities		23,656	–	–	23,656	23,656
Derivative financial instruments	21	638	–	–	638	638
Reinsurance receivables	18	–	–	95	95	95
Other receivables	23	–	–	1,231	1,231	1,231
Accrued investment income	23	–	–	1,196	1,196	1,196
Cash and cash equivalents	24	–	–	2,948	2,948	2,948
Financial assets		42,888	62,268	11,895	117,051	117,081

	Notes	Fair value through profit or loss	Cost/amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	26	7,533	1,332	8,865	8,865
Borrowings	28	–	766	766	766
Obligations under securities lending and repurchase agreements	29	–	1,792	1,792	1,792
Derivative financial instruments	21	41	–	41	41
Other liabilities	32	232	2,580	2,812	2,812
Financial liabilities		7,806	6,470	14,276	14,276

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements on a recurring basis

The Group measures at fair value financial instruments classified 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 brokers, 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. Priority is given to values from independent sources when available, but overall the source of pricing and/or valuation technique is chosen with the objective of arriving at the price at which an orderly transaction would take place between market participants on the measurement date. The inputs to determining fair value that are relevant to fixed interest securities include, but not limited to risk-free interest rates, the obligor's credit spreads, foreign exchange rates, and credit default rates. 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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities (continued)

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 sold under repurchase agreement and the associated payables

The contract values of payables under repurchase agreements approximate their 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 25. 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.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities (continued)

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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

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 2012				
Financial assets				
Available for sale				
Debt securities	–	61,750	518	62,268
At fair value through profit or loss				
Debt securities				
Participating funds	–	15,544	309	15,853
Unit-linked	–	1,757	287	2,044
Other policyholder and shareholder	–	474	223	697
Equity securities				
Participating funds	3,331	72	131	3,534
Unit-linked	12,700	1,534	–	14,234
Other policyholder and shareholder	5,461	152	275	5,888
Derivative financial instruments	3	631	4	638
Total	21,495	81,914	1,747	105,156
<i>Total %</i>	<i>20.4</i>	<i>77.9</i>	<i>1.7</i>	<i>100.0</i>
Financial liabilities				
Investment contract liabilities	–	–	7,533	7,533
Derivative financial instruments	–	41	–	41
Other liabilities	232	–	–	232
Total	232	41	7,533	7,806
<i>Total %</i>	<i>3.0</i>	<i>0.5</i>	<i>96.5</i>	<i>100.0</i>

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**Fair value hierarchy** (continued)

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
30 November 2011				
Financial assets				
Available for sale				
Debt securities	–	50,651	367	51,018
At fair value through profit or loss				
Debt securities				
Participating funds	–	13,574	163	13,737
Unit-linked	–	2,217	174	2,391
Other policyholder and shareholder	–	649	157	806
Equity securities				
Participating funds	2,562	70	145	2,777
Unit-linked	10,404	1,184	–	11,588
Other policyholder and shareholder	4,254	163	230	4,647
Derivative financial instruments	1	723	1	725
Total	17,221	69,231	1,237	87,689
<i>Total %</i>	<i>19.6</i>	<i>79.0</i>	<i>1.4</i>	<i>100.0</i>
Financial liabilities				
Investment contract liabilities	–	–	7,048	7,048
Derivative financial instruments	–	38	–	38
Other liabilities	259	–	–	259
Total	259	38	7,048	7,345
<i>Total %</i>	<i>3.5</i>	<i>0.5</i>	<i>96.0</i>	<i>100.0</i>

Notes to the Consolidated Financial Statements and Significant Accounting Policies

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

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 2012 and 2011. The tables reflect gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 30 November 2012 and 2011.

Level 3 financial assets and liabilities

US\$m	Debt securities	Equity securities	Derivative financial assets	Derivative financial liabilities	Investment contracts
At 1 December 2011	861	375	1	–	(7,048)
Realised gains/(losses)	34	(1)	–	–	–
Net movement on investment contract liabilities	–	–	–	–	(485)
Total gains/(losses) relating to instruments still held at the reporting date					
Reported in the consolidated income statement	100	(12)	1	–	–
Reported in the consolidated statement of comprehensive income	41	12	–	–	–
Purchases	517	73	3	–	–
Sales	(18)	(33)	–	–	–
Settlements	(78)	(1)	–	–	–
Transfer into Level 3	88	4	–	–	–
Transfer out of Level 3	(208)	(11)	(1)	–	–
At 30 November 2012	1,337	406	4	–	(7,533)

US\$m	Debt securities	Equity securities	Derivative financial assets	Derivative financial liabilities	Investment contracts
At 1 December 2010	845	288	1	–	(7,786)
Realised gains	12	2	1	–	–
Net movement on investment contract liabilities	–	–	–	–	738
Total gains/(losses) relating to instruments still held at the reporting date					
Reported in the consolidated income statement	41	14	(1)	(1)	–
Reported in the consolidated statement of comprehensive income	(4)	(3)	–	–	–
Purchases	299	80	1	1	–
Sales	(157)	(22)	(1)	–	–
Settlements	(67)	–	–	–	–
Transfer into Level 3	7	83	–	–	–
Transfer out of Level 3	(115)	(67)	–	–	–
At 30 November 2011	861	375	1	–	(7,048)

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 26.

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.

During the year, there were no material transfers between Level 1 and Level 2 fair value measurements.

23. OTHER ASSETS

US\$m	As at 30 November 2012	As at 30 November 2011
Prepayments		
Operating leases of leasehold land	168	64
Other	129	171
Accrued investment income	1,196	1,046
Pension scheme assets		
Defined benefit pension scheme surpluses (note 37)	11	9
Insurance receivables		
Due from insurance and investment contract holders	725	684
Due from agents, brokers and intermediaries	38	71
Receivables from sales of investments	80	101
Other receivables	388	442
Total	2,735	2,588

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.

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 2012, the carrying value of such receivables is US\$64m (2011: US\$156m).

Below sets out an analysis of the Group's interest in land and land use rights:

US\$m	As at 30 November 2012				As at 30 November 2011			
	Property, plant and equipment	Investment property	Prepayments of operating leases	Total	Property, plant and equipment	Investment property	Prepayments of operating leases	Total
Land held in Hong Kong								
Long-term leases (>50 years)	43	590	-	633	43	589	-	632
Medium-term leases (10 to 50 years)	-	-	-	-	-	-	-	-
Short-term leases (<10 years)	-	-	-	-	-	-	-	-
Land held outside Hong Kong								
Freehold	81	114	-	195	77	112	-	189
Long-term leases (>50 years)	1	-	58	59	-	1	56	57
Medium-term leases (10 to 50 years)	-	-	110	110	-	1	8	9
Short-term leases (<10 years)	-	-	-	-	-	4	-	4
Total	125	704	168	997	120	707	64	891

Notes to the Consolidated Financial Statements and Significant Accounting Policies

24. CASH AND CASH EQUIVALENTS

US\$m	As at 30 November 2012	As at 30 November 2011
Cash	1,581	1,636
Cash equivalents	1,367	2,667
Total⁽¹⁾	2,948	4,303

Note:

(1) Of cash and cash equivalents, US\$735m (2011: US\$788m) are held to back unit-linked contracts.

Cash comprises cash at bank and cash in hand. Cash equivalents comprise bank deposits and highly liquid short-term investments 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.

25. INSURANCE CONTRACT LIABILITIES

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
At beginning of financial year	78,752	73,205
Valuation premiums and deposits ⁽¹⁾	15,213	12,846
Liabilities released for policy termination or other policy benefits paid and related expenses ⁽¹⁾	(9,906)	(8,746)
Fees from account balances	(702)	(617)
Accretion of interest	2,875	2,617
Foreign exchange movements	2,620	131
Change in net asset values attributable to policyholders	1,728	(560)
Other movements	(6)	(124)
At end of financial year	90,574	78,752

Note:

(1) Valuation premiums and deposits and liabilities released for policy termination or other policy benefits paid and related expenses have been grossed up by US\$958m in 2011 to conform to the current year presentation of movement in deferred profit liabilities.

25. INSURANCE CONTRACT LIABILITIES (continued)**Business description**

The table below summarises the key variables on which insurance and investment contract cash flows depend.

Type of contract	Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows	Key reportable segments
Traditional participating life assurance with DPF	Participating 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 Claims experience 	All ⁽¹⁾
Unit-linked	Unit-linked contracts combine savings with protection, the cash value of the policy depending on the value of unithesed funds	Benefits are based on the value of the unithesed 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 Corporate Centre segment.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

25. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions

The most significant items to which profit for the year 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 year attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders (for example, in respect of unit-linked contracts), there is a second-order effect through the investment management fees which the Group earns by managing such investments. The distinction between direct and indirect exposure is not intended to indicate the relative sensitivity to each of these items. Where the direct exposure is shown as being "net neutral", this is because the exposure to market and credit risk is offset by a corresponding movement in insurance contract liabilities.

Type of contract		Market and credit risk			Significant insurance and lapse risks
		Direct exposure		Indirect exposure	
		Insurance and investment contract liabilities	Risks associated with related investment portfolio		
Traditional participating life assurance with DPF	Participating funds	<ul style="list-style-type: none"> • Net neutral except for the insurer's share of participating investment performance • Guarantees 	<ul style="list-style-type: none"> • Net neutral except for the insurer's share of participating investment performance • Guarantees 	<ul style="list-style-type: none"> • Investment performance subject to smoothing through dividend declarations 	<ul style="list-style-type: none"> • Impact of persistency on future dividends • Mortality
	Other participating business	<ul style="list-style-type: none"> • Net neutral except for the insurer's share of participating investment performance • Guarantees 	<ul style="list-style-type: none"> • Net neutral except for the insurer's share of participating investment performance • Guarantees 	<ul style="list-style-type: none"> • Investment performance 	<ul style="list-style-type: none"> • Impact of persistency on future dividends • Mortality
Traditional non-participating life assurance		<ul style="list-style-type: none"> • Investment performance • Credit risk • Asset-liability mismatch risk 	<ul style="list-style-type: none"> • Guarantees • Asset-liability mismatch risk 	<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 • Asset-liability mismatch risk 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Claims experience • Morbidity • Persistency
Pension		<ul style="list-style-type: none"> • Net neutral • Asset-liability mismatch risk 	<ul style="list-style-type: none"> • Net neutral • Asset-liability mismatch risk 	<ul style="list-style-type: none"> • Performance-related investment management fees 	<ul style="list-style-type: none"> • Persistency
Unit-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 • Asset-liability mismatch 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.

25. INSURANCE CONTRACT LIABILITIES (continued)**Methodology and assumptions** (continued)**Valuation interest rates**

As at 30 November 2012 and 2011, the ranges 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:

	As at 30 November 2012	As at 30 November 2011
Hong Kong	3.50% – 7.50%	3.50% – 7.50%
Thailand	3.25% – 9.00%	2.60% – 9.00%
Singapore	2.00% – 7.25%	2.00% – 10.00%
Malaysia	3.14% – 8.90%	3.70% – 8.90%
China	2.75% – 7.00%	2.75% – 7.00%
Korea	3.33% – 6.50%	3.33% – 6.50%
Philippines	2.20% – 9.20%	3.75% – 9.20%
Indonesia	3.05% – 10.80%	3.37% – 10.80%
Vietnam	5.07% – 12.25%	5.07% – 12.25%
Australia	3.83% – 7.11%	3.83% – 7.11%
New Zealand	3.83% – 5.75%	3.83% – 5.75%
Taiwan	1.75% – 6.50%	1.75% – 6.50%

26. INVESTMENT CONTRACT LIABILITIES

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
At beginning of financial year	8,360	9,091
Effect of foreign exchange movements	107	26
Investment contract benefits	540	(861)
Fees charged	(189)	(187)
Net deposits and other movements	47	291
At end of financial year	8,865	8,360

Notes to the Consolidated Financial Statements and Significant Accounting Policies

27. 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 2012	As at 30 November 2011
(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax		
0.5 pps increase in investment return	8	9
0.5 pps decrease in investment return	(10)	(9)
10% increase in expenses	(2)	(2)
10% increase in mortality rates	(16)	(15)
10% increase in lapse/discontinuance rates	(19)	(15)

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 years 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 unit-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\$9m decrease in profit (2011: US\$12m decrease).

28. BORROWINGS

US\$m	As at 30 November 2012	As at 30 November 2011
Bank loans	493	456
Bank overdrafts	273	99
Other loans	-	4
Total	766	559

Properties with a book value of US\$893m at 30 November 2012 (2011: US\$762m) and a fair value of US\$2,008m at 30 November 2012 (2011: US\$1,809m) and cash and cash equivalents with a book value of US\$2m (2011: US\$66m) are pledged as security with respect to amounts disclosed as bank loans above. Interest on loans reflects market rates of interest. 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 36.

29. OBLIGATIONS UNDER SECURITIES LENDING AND REPURCHASE AGREEMENTS

The Group entered into securities lending agreement whereby securities were loaned to a national monetary authority. In addition, the Group has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date.

