AIA Group Limited

友 邦 保 險 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Stock Code: 1299

ANNUAL RESULTS FOR THE YEAR ENDED 30 NOVEMBER 2011

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AIA REPORTS RECORD NEW BUSINESS GROWTH

The Board of Directors of AIA Group Limited (stock code: 1299) is pleased to announce the Group's consolidated results for the year ended 30 November 2011. The Group's financial information in this announcement was prepared based on the audited consolidated financial statements and supplementary embedded value information for the year.

The main highlights are:

Record growth in value of new business (VONB) – our key performance measure

- 40 per cent increase in VONB to US$932 million
- 4.6 pps improvement in VONB margin to 37.2 per cent
- 22 per cent increase in annualised new premium (ANP) to US$2,472 million

Focus on value creation

- Embedded value (EV) operating profit up 29 per cent to US$3,105 million
- EV of US$27,239 million, up by US$2,491 million from US$24,748 million at 30 November 2010
- Free surplus generated up 18 per cent year-on-year

Robust operating profit and capital position

- Operating profit after tax up 13 per cent to US$1,922 million
- Total shareholders' equity increased by 9 per cent to US$21,313 million
- Net profit of US$1,600 million, which includes mark-to-market valuation of equity investments
- IFRS operating earnings per share up 13 per cent to 16 US cents
- 311 per cent solvency ratio on the Hong Kong Insurance Companies Ordinance (HKICO) basis, reflecting AIA's very strong capital position
- US$2,185 million net funds remitted to the Group during the year

Full year dividend payment

- The Board recommends a final dividend of 22 Hong Kong cents per share. This brings the total dividend in respect of the 2011 financial year to 33 Hong Kong cents per share, in line with the guidance given at the 2011 interim results announcement

Commenting on the record performance, Mark Tucker, AIA's Group Chief Executive and President, said:

"We are proud to have delivered an excellent set of results for our shareholders in 2011. This reflects the combined impact of our powerful distribution platform across Asia Pacific; our financial and technical strength and the consistency with which we are implementing our clear strategy of targeting sustained growth in shareholder value. We have continued to deliver strong growth in our key performance measures. These results demonstrate that the momentum in value creation which we generated in 2010 has been sustained throughout 2011.

"During 2011, we concentrated our efforts on building our Premier Agency sales force and boosting agency productivity to help meet the savings and protection needs of our customers across Asia Pacific, with a particular focus on promoting the take-up of accident and health cover. We have also taken steps to make further improvements in the persistency and additional sales achieved from our in-force book and to enhance our customer service experience. Outside the agency channel, we have focused on developing deeper and more profitable relationships with our distribution partners. We are confident that we have created a powerful base from which to deliver increasing future value for our shareholders.

“This year’s level of dividend payment reflects our strong cash flow position and our commitment to reflect the value achieved for shareholders through dividend returns as well as capital growth. It remains the Board’s intention to self-finance our new business growth whilst maintaining a prudent and progressive dividend policy.

“AIA remains a very attractive growth story with an unmatched opportunity to benefit from strong economic growth, favourable demographic trends and latent demand for both savings and protection products in Asia. This remains the world’s most dynamic region, which has been our home for over ninety years and is our sole area of operation. Our focus on Asian markets in which we have a leading position and depth of experience, combined with our financial strength and a highly motivated team, put us in a very strong position to optimise opportunities for further growth and generate strong and sustainable returns for our shareholders.”

About AIA

AIA Group Limited and its subsidiaries (collectively “AIA” or “the Group”) comprise the largest independent publicly listed pan-Asian life insurance group in the world. It has wholly-owned main operating subsidiaries or branches in 14 markets in Asia Pacific – Hong Kong, Thailand, Singapore, Malaysia, China, Korea, the Philippines, Australia, Indonesia, Taiwan, Vietnam, New Zealand, Macau and Brunei and a 26 per cent joint venture shareholding 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$114,461 million as of 30 November 2011.

AIA meets the savings and protection needs of individuals by offering a range of products and services including retirement planning, 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 24 million individual policies and over 10 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”).