The securities related to these agreements are not derecognised from the Group's consolidated statement of financial position, but are retained within the appropriate financial asset classification. During the term of the securities lending and repurchase agreements, AIA is restricted from selling or pledging the transferred debt securities. The following table specifies the amounts included within financial investments subject to securities lending or repurchase agreements which do not qualify for derecognition at each period end:

US\$m	As at 30 November 2012	As at 30 November 2011
Debt securities:		
Securities lending	-	321
Repurchase agreements	1,846	663
Total	1,846	984

Collateral

The Group received collateral based on the initial market value of the securities lent in the form of promissory notes issued by the national monetary authority; both the securities lent and the collateral are denominated in local currency. In the absence of default, the Group cannot sell or repledge the collateral and it is not recognised in the consolidated statement of financial position.

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

US\$m	As at 30 November 2012	As at 30 November 2011
Repurchase agreements	1,792	670

30. 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 2012, no impairment losses (2011: US\$nil) 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 2012 was US\$64m (2011: US\$59m).

Notes to the Consolidated Financial Statements and Significant Accounting Policies

30. IMPAIRMENT OF FINANCIAL ASSETS (continued)

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 20 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 2012 was US\$17m (2011: US\$39m).

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 one year and cover is cancelled if consideration is not received.

31. PROVISIONS

US\$m	Employee benefits	Other	Total
At 1 December 2010	81	119	200
Charged to the consolidated income statement	11	64	75
Exchange differences	–	(1)	(1)
Released during the year	–	(15)	(15)
Utilised during the year	(8)	(71)	(79)
At 30 November 2011	84	96	180
Charged to the consolidated income statement	16	78	94
Exchange differences	1	3	4
Released during the year	(5)	(7)	(12)
Utilised during the year	(10)	(52)	(62)
At 30 November 2012	86	118	204

Further details of provisions for employee post-retirement benefits are provided in note 37.

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.

32. OTHER LIABILITIES

US\$m	As at 30 November 2012	As at 30 November 2011
Trade and other payables	1,949	1,660
Third-party interests in consolidated investment funds	232	259
Payables from purchases of investments	449	304
Reinsurance payables	182	164
Total	2,812	2,387

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.

33. SHARE CAPITAL AND RESERVES**Share capital**

	As at 30 November 2012		As at 30 November 2011	
	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 beginning and end of the financial year	12,044	12,044	12,044	12,044
Share premium		1,914		1,914

There were no shares issued under share option schemes during the year ended 30 November 2012.

Except for 53,653,843 shares (2011: 30,540,802 shares) of the Company held by the employee share-based trusts, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 30 November 2012. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled. Please refer to note 38 for details.

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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

33. SHARE CAPITAL AND RESERVES (continued)

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.

Employee share-based trusts

Trusts have been established to acquire shares of the Company for distribution to participants in future periods through the share-based compensation schemes. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts".

Other reserves

Other reserves include the impact of merger accounting for business combinations under common control and share-based compensation.

34. NON-CONTROLLING INTERESTS

US\$m	As at 30 November 2012	As at 30 November 2011
Equity shares in subsidiaries	60	60
Share of earnings	29	18
Share of other reserves	42	24
Total	131	102

35. GROUP CAPITAL STRUCTURE

Capital management approach

The Group's capital management objectives focus on maintaining a strong capital base to support the development of its business, maintaining the ability to move capital freely and 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, strategic asset allocation and ongoing solvency management. This includes ensuring capital considerations are paramount in the strategy and business planning processes and when determining AIA's capacity to pay dividends to shareholders.

35. GROUP CAPITAL STRUCTURE (continued)**Regulatory solvency**

The Group is in compliance with the solvency and capital adequacy requirements applied by 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 (HKOCI), 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 HKOCI 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 is 100 per cent of the required minimum solvency margin. The excess of assets over liabilities to be maintained by AIA Co. and AIA-B required by the HKOCI is not less than 150 per cent of the required minimum solvency margin.

The capital positions of the Group's two principal operating companies as of 30 November 2012 and 2011 are as follows:

US\$m	30 November 2012			30 November 2011		
	Total available capital	Required capital	Solvency ratio	Total available capital	Required capital	Solvency ratio
AIA Co.	4,811	1,362	353%	6,168	1,984	311%
AIA-B	3,108	1,415	220%	3,419	1,150	297%

For these purposes, the Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the Hong Kong Insurance Companies Ordinance and "required capital" as the minimum required margin of solvency calculated in accordance with the Hong Kong Insurance Companies Ordinance. The solvency ratio is the ratio of total available capital to required capital.

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 operate and, in relation to subsidiaries, in which they are incorporated. The various regulators overseeing the Group actively monitor our local solvency positions. AIA Co. and AIA-B submit annual filings to the HKOCI 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 to shareholders and to meet other obligations depends ultimately on dividends and other payments being received 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. For example, capital may not be remitted from Thailand without the consent of the Office of the Insurance Commission in Thailand. The payment of dividends, distributions and other payments to shareholders is subject to the oversight of the HKOCI.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

35. GROUP CAPITAL STRUCTURE (continued)

Capital and regulatory orders specific to the Group

As of 30 November 2012, the requirements and restrictions summarised below may be considered material to the Group and remain in effect unless otherwise stated.

Hong Kong Office of the Commissioner of Insurance

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 per cent, 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 per cent, 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 per cent, AIA Group Limited will take steps as soon as possible to restore it to at least 150 per cent in a manner acceptable to the Insurance Authority;
- (ii) 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 HKICO) 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 HKICO) of AIA Co. and AIA-B through the disposal of our shares traded on the HKSE;
- (iii) 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 HKICO. The Insurance Authority is empowered by the HKICO 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
- (iv) fulfil all enhancements or improvements to the guidance referred to in subparagraph (iii) 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 HKICO, regulations under the HKICO or guidance notes issued by the Insurance Authority from time to time.

36. 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 Risk Management Framework has been established for the identification, evaluation and management of the key risks faced by the organisation within our stated Risk Appetite. The framework includes an established risk governance structure with clear oversight and assignment of responsibility for monitoring and management of financial and non-financial risks.

Insurance risk

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

- Product design risk;
- Underwriting and expense overrun risk;
- Lapse risk; and
- Claims 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 through the New Product Approval Process where products are reviewed against pricing, design and operational risk benchmarks agreed by the Group Financial Risk Committee (FRC). Local business units work closely with a number of Group functions including product management, actuarial, legal, compliance, risk and underwriting.

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.

Underwriting and expense overrun risk

Underwriting and expense overrun risk refers to the possibility of product-related income being inadequate to support future obligations arising from an insurance product.

The Group manages underwriting risk by adhering to the Group 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 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 manages expense overrun risk by allowing 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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

36. RISK MANAGEMENT (continued)

Insurance risk (continued)

Lapse risk

Lapse risk refers to the possibility that lapse experience diverges from that assumed when products were priced. It includes 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 payback 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 risk

Claims 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.

The Group seeks 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 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.

The Group has a broad geographical footprint across the Asia-Pacific region, which provides a degree of natural geographical diversification of claims experience. We mitigate and manage this risk by adhering to the underwriting and claims management policies and procedures that have been developed based on our extensive historical experience. Our broad product offering and large in-force product portfolio also reduce our exposure to concentration risk. Finally, we use reinsurance solutions to help reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophes.

36. RISK MANAGEMENT (continued)**Financial risk exposures**

The Group is exposed to a range of financial risks, including 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.

Credit risk

Credit risk occurs wherever we are relying on a third party to satisfy their financial obligation to us. Although the primary source of credit risk is the Group's investment portfolio, credit risk also arises in our reinsurance, settlement and treasury activities.

The management of credit risk occurs on two levels in AIA.

The Investment Credit Research team performs a detailed analysis of individual counterparties and recommends a rating within the internal ratings framework. The Group Risk function manages the Group's internal ratings framework and agrees these recommendations. Internal ratings are then used to determine our appetite for exposure to each counterparty.

A matrix of risk tolerances has been approved by the FRC that ensures that credit risk in the investment portfolio is contained within AIA's risk appetite. These tolerances cover individual counterparty, segmental concentration and cross-border exposures. The Investment function has discretion to shape the portfolio within those risk tolerances. If certain investments are technically within risk tolerances but there is a specific concern, Group Risk may bring these to the attention of the FRC.

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 FRC approves all policies and metrics associated with the evaluation of market risk exposures.

Interest rate risk

The Group's exposure to interest rate risk predominantly arises from any difference between the tenor of the Group's liabilities and assets, or any difference between the return on investments and the return required to meet the Group's commitments, predominantly its insurance liabilities. This exposure can be heightened in products with inherent interest rate options or guarantees.

We seek to manage interest rate risk by ensuring appropriate insurance product design and underlying assumptions as part of the product approval process and by matching, to the extent possible and appropriate, the duration of our investment assets with the duration of our insurance policies. For in-force policies, we regularly adjust the policyholder bonus payout and crediting rates applicable to policyholder account balances considering, amongst other things, the earned yields and policyholders' reasonable expectations.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

36. RISK MANAGEMENT (continued)

Financial risk exposures (continued)

Market risk (continued)

Exposure to interest rate risk

The table below summarises the nature of the interest rate risk associated with financial assets and financial liabilities. In preparing this analysis, fixed rate interest bearing instruments that mature or reprice within 12 months of the reporting date have been disclosed as variable rate instruments.

US\$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 2012				
Financial assets				
Loans and deposits	995	5,386	44	6,425
Other receivables	66	1	1,164	1,231
Debt securities	5,932	74,930	–	80,862
Equity securities	–	–	23,656	23,656
Reinsurance receivables	–	–	95	95
Accrued investment income	–	92	1,104	1,196
Cash and cash equivalents	2,767	–	181	2,948
Derivative financial instruments	–	–	638	638
Total financial assets	9,760	80,409	26,882	117,051
Financial liabilities				
Investment contract liabilities	–	–	8,865	8,865
Borrowings	492	–	274	766
Obligations under securities lending and repurchase agreements	1,792	–	–	1,792
Other liabilities	–	–	2,812	2,812
Derivative financial instruments	–	–	41	41
Total financial liabilities	2,284	–	11,992	14,276

36. RISK MANAGEMENT (continued)**Financial risk exposures** (continued)**Market risk** (continued)**Exposure to interest rate risk** (continued)

US\$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 2011				
Financial assets				
Loans and deposits	1,469	3,058	38	4,565
Other receivables	162	1	1,135	1,298
Debt securities	5,741	62,211	–	67,952
Equity securities	–	–	19,012	19,012
Reinsurance receivables	–	–	100	100
Accrued investment income	–	77	969	1,046
Cash and cash equivalents	4,093	–	210	4,303
Derivative financial instruments	–	–	725	725
Total financial assets	11,465	65,347	22,189	99,001
Financial liabilities				
Investment contract liabilities	–	–	8,360	8,360
Borrowings	460	–	99	559
Obligations under securities lending and repurchase agreements	670	–	–	670
Other liabilities	–	–	2,387	2,387
Derivative financial instruments	–	–	38	38
Total financial liabilities	1,130	–	10,884	12,014

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 US dollars for financial reporting purposes. 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.

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 per cent strengthening of original currency is stated relative to the functional currency of the relevant operation of the Group. The impact of a 5 per cent 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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

36. RISK MANAGEMENT (continued)

Financial risk exposures (continued)

Market risk (continued)

Foreign exchange rate risk (continued)

Net exposure

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
30 November 2012							
Equity analysed by original currency	15,990	153	3,713	(1,963)	837	1,377	2,567
Net notional amounts of currency derivative positions	(6,177)	301	1,609	3,149	–	2	–
Currency exposure	9,813	454	5,322	1,186	837	1,379	2,567
5% strengthening of original currency							
Impact on profit before tax	107	(9)	4	29	5	20	29
5% strengthening of the US dollar							
Impact on shareholders' equity	(107)	11	(252)	(36)	(34)	(46)	(98)

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
30 November 2011							
Equity analysed by original currency	13,714	(17)	3,496	(2,068)	677	861	1,648
Net notional amounts of currency derivative positions	(4,331)	300	1,399	3,195	–	47	–
Currency exposure	9,383	283	4,895	1,127	677	908	1,648
5% strengthening of original currency							
Impact on profit before tax	90	(16)	10	28	–	11	2
5% strengthening of the US dollar							
Impact on shareholders' equity	(90)	9	(224)	(28)	(29)	(37)	(80)

Equity market and interest rate risk

Equity market risk arises from changes in the market value of equity securities and equity funds. 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.

36. RISK MANAGEMENT (continued)**Financial risk exposures** (continued)**Market risk** (continued)**Equity market and interest rate risk** (continued)

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 27. 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 unit-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 net assets 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 before tax and net assets before the effects of taxation 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 2012		30 November 2011	
	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)
Equity market risk				
10 per cent increase in equity prices	630	630	497	497
10 per cent decrease in equity prices	(630)	(630)	(497)	(497)
Interest rate risk				
+ 50 basis points shift in yield curves	(92)	(2,770)	(80)	(2,120)
- 50 basis points shift in yield curves	92	2,770	80	2,120

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. 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.

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.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

36. RISK MANAGEMENT (continued)

Financial risk exposures (continued)

Liquidity risk (continued)

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 ten years	Due after ten years
30 November 2012						
Financial assets						
Loans and deposits	6,425	1,949	475	1,203	728	2,070
Other receivables	1,231	65	1,065	89	4	8
Debt securities	80,862	–	2,413	15,974	22,089	40,386
Equity securities	23,656	23,656	–	–	–	–
Reinsurance receivables	95	–	95	–	–	–
Accrued investment income	1,196	–	1,104	36	56	–
Cash and cash equivalents	2,948	–	2,948	–	–	–
Derivative financial instruments	638	–	146	415	79	(2)
Total	117,051	25,670	8,246	17,717	22,956	42,462
Financial and insurance contracts liabilities						
Insurance and investment contract liabilities (net of reinsurance)	98,381	–	(871)	784	8,553	89,915
Borrowings	766	273	7	486 ⁽¹⁾	–	–
Obligations under securities lending and repurchase agreements	1,792	–	1,792	–	–	–
Other liabilities	2,812	232	2,580	–	–	–
Derivative financial instruments	41	–	4	16	21	–
Total	103,792	505	3,512	1,286	8,574	89,915

Note:

(1) Includes amounts of US\$486m (2011: US\$nil) due after 2 years through 5 years.

36. RISK MANAGEMENT (continued)**Financial risk exposures** (continued)**Liquidity risk** (continued)

US\$m	Total	No fixed maturity	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
30 November 2011						
Financial assets						
Loans and deposits	4,565	1,863	547	691	762	702
Other receivables	1,298	96	1,155	46	1	–
Debt securities	67,952	–	2,638	15,174	18,595	31,545
Equity securities	19,012	19,012	–	–	–	–
Reinsurance receivables	100	–	100	–	–	–
Accrued investment income	1,046	2	974	24	46	–
Cash and cash equivalents	4,303	–	4,303	–	–	–
Derivative financial instruments	725	–	204	392	134	(5)
Total	99,001	20,973	9,921	16,327	19,538	32,242
Financial and insurance contracts liabilities						
Insurance and investment contract liabilities (net of reinsurance)	86,354	–	(521)	1,955	8,161	76,759
Borrowings	559	103	456	–	–	–
Obligations under securities lending and repurchase agreements	670	–	670	–	–	–
Other liabilities	2,387	259	2,128	–	–	–
Derivative financial instruments	38	–	8	20	10	–
Total	90,008	362	2,741	1,975	8,171	76,759

Notes to the Consolidated Financial Statements and Significant Accounting Policies

37. EMPLOYEE BENEFITS

Defined benefit plans

US\$m	As at 30 November 2012	As at 30 November 2011
Present value of unfunded obligations	126	107
Present value of funded obligations	53	60
Total present value of obligations	179	167
Fair value of plan assets	(60)	(60)
Present value of net obligations	119	107
Unrecognised actuarial losses	(41)	(31)
Unrecognised past service cost	(3)	(1)
Net recognised defined benefit obligations	75	75
Recognised defined benefit deficits	86	84
Recognised defined benefit surpluses	(11)	(9)

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. The latest independent actuarial valuations of the plans were at 30 November 2012 and were prepared by credentialed actuaries of Mercer (Hong Kong) Limited. All the actuaries are qualified members of professional actuarial organisations to render the actuarial opinions.

The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 34 per cent (2011: 36 per cent) covered by the plan assets held by the trustees.

Plan assets comprise:

US\$m	As at 30 November 2012	As at 30 November 2011
Equity securities	–	3
Debt securities	2	1
Real estate	51	40
Investment contracts issued by third-party financial institutions	7	16
Total	60	60

Movement in the present value of defined benefit obligations

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
At beginning of financial year	167	129
Benefits paid by the plan	(4)	(9)
Current service costs and interest (see next page)	19	16
Actuarial losses	13	36
Plan settlement, curtailment or amendment	(21)	(4)
Foreign exchange movements	5	(1)
At end of financial year	179	167

37. EMPLOYEE BENEFITS (continued)**Defined benefit plans** (continued)**Movement in the fair value of plan assets**

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
At beginning of financial year	60	60
Contributions paid into the plan	12	8
Benefits paid by the plan	(4)	(9)
Expected return on plan assets	5	5
Actuarial gains	2	1
Foreign exchange movements	4	–
Asset distributed on settlement	(19)	(5)
At end of financial year	60	60

Expense recognised in consolidated income statement

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Current service costs	12	10
Interest on obligation	7	6
Expected return on plan assets	(5)	(5)
Settlement/curtailment gains recognised	(5)	(2)
Others	7	2
Total	16	11

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

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Operating expenses	16	11

Actuarial assumptions

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

	As at 30 November 2012	As at 30 November 2011
Expected return on plan assets at beginning of financial year	3.5% – 10.7%	2.5% – 10.7%
Future salary increases	3.0% – 10.0%	3.0% – 10.0%
Healthcare trend rate:		
Immediate trend rate	5.0% – 12.0%	4.0% – 12.0%
Ultimate trend rate	4.25% – 12.0%	4.0% – 12.0%
Year in which the ultimate trend rate is reached	2013 – 2016	2012 – 2016
Discount rate at end of the financial year	1.0% – 6.25%	1.5% – 7.25%

Notes to the Consolidated Financial Statements and Significant Accounting Policies

37. EMPLOYEE BENEFITS (continued)

Defined benefit plans (continued)

Actuarial assumptions (continued)

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	60
Average life expectancy on retirement					
Males	19.1 years	23.8 years	20.5 years	19.2 – 23.3 years	21.3 years
Females	23.9 years	26.0 years	23.2 years	25.5 – 29.9 years	25.1 years

Assumed healthcare cost trend rates affect the amounts recognised in profit or loss. A 1 per cent change in assumed healthcare cost trend rates would have the following effects (expressed as weighted averages):

US\$m	1% increase		1% decrease	
	2012	2011	2012	2011
Effect on the aggregate service and interest cost	1	1	(1)	(1)
Effect on defined benefit obligation	13	9	(9)	(7)

Historical information

US\$m	As at 30 November 2012	As at 30 November 2011	As at 30 November 2010	As at 30 November 2009	As at 30 November 2008
Present value of the defined benefit obligation	179	167	129	110	101
Fair value of plan assets	(60)	(60)	(60)	(53)	(50)
Deficits of the plans	119	107	69	57	51
Experience loss arising on plan liabilities	-	(23)	(4)	(7)	(14)
Experience gain/(loss) arising on plan assets	(2)	1	3	(2)	(2)

Contributions to funded and unfunded defined benefit plans during the year ending 30 November 2013 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\$46m (2011: US\$41m). Employees and the employer are required to make monthly contributions equal to 5 per cent to 22 per cent of the employees' monthly basic salaries, depending on years of service and subject to any applicable caps of monthly relevant income in different jurisdictions. For defined contribution pension plans with vesting conditions, any forfeited contributions by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions are used by the employer to reduce any future contributions. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

The outstanding liability for defined contribution benefit plans is US\$10m (2011: US\$2m).

38. SHARE-BASED COMPENSATION

Share-based compensation plans

During the year ended 30 November 2012, the Group made further grants of share options and restricted share units (RSUs) to certain employees, directors and officers of the Group under the Share Option Scheme (SO Scheme) and the Restricted Share Unit Scheme (RSU Scheme). In addition to the existing Employee Share Purchase Plan (ESPP), the Group has launched an Agency Share Purchase Plan (ASPP).

RSU Scheme

Under the RSU Scheme, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. RSU grants are vested either entirely after a specific period of time or in tranches over the vesting period. For RSU grants that are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period. For certain RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the participants at the end of the vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares. Except in jurisdictions where restrictions apply, the granted RSUs are expected to be settled in equity; grants that the Group has the legal or constructive obligation to settle in cash are insignificant to the Group. The maximum number of shares that can be granted under this scheme is 301,100,000 (2011: 301,100,000), representing 2.5 per cent (2011: 2.5 per cent) of the number of shares in issue at 30 November 2012.

	Year ended 30 November 2012 Number of shares	Year ended 30 November 2011 Number of shares
Restricted Share Units		
Outstanding at beginning of financial year	31,202,819	–
Granted	22,348,056	31,792,008
Forfeited	(2,733,564)	(589,189)
Vested	(366,680)	–
Outstanding at end of financial year	50,450,631	31,202,819

SO Scheme

The objectives of the SO Scheme are to align eligible participants' interests with those of the shareholders of the Company by allowing eligible participants to share in the value created at the point they exercise their options. Share option (SO) grants are vested either entirely after a specific period of time or in tranches over the vesting period approximately three to five years, during which, the eligible participants are required to remain in employment with the Group. For SO grants vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period. The granted share options expire 10 years from the date of grant and each share option entitles the eligible participant to subscribe for one ordinary share. Except in jurisdictions where restrictions apply, the granted share options are expected to be settled in equity; grants that the Group has the legal or constructive obligation to settle in cash are insignificant to the Group. The total number of shares under options that can be granted under the scheme is 301,100,000 (2011: 301,100,000), representing 2.5 per cent (2011: 2.5 per cent) of the number of shares in issue at 30 November 2012. The measurement dates for share option grants made in June 2011 and March 2012 were determined to be 15 June 2011 and 15 March 2012 respectively, in accordance with IFRS 2.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

38. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

SO Scheme (continued)

Information about share options outstanding and share options exercisable by the Group's employees and directors as at the end of the reporting period is as follows:

	Year ended 30 November 2012		Year ended 30 November 2011	
	Number of share options	Weighted average exercise price (HK\$)	Number of share options	Weighted average exercise price (HK\$)
Share options				
Outstanding at beginning of financial year	20,426,519	27.35	–	–
Granted	7,816,367	28.40	20,426,519	27.35
Forfeited or expired	(71,629)	27.35	–	–
Outstanding at end of financial year	28,171,257	27.64	20,426,519	27.35
Share options exercisable at end of financial year	–	–	–	–
Weighted average remaining contractual life (years)	8.72		9.50	

The share options outstanding as of 30 November 2012 have an exercise price of between HK\$27.35 and HK\$28.40.

ESPP

Under the plan, eligible employees of the Group can purchase ordinary shares of the Company with qualified employee contributions and the Company will award one matching restricted stock purchase unit to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the Group. The level of qualified employee contribution is limited to not more than 5 per cent of the annual basic salary subject to a maximum of US\$15,000 per annum. The granted matching restricted stock purchase units are expected to be settled in equity. For the year ended 30 November 2012, eligible employees paid US\$6 million (2011: less than US\$1 million) to purchase 1,630,722 ordinary shares (2011: 232,328 ordinary shares) of the Company.

ASPP

The structure of the ASPP generally follows that of the ESPP, the key difference being that the eligible agents are required to pay a subscription price of US\$1 to subscribe for each new share in the Company at the end of the vesting period. Under the plan, eligible agents of the Group can purchase ordinary shares of the Company with qualified agent contributions and the Company will award one matching restricted stock subscription unit to them at the end of the vesting period for each two shares purchased through the qualified agent contributions (agent contribution shares). Each restricted stock subscription unit entitles eligible agents to subscribe for one new share in the Company. Agent contribution shares are purchased from the open market. During the vesting period, the eligible agents must hold the contribution shares purchased during the plan cycle and maintain their agent contracts with the Group. The granted matching restricted stock subscription units are expected to be settled in equity. The level of qualified agent contribution is subject to a maximum of US\$15,000 per annum. For the year ended 30 November 2012, eligible agents paid US\$4 million to purchase 1,130,720 ordinary shares of the Company.

38. SHARE-BASED COMPENSATION (continued)**Valuation methodology**

The Group utilises a binomial lattice model to calculate the fair value of the share option grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU, ESPP and ASPP awards, taking into account the terms and conditions upon which the awards were granted. The price volatility is estimated on the basis of implied volatility of the Company's shares which is based on an analysis of historical data since they are traded in the Hong Kong Stock Exchange and takes into consideration the historical volatility of peer companies (the constituent companies in Dow Jones Insurance Titans 30 Index) in view of the short trading history of the Company's shares on the measurement date. The expected life of the share options is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behaviour of the Company's employees. The estimate of market condition for performance-based RSUs is based on one-year historical data preceding the grant date. No allowance for forfeiture prior to vesting is included in the valuation of the awards.

The fair value calculated for share options are inherently subjective due to the assumptions made and the limitations of the model utilised.

	Year ended 30 November 2012			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	1.44%	0.20% – 0.36%*	0.19% – 0.49%	0.16% – 0.40%
Volatility	30%	30%	25% – 30%	30%
Dividend yield	1.2%	1.2% – 1.3%	1.2% – 1.3%	1.2% – 1.3%
Exercise price (HK\$)	28.40	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.4	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK\$)	8.71	23.74	27.43	18.96

* Applicable to RSU with market conditions.