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FINANCIAL HIGHLIGHTS

Key Performance Metrics

US$ millions, unless otherwise stated	2011	2010	YoY
New Business Value			
Value of new business (VONB)	**932**	667	40%
VONB margin	**37.2%**	32.6%	4.6 pps
Annualised new premium (ANP)	**2,472**	2,025	22%
Embedded Value			
EV operating profit	**3,105**	2,412	29%
Non-operating items including investment variances	**(305)**	590	n/m
Total EV profit	**2,800**	3,002	(7)%
Value of in-force business	**16,333**	15,224	7%
Adjusted net worth	**10,906**	9,524	15%
Embedded value	**27,239**	24,748	10%
Operating EV earnings per share (US cents)	**26**	20	29%
EV per share (US cents)	**226**	205	10%
IFRS			
Total weighted premium income (TWPI)	**14,442**	13,013	11%
Operating profit before tax	**2,381**	2,102	13%
Operating profit after tax(1)	**1,922**	1,699	13%
Net profit(1)	**1,600**	2,701	(41)%
Shareholders' equity(1)	**21,313**	19,555	9%
IFRS Operating Earnings per Share (US cents)			
– Basic	**16**	14	13%
– Diluted	**16**	14	13%
Dividend per Share (HK cents)	**33**	–	n/m
HKICO Solvency Ratio	**311%**	337%	(26) pps

(1) Attributable to shareholders of AIA Group Limited

Value of New Business (VONB) by Market

US$ millions, unless otherwise stated	2011 VONB	2011 VONB Margin	2010 VONB	2010 VONB Margin	VONB Growth
Hong Kong	**305**	**56.1%**	210	45.1%	45%
Thailand	**227**	**48.8%**	174	41.4%	30%
Singapore	**164**	**62.3%**	104	49.4%	58%
Malaysia	**58**	**40.7%**	39	33.3%	49%
China	**102**	**47.2%**	68	33.2%	50%
Korea	**74**	**27.3%**	64	22.8%	16%
Other Markets	**112**	**18.8%**	99	29.0%	13%
Subtotal	**1,042**	**41.6%**	758	37.1%	37%
Adjustment to reflect additional Hong Kong reserving and capital requirements	**(49)**	**n/m**	(49)	n/m	n/m
After-tax value of unallocated Group Office expenses	**(61)**	**n/m**	(42)	n/m	n/m
Total	932	37.2%	667	32.6%	40%

Notes:

(1) A presentation for analysts and investors, hosted by Mark Tucker, Group Chief Executive and President, is scheduled at 9:30 am Hong Kong time today with attendance by pre-registration only.

An audio cast of the presentation and presentation slides will be available on AIA's website:

http://investors.aia.com/phoenix.zhtml?c=238804&p=irol-presentations

(2) 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.

(3) TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums.

(4) ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded.

(5) ANP and VONB margin exclude corporate pension business.

(6) VONB includes corporate pension business.

(7) All figures are presented in actual reported currency (US dollar) unless otherwise stated.

(8) Growth is shown on a year-on-year basis unless otherwise stated.

(9) Hong Kong refers to operations in Hong Kong and Macau; Singapore refers to operations in Singapore and Brunei; and Other Markets refers to operations in Australia, the Philippines, Indonesia, Vietnam, Taiwan and New Zealand.

(10) The amounts of VONB attributable to non-controlling interests in 2011 and 2010 were US$4 million and US$2 million respectively.

(11) IFRS operating profit after tax, net profit and shareholders' equity are shown after non-controlling interests unless otherwise stated.

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GROUP CHIEF EXECUTIVE AND PRESIDENT'S REPORT

It gives me great pleasure to report that 2011, our first full year post listing, was a very successful year for AIA, with growth momentum and profitability sustained across our operations.

We combined delivery of a strong current year performance with extensive management actions to improve our operations and put in place our strategy to ensure that we maintain this positive momentum well into the future.

2011 Performance

2011 was a year of very strong financial performance for AIA, with VONB – our main measure of value creation – up 40 per cent on 2010 at US$932 million net of tax. The Group also performed well across our other main financial measures for the year, as shown in the Financial Highlights table, including 13 per cent growth in IFRS operating profit after tax and a strong increase in net free surplus during the year. We demonstrated our commitment to shareholder value through both capital growth and dividend returns with the commencement of regular dividend payments.