	Year ended 30 November 2011			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	2.28%	0.24% – 0.51%*	0.32% – 0.37%	n/a
Volatility	25%	25%	25%	n/a
Dividend yield	1.2%	1.2%	1.2%	n/a
Exercise price (HK\$)	27.35	n/a	n/a	n/a
Share option life (in years)	9.96	n/a	n/a	n/a
Expected life (in years)	7.42 – 7.87	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK\$)	7.68	24.73	22.96	n/a

* Applicable to RSU with market conditions.

The weighted average share price for share option valuation for grants made during the year ended 30 November 2012 is HK\$28.40 (2011: HK\$27.25). The total fair value of share options granted during the year ended 30 November 2012 is US\$9m (2011: US\$20m).

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards granted under the RSU Scheme, SO Scheme, ESPP and ASPP by the Group for the year ended 30 November 2012 is US\$45m (2011: US\$16m).

Notes to the Consolidated Financial Statements and Significant Accounting Policies

39. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Directors' remuneration

The Executive Director receives 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 Group and the Executive Director. Details of share-based payment schemes are described in note 38.

US\$	Directors' fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Post-employment benefits	Share-based payments	Inducement fees	Termination fees	Total
Year ended									
30 November 2012									
<i>Executive Director</i>									
Mr. Mark Edward Tucker	-	1,905,036	3,924,300	77,732	15,994	5,646,971	-	-	11,570,033
Total	-	1,905,036	3,924,300	77,732	15,994	5,646,971	-	-	11,570,033

US\$	Directors' fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Post-employment benefits	Share-based payments	Inducement fees	Termination fees	Total
Year ended									
30 November 2011									
<i>Executive Director</i>									
Mr. Mark Edward Tucker	-	1,568,066	3,773,400	64,734	11,383	2,375,885	-	-	7,793,468
Total	-	1,568,066	3,773,400	64,734	11,383	2,375,885	-	-	7,793,468

The remuneration of Non-executive Directors and Independent Non-executive Directors of the Company at 30 November 2012 and 2011 are included in the tables below:

US\$	Directors' fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Post-employment benefits	Share-based payments	Inducement fees	Termination fees	Total
Year ended									
30 November 2012									
<i>Non-executive Directors</i>									
Mr. Edmund Sze-Wing Tse ⁽¹⁾	535,541	75,168	-	-	-	-	-	-	610,709
Mr. Jeffrey Joy Hurd ⁽²⁾	-	-	-	-	-	-	-	-	-
Mr. Jay Steven Wintrob ⁽³⁾	-	-	-	-	-	-	-	-	-
<i>Independent</i>									
<i>Non-executive Directors</i>									
Mr. Jack Chak-Kwong So ⁽⁴⁾	215,301	-	-	-	-	-	-	-	215,301
Mr. Chung-Kong Chow	233,197	-	-	-	-	-	-	-	233,197
Dr. Qin Xiao	233,142	-	-	-	-	-	-	-	233,142
Mr. John Barrie Harrison	225,601	-	-	-	-	-	-	-	225,601
Mr. Barry Chun-Yuen Cheung ⁽²⁾	33,798	-	-	-	-	-	-	-	33,798
Mr. George Yong-Boon Yeo ⁽²⁾	14,385	-	-	-	-	-	-	-	14,385
Dr. Narongchai Akrasanee ⁽²⁾	5,191	-	-	-	-	-	-	-	5,191
Mr. Rafael Si-Yan Hui ⁽³⁾	71,530	-	-	-	-	-	-	-	71,530
Total	1,567,686	75,168	-	-	-	-	-	-	1,642,854

39. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)**Directors' remuneration** (continued)

Notes:

- (1) Included in directors' fees is US\$18,940 which represents remuneration to Mr. Edmund Sze-Wing Tse in respect of his services as director of a subsidiary of the Company.
- (2) Mr. Barry Chun-Yuen Cheung, Mr. George Yong-Boon Yeo and Dr. Narongchai Akrasanee were appointed as directors of the Company on 20 September 2012, 2 November 2012 and 21 November 2012, respectively.
- (3) Mr. Jeffrey Joy Hurd and Mr. Jay Steven Wintrob resigned as directors of the Company on 8 March 2012 and Mr. Rafael Si-Yan Hui resigned as director of the Company on 29 March 2012.
- (4) Mr. Jack Chak-Kwong So was re-designated as Independent Non-executive Director of the Company with effect from 26 September 2012.

US\$	Directors' fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Post-employment benefits	Share-based payments	Inducement fees	Termination fees	Total
Year ended									
30 November 2011									
<i>Non-executive Directors</i>									
Mr. Edmund Sze-Wing Tse ⁽¹⁾	501,896	76,098	-	-	-	-	-	-	577,994
Mr. Jack Chak-Kwong So	215,000	-	-	-	-	-	-	-	215,000
Mr. Jeffrey Joy Hurd	-	-	-	-	-	-	-	-	-
Mr. Jay Steven Wintrob	-	-	-	-	-	-	-	-	-
<i>Independent</i>									
<i>Non-executive Directors</i>									
Mr. Chung-Kong Chow	235,000	-	-	-	-	-	-	-	235,000
Mr. Rafael Si-Yan Hui	220,000	-	-	-	-	-	-	-	220,000
Dr. Qin Xiao	226,616	-	-	-	-	-	-	-	226,616
Mr. John Barrie Harrison	94,315	-	-	-	-	-	-	-	94,315
Total	1,492,827	76,098	-	-	-	-	-	-	1,568,925

Note:

- (1) Included in directors' fees is US\$18,159 which represents remuneration to Mr. Edmund Sze-Wing Tse in respect of his services as director of a subsidiary of the Company.

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 2012 and 2011 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
Year ended								
30 November 2012	6,307,954	8,359,300	199,762	47,438	12,731,677	-	-	27,646,131
30 November 2011	7,374,823	10,193,295	178,683	20,273	4,786,939	-	-	22,554,013

Notes to the Consolidated Financial Statements and Significant Accounting Policies

39. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Remuneration of five highest paid individuals (continued)

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

HK\$	Year ended 30 November 2012	Year ended 30 November 2011
24,000,001 to 24,500,000	–	1
25,000,001 to 25,500,000	1	–
27,500,001 to 28,000,000	–	1
28,500,001 to 29,000,000	1	–
31,000,001 to 31,500,000	–	1
31,500,001 to 32,000,000	–	1
32,500,001 to 33,000,000	1	–
38,000,001 to 38,500,000	1	–
60,500,001 to 61,000,000	–	1
89,500,001 to 90,000,000	1	–

Key management personnel remuneration

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

US\$	Year ended 30 November 2012	Year ended 30 November 2011
Key management compensation and other expenses		
Salaries and other short-term employee benefits	23,356,919	24,195,898
Termination benefits	–	422,374
Post-employment benefits – defined contribution	395,984	366,772
Post-employment benefits – defined benefit	–	–
Post-employment benefits – medical & life	100,397	52,510
Other long-term benefits	468,426	1,236,641
Share-based payment	17,730,158	7,193,522
Total	42,051,884	33,467,717

The emoluments of the Key Management Personnel are within the following bands:

US\$	Year ended 30 November 2012	Year ended 30 November 2011
500,001 to 1,000,000	–	1
1,000,001 to 1,500,000	1	2
1,500,001 to 2,000,000	1	3
2,000,001 to 2,500,000	–	3
2,500,001 to 3,000,000	2	–
3,000,001 to 3,500,000	3	1
3,500,001 to 4,000,000	1	2
4,000,001 to 4,500,000	1	–
4,500,001 to 5,000,000	1	–
7,500,001 to 8,000,000	–	1
11,500,001 to 12,000,000	1	–

40. RELATED PARTY TRANSACTIONS

Remuneration of directors and key management personnel is disclosed in note 39.

41. 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 2012	Year ended 30 November 2011
Properties and others expiring		
Not later than one year	79	80
Later than one and not later than five years	103	102
Later than five years	32	36
Total	214	218

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 ten 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 and capital commitments

US\$m	Year ended 30 November 2012	Year ended 30 November 2011
Not later than one year	641	396
Later than one and not later than five years	63	31
Later than five years	4	2
Total	708	429

Investment and capital commitments consist of commitments to invest in private equity partnerships and other assets.

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 was fully retroceded to a subsidiary of AIG and this retrocession was terminated in February 2012 on a run-off basis. The Group is exposed to the risk of losses in the event of the failure of the counterparty retrocessionaire to honour its outstanding obligations which is mitigated by a trust agreement put in place after the aforesaid termination. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US\$1,877m at 30 November 2012 (2011: US\$2,525m). The liabilities and related reinsurance assets, which totalled US\$11m (2011: US\$11m), 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 reporting date under the terms of this agreement from the retrocessionaire.

At 30 November 2012, the Group has issued capital guarantees and guarantees of indebtedness and minimum guaranteed rates of return ranging from 0 per cent to 5 per cent to holders of units of pension funds that have an accumulation value of approximately US\$1,477m (2011: US\$1,336m). The Group has the ability to reduce the guaranteed rates of return, subject to obtaining approvals of applicable regulators.

Notes to the Consolidated Financial Statements and Significant Accounting Policies

42. 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 2012	As at 30 November 2011
American International Assurance Company, Limited ⁽¹⁾⁽³⁾ (AIA Co.)	Hong Kong	Insurance	805,902,610 ordinary shares of US\$5 each	100%	100%
American International Assurance Company (Bermuda) Limited (AIA-B)	Bermuda	Insurance	3,000,000 ordinary shares of US\$1.20 each	100%	100%
AIA Australia Limited	Australia	Insurance	77,068,300 ordinary shares of A\$1 each	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 Finansial	Indonesia	Insurance	477,711,032 ordinary shares of Rp1,000 each	100%	100%
The Philippine American Life and General Insurance Company	Philippines	Insurance	200,000,000 ordinary shares of PHP10 each	99.78%	99.78%
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND1,034,836,791,693	100%	100%
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 ordinary shares of US\$1 each	90%	90%
BPI-Philam Life Assurance Corporation	Philippines	Insurance	749,993,979 ordinary shares of PHP1 each and 6,000 treasury shares	51%	51%
AIA Singapore Private Limited	Singapore	Insurance	1,374,000,001 ordinary shares of S\$1 each	100%	100%

Notes:

(1) The Company's subsidiary.

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

(3) On 21 January 2013, American International Assurance Company, Limited has changed its name to AIA Company Limited.

All subsidiaries are unlisted.

43. EVENTS AFTER THE REPORTING PERIOD

On 5 December 2012, the Group completed the acquisition of 92.3 per cent of the issued share capital in Sri Lankan insurer Aviva NDB Insurance (ANI). In addition, ANI has entered into an exclusive 20-year bancassurance agreement with the National Development Bank in Sri Lanka. The acquisition will position the Group to develop a significant operation in the expanding Sri Lankan market. The remaining 7.7 per cent of ANI not acquired represents shares publicly held and traded on the Colombo Stock Exchange of Sri Lanka. The consideration with respect to the transaction of US\$109 million was paid from existing cash resources; the consideration amount is subject to purchase price adjustment which is expected to be finalised during 2013.

On 10 December 2012, the Group has entered into an unsecured, committed credit facility agreement (Credit Facility) for 18 months totalling US\$1,725 million with a group of international banks. The Credit Facility bears interest based on LIBOR.

On 18 December 2012, the Group acquired 100 per cent of share capital of ING Management Holdings (Malaysia) Sdn. Bhd. (ING Malaysia). ING Malaysia is the third largest life insurer in Malaysia based upon gross premiums earned for the year ended 31 December 2011. The acquisition presents the Group with a high calibre distribution force of over 9,000 agents and a long-term bancassurance partnership with a leading Malaysian banking group, Public Bank. The consideration with respect to this transaction was EUR1,332 million or US\$1,754 million at exchange rates on the date of the transaction, and was paid from cash financed initially through the Credit Facility. The Group utilised a foreign currency forward contract to economically hedge this transaction. The foreign currency forward contract resulted in a gain of US\$20 million which is included in investment experience as hedge accounting was not applied. The Group intends to repay the bank credit facility with a combination of internal cash resources and external debt financing.

The Group has the ability to exercise control over ANI and ING Malaysia through control of their voting rights. Due to the limited time available between these acquisitions and the approval of these financial statements, the Group is still in the process of establishing the fair value of the assets and liabilities acquired. Accordingly, certain disclosures relating to the above mentioned business combinations have not been presented in these financial statements.

In October 2012, the Group entered into a Sale and Purchase agreement to acquire a building in Hong Kong for a consideration of HK\$2,398 million (approximately US\$309 million). The transaction was completed on 11 December 2012.

On 27 February 2013, the Board of Directors proposed a final dividend of 24.67 Hong Kong cents per share (2011: 22.00 Hong Kong cents per share).