Last year I stated that AIA was exceptionally fortunate in the advantaged strategic position it occupies. We are the largest listed pan-Asian life insurer, operating in a region with fast growing economies and the most attractive drivers for the expansion of the life insurance market. Unlike other international groups, AIA does not have operations elsewhere to dilute the quality of these Asian growth opportunities. Our 90-year presence in the region has given us real scale advantages and our focus on the agency distribution channel, which contributes the large majority of our new business profit, gives us unparalleled opportunities for access to existing and new customers. Furthermore, we have the financial strength and cash flow to fund profitable new business on a large scale, securing the potential for material profit growth well into the future.

These underlying strengths, combined with our focus on profitable growth, drove our business performance in the second half of 2010 and were very much in evidence throughout 2011. Across the region, our operations delivered substantial VONB growth driven by increases in agency productivity and a superior product mix.

Firstly, the quality growth delivered in 2011 was a result of a fundamental change in the way that we manage our business. This will be an enduring feature of AIA's future.

Secondly, our success was driven by far-reaching and innovative changes in our approach to agency distribution. These were designed to ensure that AIA's agency operations, which are the mainstay of our ongoing relationships with the holders of our more than 24 million in-force policies, evolve to match our customers' increasing needs for professionalism and quality in sales and service relationships and are supported by market-leading point-of-sale technologies.

Thirdly, we have initiated a major change in product mix, in response to our customers' needs for protection insurances such as accident and health (A&H) cover, to complement our more traditional role in providing regular premium long-term savings products.

As part of our strategy to drive profitable growth, these changes have already started to bear fruit in our financial results. However, this is an ongoing transformation programme rather than a change with a single year impact, so the benefit will be felt progressively over future years.

Although agency distribution is the principal focus of my report, it is far from the whole story. AIA has important distribution opportunities through banks, other partnership and affinity channels, and to corporate customers. Our ambitions in these channels and our product offering through them have been subject to a wide-ranging review during 2011 to ensure that our partnership activities will also result in ongoing commercially attractive and sustainable returns on capital for both our partners and AIA.

Market Highlights

The strong performance across our local businesses reflected our consistent strategy across the Group.

AIA's Hong Kong operations, which is our largest business accounting for almost 30 per cent of total VONB in 2011, had an outstanding year with an increase in VONB of 45 per cent compared with 2010. This result was achieved by a combination of increased agency activity with an enhancement of overall margins from a change in product mix. Significant growth in VONB was derived from an increase in ANP of 16 per cent reflecting our strategy of promoting capital efficiency by developing our product mix in favour of A&H and other protection products.

AIA's business in Thailand accounted for 22 per cent of the Group's total VONB in 2011 and generated a first-rate performance with an increase of 30 per cent in VONB for the year, which was achieved despite severe dislocation in the final quarter caused by extensive flooding in the Bangkok region. Marketing efforts in 2011 focused on educating customers and agents about the need for life insurance and savings products.

Singapore, where agency is again AIA's dominant distribution channel, achieved an outstanding result with VONB up 58 per cent. The main drivers of the growth were higher activity levels from the agency force and successful new product launches. Recruitment remained an ongoing challenge in Singapore's strong labour market. To improve agency retention and productivity, AIA continued to implement an advanced training programme, including structured training over a period of nine months for new agents. As a result, the number of active new agents recruited increased by 69 per cent compared with 2010, demonstrating AIA's ability to recruit higher-calibre agents and provide them with the right tools to enhance their careers and improve retention.

AIA made considerable progress in Malaysia during 2011 with a 49 per cent increase in VONB. This growth in new business profitability was as a result of increased momentum in the second half of the year as key initiatives including a focus on the protection needs of the existing customer base and the launch of redesigned unit-linked products were implemented.