Financial Statements of the Company

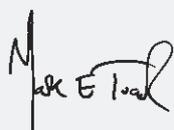
STATEMENT OF FINANCIAL POSITION OF THE COMPANY

US\$m	Notes	As at 30 November 2012	As at 30 November 2011
Assets			
Investments in subsidiaries	2	13,994	13,994
Amount due from subsidiary	3	1,040	–
Derivative financial instruments	4	8	–
Other assets		18	2
Cash and cash equivalents	5	86	473
Total assets		15,146	14,469
Liabilities			
Other liabilities		13	7
Total liabilities		13	7
Equity			
Issued share capital	6	12,044	12,044
Share premium	6	1,914	1,914
Employee share-based trusts	6	(188)	(105)
Retained earnings		1,303	593
Other reserves	7	60	16
Total equity		15,133	14,462
Total liabilities and equity		15,146	14,469

Notes:

- (1) 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 2012 and 2011 were US\$1,240m and US\$689m, respectively.

Approved and authorised for issue by the Board of Directors on 27 February 2013.



Mark Edward Tucker
Director



Edmund Sze-Wing Tse
Director

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 112 to 132. The Company's financial statements comply with both IFRS and HKFRS.

2. INVESTMENTS IN SUBSIDIARIES

There is no movement in the Company's investments in its subsidiaries during the year ended 30 November 2012 and 2011. See note 42 to the Group's consolidated financial statements for further information of the Company's subsidiaries.

3. AMOUNT DUE FROM SUBSIDIARY

The balance is unsecured, interest-free and repayable on demand.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's non-hedge derivative exposure was as follows:

US\$m	Notional amount	Fair value
30 November 2012		
Foreign exchange contracts		
Forwards	3,468	8
Total	3,468	8

Details of derivative financial instruments are presented in note 21 to the Group's consolidated financial statements.

5. CASH AND CASH EQUIVALENTS

The cash and cash equivalents balance consists of cash of US\$86m (2011: US\$366m) and cash equivalents of US\$nil (2011: US\$107m).

6. SHARE CAPITAL, SHARE PREMIUM AND EMPLOYEE SHARE-BASED TRUSTS

Details of share capital, share premium and employee share-based trusts are presented in note 33 to the Group's consolidated financial statements.

7. OTHER RESERVES

Other reserves comprise of share-based compensation recognised under the RSU Scheme, ESPP, ASPP and Share Option Scheme.

8. RISK MANAGEMENT

Risk management in the context of the Group is discussed in note 36 to the Group's consolidated financial statements.

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 discussed in note 2.3 to the Group's consolidated financial statements.

Financial assets, other than investments in subsidiaries and associates, largely consist of cash and cash equivalents.

Financial Statements of the Company

NOTES TO FINANCIAL STATEMENTS OF THE COMPANY (continued)

9. 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.

10. CONTINGENCIES

During the year, the Company has issued a guarantee to a financial institution in respect of a loan of HK\$2,507 million (approximately US\$323 million) borrowed by its subsidiary. The Company is exposed to the risk in the event of default payment by its subsidiary.

11. EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period of the Company are presented in note 43 to the Group's consolidated financial statements.

Supplementary Embedded Value Information

TOWERS WATSON REPORT ON THE REVIEW OF THE SUPPLEMENTARY EMBEDDED VALUE INFORMATION

AIA Group Limited (the Company) and its subsidiaries (together, "AIA" or "the Group") have prepared supplementary embedded value results (EV Results) for the year ended 30 November 2012 (the Period). 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 report.

Towers Watson Pennsylvania Inc., trading as Towers Watson (Towers Watson) has been engaged to review the Group's EV Results and prior year comparisons. This opinion is made solely to the Company and, 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.

SCOPE OF WORK

Our scope of work covered:

- A review of the methodology used to calculate the embedded value as at 30 November 2012 and the value of new business for the 12-month period 1 December 2011 to 30 November 2012;
- A review of the economic and operating assumptions used to calculate the embedded value as at 30 November 2012 and the value of new business for the 12-month period 1 December 2011 to 30 November 2012; and
- A review of the results of AIA's calculation of the EV Results.

In carrying out our review, Towers Watson has relied on data and information provided by the Group.

OPINION

Towers Watson has concluded that:

- The methodology used is consistent with recent industry practice for publicly listed companies 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 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 2012, the value of new business for the 12-month period 1 December 2011 to 30 November 2012, the analysis of movement in embedded value for the 12-month period ended 30 November 2012, and the sensitivity analysis.

Towers Watson

27 February 2013

Supplementary Embedded Value Information

CAUTIONARY STATEMENTS CONCERNING EV

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 may 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 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 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. More details of the EV Results, methodology and assumptions are covered in later sections of this report.

Table 1.1 summarises the key results including the adjusted net worth (ANW) and value of in-force business (VIF).

Table 1.1
Summary Key Metrics⁽¹⁾ (US\$ millions)

	At 30 November 2012	At 30 November 2011	Growth
Embedded value (EV)	31,408	27,239	15%
Adjusted net worth (ANW)	13,170	10,906	21%
Value of in-force business (VIF)	18,238	16,333	12%
	12 months ended 30 November 2012	12 months ended 30 November 2011	YoY
Annualised new premium (ANP) ^{(2) (3)}	2,696	2,472	9%
Value of new business (VONB)	1,188	932	27%
VONB margin ⁽³⁾	43.6%	37.2%	6.4 pps

Notes:

(1) The results are after adjustments to reflect additional Hong Kong reserving and capital requirements and the after-tax value of unallocated Group Office expenses.

(2) ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded.

(3) ANP and VONB margin exclude corporate pension business.

VONB grew by 27 per cent to US\$1,188 million net of tax compared with 2011. This performance was driven by increases in both volume and margin. VONB margin increased by 6.4 percentage points to 43.6 per cent and ANP grew by 9 per cent to US\$2,696 million compared with 2011.

EV grew to US\$31,408 million at 30 November 2012, an increase of 15 per cent from US\$27,239 million at 30 November 2011.

EV operating profit grew by 12 per cent to US\$3,491 million compared with 2011. This was the result of a higher expected return of US\$2,192 million on the higher opening EV, a higher VONB of US\$1,188 million and overall positive operating experience variances and operating assumption changes which totalled US\$111 million.

Non-operating EV movements included positive investment return variances of US\$933 million, negative effect of changes in economic assumptions of US\$105 million and negative other non-operating variances of US\$113 million. This was partly offset by the payment of dividends of US\$530 million and negative other capital movements of US\$42 million. Foreign exchange movements benefited the EV by US\$535 million.

The EV as at 30 November 2012 includes ANW of US\$13,170 million and VIF of US\$18,238 million, up 21 per cent and 12 per cent respectively compared with 30 November 2011.

Supplementary Embedded Value Information

2. EV RESULTS**2.1 Embedded value by Business Unit**

The EV as at 30 November 2012 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 the EV by Business Unit (US\$ millions)**

Business Unit	At 30 November 2012				At 30 November 2011	
	ANW ⁽¹⁾	VIF before CoC ⁽²⁾	CoC ⁽²⁾	VIF after CoC ⁽²⁾	EV	EV ⁽⁴⁾
AIA Hong Kong	3,415	7,118	474	6,644	10,059	9,536
AIA Thailand	5,430	1,766	619	1,147	6,577	5,747
AIA Singapore	1,684	2,561	606	1,955	3,639	2,969
AIA Malaysia	646	713	153	560	1,206	1,046
AIA China	513	1,835	156	1,679	2,192	1,765
AIA Korea	1,501	581	351	230	1,731	1,659
Other Markets	3,116	1,118	305	813	3,929	3,050
Group Corporate Centre	5,443	269	4	265	5,708	4,495
Subtotal	21,748	15,961	2,668	13,293	35,041	30,267
Adjustment to reflect additional Hong Kong reserving and capital requirements ⁽³⁾	(8,578)	5,728	181	5,547	(3,031)	(2,432)
After-tax value of unallocated Group Office expenses	–	(602)	–	(602)	(602)	(596)
Total	13,170	21,087	2,849	18,238	31,408	27,239

Notes:

- (1) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre 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 EV for the branches of AIA Co. and AIA-B, as described in Section 4.4 of this report. Following the subsidiarisation of AIA Singapore in January 2012, the adjustment was no longer made for AIA Singapore as of 30 November 2012. The adjustment for AIA Singapore was US\$147 million as of 30 November 2011.
- (4) Results of certain internal reinsurance have been reclassified from AIA Hong Kong to Group Corporate Centre to conform to current period presentation. As a result, the EV of AIA Hong Kong has decreased by US\$289 million. The reclassification has no impact on the EV of the Group as of 30 November 2011.

2. EV RESULTS (continued)**2.2 Reconciliation of ANW to IFRS Equity**

Table 2.2 sets out the derivation of ANW from IFRS equity as at 30 November 2012.

Table 2.2

Derivation of the Group ANW from IFRS equity (US\$ millions)

	At 30 November 2012	At 30 November 2011
IFRS equity attributable to shareholders of the Company	26,697	21,313
Elimination of IFRS deferred acquisition and origination costs asset	(14,161)	(12,818)
Difference between IFRS policy liabilities and local statutory policy liabilities (for entities included in the EV Results)	6,659	7,961
Difference between net IFRS policy liabilities and local statutory policy liabilities (for entities included in the EV Results)	(7,502)	(4,857)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	2,163	2,003
Elimination of intangible assets	(292)	(276)
Recognition of deferred tax impacts of the above adjustments	795	652
Recognition of non-controlling interests impacts of the above adjustments	(113)	(93)
Group ANW (local statutory basis)	21,748	18,742
Adjustment to reflect additional Hong Kong reserving requirements, net of tax	(8,578)	(7,836)
Group ANW (after additional Hong Kong reserving requirements)	13,170	10,906

Supplementary Embedded Value Information

2. EV RESULTS (continued)**2.3 Breakdown of ANW**

Table 2.3 shows the breakdown of the ANW for the 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 Group (US\$ millions)

	At 30 November 2012		At 30 November 2011	
	Local statutory basis	Hong Kong basis for branches of AIA Co. and AIA-B	Local statutory basis	Hong Kong basis for branches of AIA Co. and AIA-B
Free surplus	16,082	6,643	14,089	5,930
Required capital	5,666	6,527	4,653	4,976
ANW	21,748	13,170	18,742	10,906

The Company's subsidiaries, AIA Co. and AIA-B, are both Hong Kong-regulated entities subject to Hong Kong statutory requirements. The business written in the branches of AIA Co. and AIA-B 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.

At 30 November 2012, the more onerous reserving basis for both AIA Co. and AIA-B was the Hong Kong basis. Therefore, the Group's free surplus at 30 November 2012 reduced by US\$9,439 million (2011: US\$8,159 million) under the Hong Kong basis compared to the local statutory basis, reflecting US\$8,578 million (2011: US\$7,836 million) higher reserving requirements and US\$861 million (2011: US\$323 million) higher required capital under the Hong Kong basis for branches of AIA Co. and AIA-B.

2.4 Earnings profile

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 Group are projected to emerge over future years. The projected values reflect the Hong Kong reserving and capital requirements for the branches of AIA Co. and AIA-B.

Table 2.4

Profile of projected after-tax distributable earnings for the Group's in-force business (US\$ millions)

Financial year	At 30 November 2012	
	Undiscounted	Discounted
2013 – 2017	11,870	9,776
2018 – 2022	10,748	5,743
2023 – 2027	10,142	3,710
2028 – 2032	9,046	2,260
2032+	37,448	3,276
Total	79,254	24,765

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US\$24,765 million plus the free surplus of US\$6,643 million shown in Table 2.3 is equal to the EV of US\$31,408 million shown in Table 2.1.

2. EV RESULTS (continued)

2.5 Value of new business

The VONB for the Group for the 12-month period from 1 December 2011 to 30 November 2012 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 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.

The Group VONB for the 12 months ended 30 November 2012 was US\$1,188 million, an increase of US\$256 million, or 27 per cent, from US\$932 million in the same period in 2011. VONB growth benefited from an expansion of the VONB margin, which increased from 37.2 per cent for the 12 months ended 30 November 2011 to 43.6 per cent for the 12 months ended 30 November 2012, and 9 per cent growth in ANP.

Table 2.5

Summary of VONB by Business Unit (US\$ millions)

Business Unit	12 months ended 30 November 2012		12 months ended 30 November 2011	
	VONB before CoC ⁽¹⁾	CoC ⁽¹⁾	VONB after CoC ^{(1) (3)}	VONB after CoC ^{(1) (3)}
AIA Hong Kong	420	54	366	305
AIA Thailand ⁽⁴⁾	348	61	287	227
AIA Singapore	277	51	226	164
AIA Malaysia	84	16	68	58
AIA China	144	20	124	102
AIA Korea	78	10	68	74
Other Markets	195	33	162	112
Total before unallocated Group Office expenses (local statutory basis)	1,546	245	1,301	1,042
Adjustment to reflect additional Hong Kong reserving and capital requirements ⁽²⁾	(55)	(14)	(41)	(49)
Total before unallocated Group Office expenses (after additional Hong Kong reserving and capital requirements)	1,491	231	1,260	993
After-tax value of unallocated Group Office expenses	(72)	–	(72)	(61)
Total	1,419	231	1,188	932

Notes:

- (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. Following the subsidiarisation of AIA Singapore in January 2012, the adjustment was no longer made for AIA Singapore for consistency over the whole 12-month period from 1 December 2011 to 30 November 2012. The adjustment for AIA Singapore was US\$(14) million for the 12-month period ended 30 November 2011.
- (3) VONB for the Group is calculated before deducting the amount attributable to non-controlling interests. The amounts of VONB attributable to non-controlling interests for the 12 months ended 30 November 2012 and 2011 were US\$11 million and US\$4 million respectively.
- (4) For AIA Thailand, VONB for the 12-month period ended 30 November 2012 was calculated using the regulatory Risk-Based Capital basis. VONB for the 12-month period ended 30 November 2011 was calculated using the statutory reserving and solvency basis applicable prior to the implementation of the Risk-Based Capital requirements. The difference arising from the change in methodologies was not material.