AIA's business in China, which is unique amongst international insurers in being 100 per cent owned by a non-mainland parent, achieved an excellent 50 per cent increase in VONB in 2011 to US$102 million. As elsewhere, the main drivers of growth during 2011 were a combination of improved agent activity and a focus on comprehensive covers that meet the increasing life and health insurance protection needs of customers in China. Our Premier Agency strategy focused on extensive training and quality recruitment to develop a distinctive agency force well-equipped to promote more sophisticated savings and protection products which are aligned with our customers' needs. Operating profit before tax increased to US$140 million, up 51 per cent compared with 2010.

AIA's primary objectives in Korea for 2011 were to establish a solid foundation for the business and to reposition it for future quality growth focused on profitability. A new management team was established in the second quarter of 2011. Actions taken so far have resulted in AIA's Korean operations achieving a 16 per cent increase in VONB.

Management and Structural Changes

In last year's report, I explained the management and other changes made to prepare AIA's future as an independent organisation, fully focused on taking maximum advantage of its opportunities for growth. I made particular mention of the introduction of a tier of Regional Managing Directors (RMDs) with line accountability for groups of businesses, the purpose of which was to spearhead a radical change in the relationship between business unit Chief Executive Officers (CEOs) and central Group operations in Hong Kong.

We refer to the process as “empowerment” and a key element has been to convert the thrust of our central functions from control to support. Empowerment continued to be a major theme of 2011, representing a significant and essential cultural change for the Group. The RMDs (now called Regional Chief Executives) are working to create a growth-oriented management culture by strengthening management resources within each business unit – equipping them with the tools to exercise greater autonomy in scoping and seizing growth opportunities. This is a gradual process, but one which is already delivering results and will continue to benefit the Group in future years.

One important aspect of strengthening our local management teams has been the introduction of a much greater emphasis on career progression across national boundaries for both senior management and our high potential employees throughout the Group. This fits naturally alongside steps I have taken to generate a more open dialogue between the senior management group and the top 200 leaders across the region. We now host an annual leadership conference and arrange much more frequent opportunities for business unit CEOs to review progress and exchange ideas with the Group Executive Committee.

In parallel with these moves to change the management culture, 2011 saw the initial and decisive steps in the development and regional roll-out of the Premier Agency programme, involving changes in almost every aspect of the recruitment, training and support of our agency force. At the same time, we have strengthened key group-wide support functions in distribution and marketing. These changes are described in greater detail in the Business Review section of this report.

For my part, I believe that the development of our Premier Agency model, and its success in generating new standards of customer sales and service across the region, are of equal importance to the future of AIA as the line management regeneration and empowerment programme that I have already implemented.

In line with our philosophy of prudent oversight, we have also strengthened the Group’s overall risk management framework to ensure we have the right infrastructure to support our move towards greater local empowerment.

Outlook

The Group has an effective rolling three year business planning process, and as a team we are increasingly confident in our ability to deliver results through tried and tested performance management and incentive processes.

The potential exists for continuing global economic uncertainties to have a negative impact upon Asian economic growth rates and consequently upon AIA’s business. In the absence of such external economic shocks having a major impact on Asia, it is our considered view that an immense opportunity exists for AIA given present levels of wealth, the significant protection gap across the region and likely future economic growth to drive the demand and expansion of our products and services.

With the support of an exceptional management team and a large, able and highly motivated group of agents and employees, I am confident that we will continue the underlying momentum established over the last eighteen months as we take full advantage of the outstanding opportunities presented by the Asian markets in which we are so well established.

FINANCIAL AND OPERATING REVIEW

FINANCIAL REVIEW

Overview

2011 was a year of very strong financial performance for AIA, with VONB – our main measure of value creation – up 40 per cent on 2010 at US$932 million net of tax.

The Group also performed well on its other main financial measures, achieving significant VONB margin expansion, EV progression and IFRS operating earnings growth, while at the same time maintaining a very strong capital position and cash flow generation.

The Group was able to begin paying regular dividends in line with the intentions as stated at the time of the IPO in October 2010.

Value Creation

As stated above, VONB grew by 40 per cent to US$932 million net of tax compared with 2010. This excellent result was driven by the successful implementation of the Group's strategy to improve margins and volumes combined with positive initial steps taken to improve distribution performance and productivity, particularly in our core agency channel. Margins increased by 4.6 pps to 37.2 per cent from 32.6 per cent in 2010 as a result of product innovation, disciplined pricing and changes in the product mix. ANP grew by 22 per cent to US$2,472 million from US$2,025 million in 2010.