Supplementary Embedded Value Information

2. EV RESULTS (continued)**2.5 Value of new business** (continued)

Table 2.6 shows the VONB margin for the 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.

Table 2.6

Summary of VONB Margin by Business Unit (US\$ millions)

Business Unit	12 months ended 30 November 2012		12 months ended 30 November 2011	
	VONB Excluding Corporate Pension	ANP ⁽¹⁾	VONB Margin ⁽¹⁾	VONB Margin ⁽¹⁾
AIA Hong Kong	353	604	58.5%	56.1%
AIA Thailand ⁽³⁾	286	532	53.9%	48.8%
AIA Singapore	226	339	66.8%	62.3%
AIA Malaysia	68	151	45.2%	40.7%
AIA China	124	215	57.5%	47.2%
AIA Korea	68	237	28.4%	27.3%
Other Markets	162	618	26.3%	18.8%
Total before unallocated Group Office expenses (local statutory basis)	1,287	2,696	47.8%	41.6%
Adjustment to reflect additional Hong Kong reserving and capital requirements ⁽²⁾	(41)	–		
Total before unallocated Group Office expenses (after additional Hong Kong reserving and capital requirements)	1,246	2,696	46.2%	39.7%
After-tax value of unallocated Group Office expenses	(72)	–		
Total	1,174	2,696	43.6%	37.2%

Notes:

- (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. Following the subsidiarisation of AIA Singapore in January 2012, the adjustment was no longer made for AIA Singapore for consistency over the whole 12-month period from 1 December 2011 to 30 November 2012. The adjustment for AIA Singapore was US\$(14) million for the 12-month period ended 30 November 2011.
- (3) For AIA Thailand, VONB for the 12-month period ended 30 November 2012 was calculated using the regulatory Risk-Based Capital basis. VONB for the 12-month period ended 30 November 2011 was calculated using the statutory reserving and solvency basis applicable prior to the implementation of the Risk-Based Capital requirements. The difference arising from the change in methodologies was not material.

2. EV RESULTS (continued)**2.5 Value of new business** (continued)

Table 2.7 shows the breakdown of the VONB and the VONB margin for the Group by quarter for business written in the 12 months to 30 November 2012. For comparison purposes, the quarterly VONB and the VONB margin for business written in the 12 months to 30 November 2011 are also shown in the same table.

Table 2.7

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

Quarter	VONB after CoC ⁽¹⁾	ANP ⁽²⁾	VONB Margin ⁽²⁾
Values for 2012			
3 months ended 29 February 2012	232	543	42.1%
3 months ended 31 May 2012	280	644	43.1%
3 months ended 31 August 2012	300	696	42.6%
3 months ended 30 November 2012	376	813	45.8%
Values for 2011			
3 months ended 28 February 2011	182	512	35.2%
3 months ended 31 May 2011	217	582	36.7%
3 months ended 31 August 2011 ⁽³⁾	245	766	31.6%
3 months ended 30 November 2011	288	612	46.5%

Notes:

(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) Excluding a previously announced single large group insurance scheme in Australia, the VONB margin was 36.0 per cent.

Supplementary Embedded Value Information

2. EV RESULTS (continued)**2.6 Analysis of EV movement**

Table 2.8 shows the analysis of movement in the EV from 30 November 2011 to 30 November 2012.

Table 2.8

Analysis of movement in EV (US\$ millions)

	12 months ended 30 November 2012		EV	12 months ended 30 November 2011	YoY
	ANW	VIF		EV	EV
Opening EV	10,906	16,333	27,239	24,748	10%
Value of new business	(924)	2,112	1,188	932	27%
Expected return on EV	2,807	(615)	2,192	2,029	8%
Operating experience variances	(116)	256	140	165	(15)%
Operating assumption changes	(20)	(9)	(29)	(21)	38%
EV operating profit	1,747	1,744	3,491	3,105	12%
Investment return variances	554	379	933	(297)	n/m
Effect of changes in economic assumptions	–	(105)	(105)	(26)	304%
Other non-operating variances	410	(523)	(113)	18	n/m
Total EV profit	2,711	1,495	4,206	2,800	50%
Dividends	(530)	–	(530)	(170)	212%
Other capital movements	(42)	–	(42)	(89)	(53)%
Effect of changes in exchange rates	125	410	535	(50)	n/m
Ending EV	13,170	18,238	31,408	27,239	15%

The EV operating profit grew by 12 per cent to US\$3,491 million in 2012 (2011: US\$3,105 million). The increase reflected a higher VONB of US\$1,188 million (2011: US\$932 million), US\$2,192 million (2011: US\$2,029 million) from the expected return on the higher opening EV as well as positive operating experience variances of US\$140 million (2011: US\$165 million) and operating assumption changes of US\$(29) million (2011: US\$(21) million).

The VONB shown in Table 2.8 is measured at the point of sale for business written during the Period before deducting the amount attributable to non-controlling interests. The expected return on EV is the expected change in the EV over the Period plus the expected return on the VONB from the point of sale to 30 November 2012 less the VONB attributable to non-controlling interests. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the Period and that expected based on the operating assumptions.

2. EV RESULTS (continued)

2.6 Analysis of EV movement (continued)

The main operating experience variances (net of tax) are:

- Expense variances of US\$(23) million (2011: US\$(33) million) including non-recurring project expenses of US\$(27) million;
- Mortality and morbidity claims variances of US\$152 million (2011: US\$149 million); and
- Persistency and other variances of US\$11 million (2011: US\$49 million).

The overall effect of changes to operating assumptions during the Period was US\$(29) million (2011: US\$(21) million).

The EV profit of US\$4,206 million (2011: US\$2,800 million) is the total of EV operating profit plus investment return variances, the effect of changes in economic assumptions and other non-operating variances.

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 the changes in the market values and market yields on existing fixed income assets, and the impact on the EV of changes in the economic assumptions used in the statutory reserving bases for the Group. The investment return variances of US\$933 million (2011: US\$(297) million) were largely caused by positive market movements compared with the assumptions used in the EV calculation at the start of the Period partially offset by statutory reserve movements.

The effect of changes in economic assumptions of US\$(105) million (2011: US\$(26) million) includes the impact of changes in long-term investment return assumptions of US\$(893) million (2011: US\$(377) million) offset by the impact of changes in risk discount rates of US\$788 million (2011: US\$351 million), reflecting consistent changes in long-term investment return assumptions and risk discount rates.

Other non-operating variances amounted to US\$(113) million (2011: US\$18 million) and included:

- Tax adjustments resulting in a gain of US\$256 million (2011: US\$(63) million), primarily from a change in the corporate tax rate in Thailand from 30 per cent to 23 per cent for assessment year 2012, 20 per cent for assessment years 2013 and 2014, and 30 per cent from assessment year 2015 onwards;
- A change to opening EV of US\$(147) million due to the transfer of insurance business in Singapore of AIA Co. from a branch to a wholly-owned subsidiary on 1 January 2012;
- Restructuring and other non-operating costs of US\$75 million (2011: US\$40 million), plus the current Period effect of US\$(29) million (2011: US\$(38) million) for the Agency Incentive Plan which was a one-off initiative to improve agent activity and productivity prior to the IPO of the Company. The remaining balance of the Agency Incentive Plan, estimated to be not more than US\$(113) million (2011: US\$(142) million), will be recognised if and when the performance requirements for the incentive awards are fulfilled in future;
- Modelling enhancements, accounting for the majority of the balance.

The Group paid dividends of US\$530 million (2011: US\$170 million). Other capital movements of US\$(42) million (2011: US\$(89) million) were mainly due to the purchase of shares held by employee share-based trusts.

The US\$535 million (2011: US\$(50) million) effect of changes in exchange rates reflects the translation gains and losses in respect of exchange rate movements over the Period.

Supplementary Embedded Value Information

3. SENSITIVITY ANALYSIS

The EV as at 30 November 2012 and the VONB for the 12-month period 1 December 2011 to 30 November 2012 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5.

The sensitivities analysed were:

- Risk discount rates 200 basis points per annum higher than the central assumptions;
- Risk discount rates 200 basis points per annum lower than the central assumptions;
- Interest rates 50 basis points per annum higher than the central assumptions;
- Interest rates 50 basis points per annum lower than the central assumptions;
- Lapse and premium discontinuance rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Lapse and premium discontinuance rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Mortality/morbidity rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Mortality/morbidity rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Maintenance expenses 10 per cent lower (i.e. 90 per cent of the central assumptions); and
- Expense inflation set to 0 per cent.

The EV as at 30 November 2012 has been further analysed for the following sensitivities:

- Prices of equity securities held increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 30 November 2012); and
- Prices of equity securities held decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 30 November 2012).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 30 November 2012 and the values of debt instruments held at 30 November 2012 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all of the other assumptions were unchanged.

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities held at 30 November 2012 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all of the other assumptions were unchanged.

For each of the remaining sensitivity analysis, the statutory reserving bases at 30 November 2012 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all of the other assumptions remain unchanged.

The results of the above sensitivity analysis are shown below in Table 3.1 for the EV and in Table 3.2 for the VONB.

3. SENSITIVITY ANALYSIS (continued)

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 EV as at 30 November 2012 (US\$ millions)**

Scenario	EV
Central value	31,408
200 bps increase in risk discount rates	27,651
200 bps decrease in risk discount rates	36,866
10% increase in equity prices	31,961
10% decrease in equity prices	30,846
50 bps increase in interest rates	31,605
50 bps decrease in interest rates	31,007
10% increase in lapse/discontinuance rates	31,157
10% decrease in lapse/discontinuance rates	31,711
10% increase in mortality/morbidity rates	29,063
10% decrease in mortality/morbidity rates	33,732
10% decrease in maintenance expenses	31,813
Expense inflation set to 0%	31,768

Table 3.2**Sensitivity of the VONB for the 12 months ended 30 November 2012 (US\$ millions)**

Scenario	VONB
Central value	1,188
200 bps increase in risk discount rates	833
200 bps decrease in risk discount rates	1,700
50 bps increase in interest rates	1,261
50 bps decrease in interest rates	1,099
10% increase in lapse rates	1,094
10% decrease in lapse rates	1,295
10% increase in mortality/morbidity rates	962
10% decrease in mortality/morbidity rates	1,412
10% decrease in maintenance expenses	1,239
Expense inflation set to 0%	1,222

Supplementary Embedded Value Information

4. METHODOLOGY

4.1 Entities included in this report

The 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 Company, and American International Assurance Company (Bermuda) Limited (AIA-B), a subsidiary of AIA Co. Furthermore, AIA Co. has branches located in Brunei, China and Thailand and AIA-B has branches located in Hong Kong, Korea, Macau, New Zealand and Taiwan. On 21 January 2013, American International Assurance Company, Limited has changed its name to AIA Company Limited.

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 and 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 70 per cent owned subsidiary AIA AFG Takaful Bhd.;
- Philam Life refers to The Philippine American Life and General Insurance Company, a subsidiary of AIA Co. and its 51 per cent owned subsidiary BPI-Philam Life Assurance Corporation;
- AIA Singapore refers to AIA Singapore Private Limited, a subsidiary of AIA Co., and Brunei branch 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 AIA Life Insurance Company Limited (formerly known as Tata AIG Life Insurance Company Limited), which is 26 per cent owned by AIA-B, has been included in the Group ANW presented in this report on an equity method accounting basis.

The summary of the EV of the Group by Business Unit in this report also includes a segment for “Group Corporate Centre” results. The results shown for this segment consist of the ANW for the 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.

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. For the VONB for the 12 months to 30 November 2012, “Other Markets” includes the present value of allowance for remittance taxes payable on distributable profits to Hong Kong.

4. METHODOLOGY *(continued)*

4.2 Embedded value and value of new business

The 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 AIA.

The business included in the VIF and VONB calculations includes all life business written by the Business Units of the Group, plus other lines of business which may not be classified as life business but have similar characteristics. These include accident and 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 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 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 Group's IFRS financial statements as at the valuation date. It is the 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 and 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 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\$11 million for the 12-month period ended 30 November 2012 (US\$4 million for the 12-month period ended 30 November 2011).