EV operating profit grew by 29 per cent compared with 2010 to US$3,105 million net of tax. This excellent performance resulted from the increase in VONB described above; a 10 per cent higher expected return on EV to US$2,029 million; and overall positive operating experience variances and operating assumption changes of US$144 million. Each of the components of EV operating profit increased materially compared with 2010.

EV grew by US$2,491 million to US$27,239 million at 30 November 2011, an increase of 10 per cent from US$24,748 million at 30 November 2010. The growth in EV reflected the 29 per cent growth in EV operating profit; negative investment return variances of US$297 million net of tax mainly due to mark-to-market equity market declines over the year; negative changes in economic assumptions of US$26 million; positive other non-operating variances of US$18 million; the interim dividend payment of US$170 million; negative other capital movements of US$89 million; and a negative foreign exchange movement of US$50 million.

IFRS Profit

Operating profit after tax attributable to shareholders of AIA (OPAT) increased by 13 per cent to US$1,922 million compared with 2010. OPAT increased as a result of business growth, increased dividend income from investments of US$62 million and effective expense management. The Group achieved a slight reduction in the expense ratio from 8.8 per cent in 2010 to 8.7 per cent in 2011 despite making a material investment in upgrading distribution channel technology to support future growth and taking into account the cost of the introduction of long-term incentive schemes.

Shareholders' equity attributable to shareholders of AIA increased to US$21,313 million at 30 November 2011 from US$19,555 million at 30 November 2010, mainly contributed by retained earnings. It should be noted that AIA's IFRS net profit definition accounts for the mark-to-market movements from equity investments within net profit. Equity markets declined significantly during 2011 compared with the large gains recorded previously in 2010, with major falls occurring during the second half of 2011. Consequently IFRS net profit attributable to shareholders of AIA decreased by 41 per cent to US$1,600 million compared with 2010.

Capital and Dividends

At 30 November 2011 the total available regulatory capital for AIA Co., our main regulatory entity was US$6,168 million, resulting in a solvency ratio of 311 per cent under the HKICO basis compared with 337 per cent at 30 November 2010. The decrease in available capital was from negative capital market movements and the interim dividend payment partially offset by retained earnings. Capital flows remained strong with the individual country businesses remitting US$2.2 billion of dividends to the Group during 2011 compared with US$1.5 billion in 2010.

The Board of Directors has recommended a final dividend of 22 Hong Kong cents per share subject to shareholders' approval at the AGM. This brings the total dividend for 2011 to 33 Hong Kong cents per share.

New Business Growth

VALUE OF NEW BUSINESS (VONB) AND VONB MARGIN BY SEGMENT

US$ millions, unless otherwise stated	**2011** VONB	**2011** VONB Margin	2010 VONB	2010 VONB Margin	VONB Growth
Hong Kong	**305**	**56.1%**	210	45.1%	45%
Thailand	**227**	**48.8%**	174	41.4%	30%
Singapore	**164**	**62.3%**	104	49.4%	58%
Malaysia	**58**	**40.7%**	39	33.3%	49%
China	**102**	**47.2%**	68	33.2%	50%
Korea	**74**	**27.3%**	64	22.8%	16%
Other Markets	**112**	**18.8%**	99	29.0%	13%
Subtotal	**1,042**	**41.6%**	758	37.1%	37%
Adjustment to reflect additional Hong Kong reserving and capital requirements	**(49)**	**n/m**	(49)	n/m	n/m
After-tax value of unallocated Group Office expenses	**(61)**	**n/m**	(42)	n/m	n/m
Total	**932**	**37.2%**	667	32.6%	40%

VONB grew by 40 per cent to US$932 million net of tax compared with US$667 million in 2010.

VONB growth was particularly strong in the second half of 2011 with Hong Kong, Singapore, Malaysia and China reporting above 50 per cent growth in VONB, despite the high comparative in the fourth quarter of 2010. Korea and Other Markets each grew by 28 per cent in the second half of the year. Thailand performed strongly but the result for the year was also adversely affected by severe flooding in the Bangkok region in the final quarter.