A deduction has been made from the 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.

Supplementary Embedded Value Information

4. METHODOLOGY (continued)

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 renewable business including 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 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 premium (ANP), which is an internal measure of new business sales. This represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. It excludes new business sales for corporate pension business.

4.4 Consolidation of Hong Kong branches

The Group's subsidiaries, AIA Co. and AIA-B, are both Hong Kong-regulated entities. AIA 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 shareholders of the Company 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 2012, 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 Group are positive over the remaining lifetime of the business. Therefore, it is not considered necessary to change the discounting approach described above.

4. METHODOLOGY (continued)

4.6 Required capital

Each of the Business Units has a regulatory requirement to hold shareholder capital in addition to the assets backing the insurance liabilities. The Group's assumed levels of required capital for each Business Unit are set out in Table 4.1 below. Further, the consolidated EV Results for the 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 ⁽¹⁾
AIA China	100% of required minimum solvency margin
AIA Hong Kong	150% of required minimum solvency margin ⁽²⁾
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
Philam Life	100% of regulatory Risk-Based Capital requirement
AIA Singapore – Brunei business	100% of the local regulatory requirement
AIA Singapore – Singapore business	180% of regulatory Risk-Based Capital requirement
AIA Taiwan	200% of regulatory Risk-Based Capital requirement
AIA Thailand	140% of regulatory Risk-Based Capital requirement
AIA Vietnam	100% of required minimum solvency margin

Notes:

(1) The Australian Prudential Regulatory Authority has implemented new capital standards which are effective from 1 January 2013. The change to the new prescribed capital amount basis has been reflected in CoC in the EV as at 30 November 2012. This has no material impact to the EV of the Group at 30 November 2012. The VONB for the 12 months to 30 November 2012, which is determined using assumptions applicable at the point of sale, has been calculated using the required capital basis consistent with previous periods.

(2) 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.

Supplementary Embedded Value Information

5. ASSUMPTIONS

5.1 Introduction

This section summarises the assumptions used by the Group to determine the EV as at 30 November 2012 and the VONB for the 12 months to 30 November 2012 and highlights certain differences in assumptions between the EV as at 30 November 2011 and the EV as at 30 November 2012.

5.2 Economic assumptions

Investment returns

The 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 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 income 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 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 Group has generally set the risk discount rates to be equal to the estimated cost of equity capital for each Business Unit within the 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.

5. ASSUMPTIONS (continued)**5.2 Economic assumptions** (continued)**Risk discount rates** (continued)

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 2012. The investment return on existing fixed income assets was consistent with the market yield on these assets. Note that VONB results were calculated based on start-of-quarter economic assumptions consistent with the measurement at point of sale. The same risk discount rates were used for all the EV results shown in Section 1 and Section 2 of this report. In particular, for the branches of AIA Co. and AIA-B, the consolidated EV results reflecting the Hong Kong reserving and capital requirements were calculated using the branch-specific risk discount rates shown in the table. The present value of unallocated Group Office expenses was calculated using the risk discount rate of AIA Hong Kong. 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 (%)**

Business Unit	Risk discount rates		10-year government bonds		Local equities	
	At 30 Nov 2012	At 30 Nov 2011	At 30 Nov 2012	At 30 Nov 2011	At 30 Nov 2012	At 30 Nov 2011
AIA Australia	7.75	8.25	3.37	4.37	7.15	7.65
AIA China	10.00	10.00	3.74	3.74	9.74	9.74
AIA Hong Kong ⁽¹⁾	7.25	7.75	2.43	2.93	7.73	8.23
AIA Indonesia (Rupiah-denominated business)	13.50	13.50	6.50	7.00	11.25	11.75
AIA Korea	9.75	10.25	3.85	4.57	7.19	7.91
AIA Malaysia	8.75	9.00	4.20	4.45	8.09	8.34
AIA New Zealand	8.25	8.50	3.99	4.49	n/a ⁽²⁾	n/a ⁽²⁾
Philam Life (Peso-denominated business)	12.25	13.00	5.25	6.00	10.41	11.16
AIA Singapore – Brunei business	7.00	7.50	1.93	2.43	7.25	7.75
AIA Singapore – Singapore business	7.00	7.50	1.93	2.43	7.25	7.75
AIA Taiwan	7.75	8.00	1.48	1.73	6.62	6.87
AIA Thailand	9.50	9.50	3.87	3.87	9.87	10.16
AIA Vietnam	16.00	16.00	10.20	10.20	16.00	n/a ⁽²⁾

Notes:

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

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

Supplementary Embedded Value Information

5. ASSUMPTIONS (continued)

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

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.

Group Office expenses

Group Office expense assumptions have been set, after excluding non-recurring expenses, based on actual acquisition and maintenance expenses in the 12-month period to 30 November 2012. The Group Office acquisition expenses have been deducted from the VONB. The present value of the projected future Group Office maintenance expenses has been deducted from the Group EV. The maintenance expense assumptions in the VONB also allow for the allocation of Group Office expenses.

5. ASSUMPTIONS (continued)**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 Table 5.2 below.

Table 5.2
Expense inflation assumptions by Business Unit (%)

Business Unit	At 30 November 2012	At 30 November 2011
AIA Australia	3.25	3.25
AIA Brunei	2.0	2.0
AIA China	2.0	2.0
AIA Hong Kong	2.0	2.0
AIA Indonesia	6.0	6.0
AIA Korea	3.5	3.5
AIA Malaysia	3.0	3.0
AIA New Zealand	2.5	2.5
Philam Life	4.5	4.5
AIA Singapore	2.0	2.0
AIA Taiwan	1.0	1.0
AIA Thailand	2.5	2.5
AIA Vietnam	5.0	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 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.

Supplementary Embedded Value Information

5. ASSUMPTIONS (continued)**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 earnings 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 Table 5.3 below.

Table 5.3**Local corporate tax rates by Business Unit (%)**

Business Unit	At 30 November 2012	At 30 November 2011
AIA Australia	30.0	30.0
AIA China	25.0	25.0
AIA Hong Kong – Hong Kong business	16.5	16.5
AIA Hong Kong – Macau business	12.0	12.0
AIA Indonesia	25.0	25.0
AIA Korea	24.2	24.2 until 31 March 2012; 22.0 thereafter
AIA Malaysia	25.0	25.0
AIA New Zealand	28.0	28.0
Philam Life	30.0	30.0
AIA Singapore – Brunei business	20.0	22.0
AIA Singapore – Singapore business	17.0	17.0
AIA Taiwan	17.0	17.0
AIA Thailand	23.0 for assessment year 2012; 20.0 for assessment years 2013 and 2014; 30.0 thereafter	30.0
AIA Vietnam	25.0	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 Group as at 30 November 2012 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. ASSUMPTIONS *(continued)*

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 follow existing scales.

5.13 Foreign exchange

The EV as at 30 November 2012 and 30 November 2011 have been translated into US dollar using exchange rates as at each valuation date. The VONB results shown in this report have been translated into US 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.

6. EVENTS AFTER THE REPORTING PERIOD

On 5 December 2012, the Group completed the acquisition of 92.3 per cent of the issued share capital in Sri Lankan insurer Aviva NDB Insurance (ANI). In addition, ANI has entered into an exclusive 20-year bancassurance agreement with the National Development Bank in Sri Lanka. The acquisition will position the Group to develop a significant operation in the expanding Sri Lankan market. The remaining 7.7 per cent of ANI not acquired represents shares publicly held and traded on the Colombo Stock Exchange of Sri Lanka. The consideration with respect to the transaction of US\$109 million was paid from existing cash resources; the consideration amount is subject to purchase price adjustment which is expected to be finalised during 2013.

On 10 December 2012, the Group has entered into an unsecured, committed credit facility agreement (Credit Facility) for 18 months totalling US\$1,725 million with a group of international banks. The Credit Facility bears interest based on LIBOR.

On 18 December 2012, the Group acquired 100 per cent of share capital of ING Management Holdings (Malaysia) Sdn. Bhd. (ING Malaysia). ING Malaysia is the third largest life insurer in Malaysia based upon gross premiums earned for the year ended 31 December 2011. The acquisition presents the Group with a high calibre distribution force of over 9,000 agents and a long-term bancassurance partnership with a leading Malaysian banking group, Public Bank. The consideration with respect to this transaction was EUR1,332 million or US\$1,754 million at exchange rates on the date of the transaction, and was paid from cash financed initially through the Credit Facility. The Group utilised a foreign currency forward contract to economically hedge this transaction. The foreign currency forward contract resulted in a gain of US\$20 million which is included in investment experience as hedge accounting was not applied. The Group intends to repay the bank credit facility with a combination of internal cash resources and external debt financing.

The Group has the ability to exercise control over ANI and ING Malaysia through control of their voting rights. Due to the limited time available between these acquisitions and the approval of these financial statements, the Group is still in the process of establishing the fair value of the assets and liabilities acquired. Accordingly, certain disclosures relating to the above mentioned business combinations have not been presented in these financial statements.

In October 2012, the Group entered into a Sale and Purchase agreement to acquire a building in Hong Kong for a consideration of HK\$2,398 million (approximately US\$309 million). The transaction was completed on 11 December 2012.

On 27 February 2013, the Board of Directors proposed a final dividend of 24.67 Hong Kong cents per share (2011: 22.00 Hong Kong cents per share).

Information for Shareholders

ANALYSIS OF REGISTERED SHAREHOLDER ACCOUNTS

30 November 2012

Size of registered shareholding	Number of shareholder accounts	% of total number of shareholder accounts	Number of shares	% of total number of shares
1,000 shares or below	20,981	80.31	7,868,066	0.06
1,001 – 5,000 shares	4,457	17.06	10,291,633	0.09
5,001 – 10,000 shares	447	1.71	3,396,400	0.03
10,001 – 100,000 shares	232	0.89	5,220,000	0.04
100,001 shares or above	7	0.03	12,017,223,902	99.78
	26,124	100.00	12,044,000,001	100.00

FINANCIAL CALENDAR

Announcement of 2012 Full Year Results	27 February 2013
Book Close Period for 2013 Annual General Meeting	7 May 2013 to 10 May 2013 (both days inclusive)
2013 Annual General Meeting	10 May 2013
Ex-dividend date for proposed 2012 Final Dividend	14 May 2013
Record date for proposed 2012 Final Dividend	15 May 2013
Payment date for proposed 2012 Final Dividend	30 May 2013
Announcement of 2013 Interim Results	26 July 2013

ANNUAL GENERAL MEETING

The 2013 Annual General Meeting will be held at 11:00 a.m. Hong Kong time on Friday, 10 May 2013 at the Grand Ballroom, 2/F, Hotel Nikko Hongkong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong. Details of the business to be transacted at the AGM are set out in the circular to the shareholders of the Company to be sent together with this Annual Report.

Details of voting results at the AGM can be found on the website of the Hong Kong Stock Exchange at www.hkex.com.hk and the Company's website at www.aia.com on Friday, 10 May 2013.

FINAL DIVIDEND

The Board has recommended a final dividend of 24.67 Hong Kong cents per share (2011: 22.00 Hong Kong cents per share) in respect of the year ended 30 November 2012. If approved, the proposed final dividend together with the interim dividend will represent a total dividend of 37.00 Hong Kong cents per share (2011: 33.00 Hong Kong cents per share) in respect of the year ended 30 November 2012.

Subject to shareholders' approval at the AGM, the final dividend will be payable on Thursday, 30 May 2013 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 15 May 2013.

SHARE REGISTRAR

If you have any enquiries relating to your shareholding, please contact the Company's share registrar at the contact given below:

Computershare Hong Kong Investor Services Limited
 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
 Telephone: 852 2862 8555
 Email: hkinfo@computershare.com.hk
 Website: www.computershare.com

ELECTRONIC COMMUNICATIONS

Shareholders are encouraged to elect to receive shareholder documents electronically. You may at any time send written notice to the Company c/o the Company's share registrar or via email at aia.ecom@computershare.com.hk specifying your name, address and request to change your choice of language or means of receipt of all shareholder documents. This will save printing and distribution costs and create environmental benefits.

ANNUAL REPORT

This Annual Report is printed in English and Chinese and is available at the website of the Company. If you would like to have a printed version of this Annual Report, please contact the Company's share registrar at the contact given below:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Email: aia.ecom@computershare.com.hk

If there is any inconsistency between the Chinese and English version of this Annual Report, the English version shall prevail.

INVESTMENT COMMUNITY AND NEWS MEDIA

Enquiries may be directed to:

Investment Community		News Media	
Paul Lloyd	+852 2932 6160	Stephen Thomas	+852 2832 6178
Angela Chang	+852 2832 5480	Sonia Tsang	+852 2832 1868
Feon Lee	+852 2832 4704	Emerald Ng	+852 2832 4720

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements relating to the Group that are based on the beliefs of the Group's management as well as assumptions made by and information currently available to the Group's management. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to the Group's business prospects, future developments, trends and conditions in the industry and geographical markets in which the Group operates, its strategies, plans, objectives and goals, its 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 the Group or the Group's management, are intended to identify forward-looking statements. These forward-looking statements reflect the Group's 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 the Group's 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 the Group's competitors and the effects of competition in the insurance industry on the demand for, and price of, the Group's products and services, various business opportunities that the Group may or may not pursue, changes in population growth and other demographic trends, including mortality, morbidity and longevity rates, persistency levels, the Group's ability to identify, measure, monitor and control risks in the Group's business, including its ability to manage and adapt its overall risk profile and risk management practices, its ability to properly price its products and services and establish reserves for future policy benefits and claims, seasonal fluctuations and factors beyond the Group's control. Subject to the requirements of the Listing Rules, the Group does 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 the Group expects, 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.

Corporate Information

BOARD OF DIRECTORS

Non-executive Chairman and Non-executive Director

Mr. Edmund Sze-Wing Tse

Executive Director

Mr. Mark Edward Tucker

Independent Non-executive Directors

Mr. Jack Chak-Kwong So

Mr. Chung-Kong Chow

Dr. Qin Xiao

Mr. John Barrie Harrison

Mr. Barry Chun-Yuen Cheung

Mr. George Yong-Boon Yeo

Dr. Narongchai Akrasanee

Audit Committee

Mr. John Barrie Harrison (*Chairman*)

Mr. Jack Chak-Kwong So

Mr. Barry Chun-Yuen Cheung

Mr. George Yong-Boon Yeo

Mr. Edmund Sze-Wing Tse

Nomination Committee

Mr. Edmund Sze-Wing Tse (*Chairman*)

Mr. Chung-Kong Chow

Mr. Jack Chak-Kwong So

Dr. Qin Xiao

Mr. John Barrie Harrison

Mr. Barry Chun-Yuen Cheung

Mr. George Yong-Boon Yeo

Dr. Narongchai Akrasanee

Remuneration Committee

Mr. Jack Chak-Kwong So (*Chairman*)

Dr. Qin Xiao

Mr. Barry Chun-Yuen Cheung

Mr. Mark Edward Tucker

Risk Committee

Mr. Chung-Kong Chow (*Chairman*)

Mr. John Barrie Harrison

Dr. Narongchai Akrasanee

Mr. Edmund Sze-Wing Tse

Mr. Mark Edward Tucker

Registered Office

35/F, AIA Central

No. 1 Connaught Road Central

Hong Kong

Website

www.aia.com

Company Secretary

Ms. Wing-Nga Lai, FCIS, FCS

Authorised Representatives

Mr. Mark Edward Tucker

Ms. Wing-Nga Lai

Share Registrar

Computershare Hong Kong Investor Services Limited

17M Floor

Hopewell Centre

183 Queen's Road East, Wanchai

Hong Kong

Principal Bankers

Citibank, N.A.

Standard Chartered Bank

Auditor

PricewaterhouseCoopers

Certified Public Accountants

Glossary

<p>Accident and health (A&H) insurance products</p>	<p>A&H insurance products 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.</p>
<p>Acquisition cost (of a financial instrument)</p>	<p>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.</p>
<p>Active agent</p>	<p>An agent who sells at least one life insurance policy per month.</p>
<p>Active market</p>	<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>
<p>Adjusted net worth (ANW)</p>	<p>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, 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 shareholders of AIA Group Limited. 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's IFRS financial statements as at the valuation date. It is AIA'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.</p>
<p>AGM</p>	<p>2013 Annual General Meeting of the Company to be held at 11:00 a.m. Hong Kong time on Friday, 10 May 2013.</p>
<p>AIA or the Group</p>	<p>AIA Group Limited and its subsidiaries.</p>
<p>AIA-B</p>	<p>American International Assurance Company (Bermuda) Limited, a subsidiary of AIA Co.</p>
<p>AIA Central</p>	<p>The building located at No. 1 Connaught Road Central, Hong Kong.</p>
<p>AIA Co.</p>	<p>AIA Company Limited (formerly known as American International Assurance Company, Limited), a subsidiary of the Company.</p>
<p>AIG</p>	<p>American International Group, Inc.</p>
<p>ALICO</p>	<p>American Life Insurance Company.</p>

Glossary

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 uncollectibility.
ANI	Aviva NDB Insurance.
Annualised new premium (ANP)	ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within AIA. ANP excludes new business of corporate pension business, 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.
ASPP	Agent Share Purchase Plan.
Asset-liability management (ALM)	ALM is the management of the relative risk profiles of assets and liabilities.
Available for sale financial assets	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.
BPI-Philam	BPI-Philam Life Assurance Corporation, a joint venture between Bank of the Philippine Islands and AIA Co.
CDS	Credit default swap.
Claims risk	The possibility that the frequency or severity of claims arising from insurance products exceeds 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 (formerly set out in Appendix 14 to the Listing Rules) and Corporate Governance Code (the new edition of the Code on Corporate Governance Practices, which is applicable to financial reports covering a period after 1 April 2012) presently set out in Appendix 14 to the Listing Rules.
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 and 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.

Credit risk	The risk that third parties fail to meet their obligations to the Group when they fall due.
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 (DAC)	DAC are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. 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. DAC assets are tested for recoverability at least annually.
Deferred origination costs (DOC)	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. Such assets are tested for recoverability.
Defined 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 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. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay the post-retirement benefits.
Discretionary participation features (DPF)	<p>A contractual right to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:</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 Group; and • that are contractually based on: <ul style="list-style-type: none"> – 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.

Glossary

Effective interest method	A method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying value of the financial asset or financial liability.
Embedded value (EV)	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.
EPS	Earnings per share.
ESPP	Employee Share Purchase Plan.
Exco	The Executive Committee of the Group.
Financial Advisory Industry Review (FAIR)	FAIR is a comprehensive evaluation of the financial advisory industry by a review panel chaired by the Monetary Authority of Singapore (MAS).
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Fair value through profit or loss (FVTPL)	A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year.
First year premiums	First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold.
FRC	Financial Risk Committee.
Free surplus	ANW in excess of the required capital.
Functional currency	The currency of the primary economic environment in which the entity operates.
Group insurance	An insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf.
Group Office	Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services, certain internal reinsurance and eliminations of intragroup transactions.
High-net-worth (HNW) customers	Customers who have investable assets of US\$1.0 million or more.
HKFRS	Hong Kong Financial Reporting Standards.
Hong Kong	The Hong Kong Special Administrative Region of the PRC; in the context of our reportable segments, Hong Kong includes Macau.
Hong Kong Companies Ordinance	The Companies Ordinance (Laws of Hong Kong, Chapter 32), as amended from time to time.

Hong Kong Insurance Companies Ordinance (HKICO)	The Insurance Companies Ordinance (Laws of Hong Kong, Chapter 41) (HKICO) provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong. The objectives of the HKICO are to protect the interests of the insuring public and to promote the general stability of the insurance industry.
Hong Kong Stock Exchange (HKSE)	The Stock Exchange of Hong Kong Limited.
HKOCI	Hong Kong Office of the Commissioner of Insurance.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
IFA	Independent financial adviser.
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).
ING Malaysia	ING Management Holdings (Malaysia) Sdn. Bhd.
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	The potential loss resulting from inappropriate underwriting, mispricing, adverse expense, lapse, mortality and morbidity experiences. Under IFRS, insurance risk means risk, other than financial risk, transferred from the holder of a contract to the issuer.
Interactive Point of Sales (iPoS)	iPoS is a secure mobile sales tool that features a complete paperless and 24/7 sales process including financial planning, proposal, application, signature, payment and submission.
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, dividend income 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 AIA.

Glossary

Investment return	Investment return consists of investment income plus investment experience.
IPO	Initial public offering.
Lapse risk	The risk that, having purchased an insurance policy from AIA, 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 and origination costs.
LEED	Leadership in Energy and Environmental Design.
Liability adequacy testing	An assessment of whether the carrying amount of an insurance liability needs to be increased or the carrying amount of related deferred acquisition and origination costs or related intangible assets decreased based on a review of future cash flows.
LIBOR	London Interbank Offered Rate.
Life Insurance and Market Research Association (LIMRA)	A worldwide research, consulting and professional development organisation, established to help its member companies from life insurance and financial services industries improve their marketing and distribution effectiveness.
Liquidity risk	The risk of having insufficient cash available to meet payment obligations to counterparties when they fall due.
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
LTI	Long-term incentive.
Mandatory Provident Fund (MPF)	MPF is a compulsory savings 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 of loss from adverse movements in the value of assets owing to market factors, including changes in interest and foreign exchange rates, as well as movements in credit, equity and property prices.
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 amortisation.

Net funds to Group Corporate Centre	In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable segments by the Group Corporate Centre segment. For the Company, 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 profit	Net profit is calculated by subtracting a company's total expenses from total revenue, including share of loss from associates and after tax.
New business premium	A measure of new business activity that is calculated as the sum of the first year premiums on new business (without annualisation) and 10 per cent of single premiums, before reinsurance ceded, written during the period.
NGO	Non-governmental organisation.
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 with no DPF.
n/a	Not available.
n/m	Not meaningful.
OPAT	Operating profit after tax attributable to shareholders of AIA Group Limited.
Operating profit before tax and after tax	The Group defines operating profit before and after tax excluding investment experience; investment income and investment management expenses related to unit-linked contracts; corresponding changes in insurance and investment contract benefits in respect of unit-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.
Operating return on allocated equity	Operating return on allocated equity is calculated as operating profit after tax attributable to shareholders of the Company, expressed as a percentage of the simple average of opening and closing total equity attributable to shareholders of the Company, less the fair value and foreign currency translation reserves, and adjusted for subordinated intercompany debt.
Operating segment	A component of an entity that: <ul style="list-style-type: none"> engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available.

Glossary

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.
ORC	Operational Risk Committee.
OTC	Over-the-counter.
Other comprehensive income	Items of income and expense that form part of total comprehensive income but, as required or permitted by IFRS, do not form part of profit or loss for the year, such as fair value gains and losses on available for sale financial assets.
Participating funds	Participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The 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 with DPF. Participating policies may either be written within participating funds 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. The latter 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 in the past 12 months, as measured by premiums.
Philam Life	The Philippine American Life and General Insurance Company, a subsidiary of AIA Co.
Policyholder and shareholder investments	Investments other than those held to back unit-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.
pps	Percentage points.
PRC	The People's Republic of China.
Property held for use	Property held for use in AIA's business.
Protection gap	The difference between the resources needed and resources available to maintain dependants' living standards after the death of the primary wage-earner.

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 are treated as financial liabilities.
RCSA	Risk and Control Self-Assessment.
Regulatory capital	A minimum solvency margin requirement set by the HKICO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.
Related parties	<p>Related parties may be related to AIA for any of the following reasons:</p> <ul style="list-style-type: none"> • they are directly or indirectly controlled by an AIA entity; • an AIA entity has significant influence on the party; • they are in a joint venture arrangement with an AIA entity; • they are part of AIA'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 post-retirement benefit plan for the employees of AIA.
Renewal premiums	Premiums receivable in subsequent years of a recurring premiums policy.
Repurchase agreements (repos)	A repurchase transaction involves the sale of financial investments by AIA 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 AIA's consolidated statement of financial position for the life of the transaction, valued in accordance with AIA'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 "Other assets" 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.
Risk-adjusted return	A measure of how much an investment returned in relation to the amount of risk it took on.

Glossary

Risk appetite	Risk appetite is the amount of risk that companies are willing to take in order to achieve their business targets.
Risk-Based Capital (RBC)	RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.
RMF	Risk Management Framework.
RSUs	Restricted share units.
RSU Scheme	Restricted Share Unit Scheme.
Securities lending	Securities lending consists of the loan of certain securities within the Group's financial investments to third parties 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.
SFO	The Securities and Futures Ordinance (Laws of Hong Kong, Chapter 571), as amended from time to time.
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.
Singapore	The Republic of Singapore; in the context of our reportable segments, Singapore includes Brunei.
Single premiums	Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.
SME	Small-and-medium sized enterprise.
SO Scheme	Share Option Scheme.
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.
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.

Strategic risk	The risk of unexpected changes in the regulatory, market and competitive environment in which the Group operates.
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.
Takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Total weighted premium income (TWPI)	TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums. As such it provides an indication of AIA'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 investments	Financial investments held to back unit-linked contracts.
Unit-linked products	Unit-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 death of the insured or surrender or maturity of the policy, subject to surrender charges.
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)	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)	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.

Glossary

Value of new business (VONB)	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. VONB for AIA is stated after adjustments to reflect applicable Hong Kong reserving and capital requirements and the after-tax value of unallocated Group Office expenses. 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.
VONB margin	VONB excluding corporate pension business, expressed as a percentage of ANP. VONB margin for AIA is stated after adjustments to reflect applicable Hong Kong reserving and capital requirements and the after-tax value of unallocated Group Office expenses. 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.
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, deposits and cash and cash equivalents held at Group Corporate Centre. These liquid assets are available to invest in building the Group's business operations.



AIA Group Limited
友邦保險控股有限公司

AIA.COM