Significant growth was achieved across both agency and partnership distribution channels. The VONB for agency grew by 40 per cent and VONB for partnership distribution was up by 28 per cent compared with 2010.

VONB margin improved by 4.6 pps to 37.2 per cent from 32.6 per cent including the previously announced single large group insurance scheme in Australia, and up 6.2 pps to 38.8 per cent excluding the scheme.

Improvements in margins from product and portfolio mix of 6.6 pps more than offset the impact of geographical mix of (0.2) pps, and assumption changes and other items of (1.8) pps. The main drivers of the increased margins were product innovation and disciplined pricing, including the removal of lower-margin products and changes in the product mix towards higher-margin A&H and other protection lines, reflecting the successful implementation of our product and distribution initiatives during the year.

The margin highlights of 2011 were in Hong Kong, Singapore and China with double digit increases in new business margins achieved in each of these countries. The decline in margin for Other Markets was mainly due to the Indonesian tax effect described in the Business Review and the single large Australian group insurance scheme.

The VONB of US$932 million is shown after deductions of US$49 million for additional HKICO reserving and capital requirements levels above local statutory requirements and US$61 million for unallocated Group Office expenses.

Acquisition expense overruns were US$27 million in 2011, down by 74 per cent compared with 2010. This reflects the recovery in business volumes and a focus on expense control during 2011.

A new Risk-Based Capital (RBC) regime was introduced by the local regulator in Thailand with effect from September 2011 alongside a more realistic reserving approach. More details are included in the Business Review for Thailand. The changes do not affect the EV and VONB results for the Group.

ANNUALISED NEW PREMIUM (ANP) BY SEGMENT

US$ millions, unless otherwise stated	2011	2010	YoY
Hong Kong	**522**	449	16%
Thailand	**465**	420	11%
Singapore	**264**	210	26%
Malaysia	**142**	117	21%
China	**215**	206	4%
Korea	**270**	282	(4)%
Other Markets	**594**	341	74%
Total	**2,472**	2,025	22%

AIA's strategy is to write business that meets our profitability and margin targets, and ANP grew 22 per cent to US$2,472 million in 2011 compared with 2010. Strong growth was achieved across most markets, with Other Markets including A$160 million of ANP from a large single Australian group insurance scheme in 2011.

Embedded Value (EV)

An analysis of the movements in EV is as follows:

	2011		
US$ millions, unless otherwise stated	**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**

US$ millions, unless otherwise stated	2010 ANW	VIF	EV
Opening Embedded Value	7,765	13,201	20,966
Value of new business	(691)	1,358	667
Expected return on EV	2,591	(745)	1,846
Operating experience variances	(229)	125	(104)
Operating assumption changes	(143)	146	3
EV operating profit	1,528	884	2,412
Investment return variances	192	881	1,073
Effect of changes in economic assumptions	–	(333)	(333)
Other non-operating variances	(227)	77	(150)
Total EV profit	1,493	1,509	3,002
Effect of changes in exchange rates	266	514	780
Closing Embedded Value	9,524	15,224	24,748

EV operating profit grew by 29 per cent compared with 2010 to US$3,105 million net of tax. This strong performance was a result of the 40 per cent increase in VONB to US$932 million; a 10 per cent higher expected return on EV to US$2,029 million; and overall positive operating experience variances and operating assumptions changes of US$144 million.

The positive operating experience variances compared with the assumptions used in the EV calculation included US$149 million from better mortality and morbidity experience, US$43 million from improved persistency and negative expense variances of US$33 million.

The increase in expected return compared with 2010 reflected a higher opening EV and benefited from the unwind of the prudent margins in the risk discount rate used in the value of in-force business calculation.

EV grew by US$2,491 million to US$27,239 million at 30 November 2011, an increase of 10 per cent from US$24,748 million at 30 November 2010. The growth in EV reflected the 29 per cent growth in EV operating profit; negative investment return variances of US$297 million net of tax mainly due to mark-to-market equity market declines over the year; negative changes in economic assumptions of US$26 million; positive other non-operating variances of US$18 million; the payment of the interim dividend of US$170 million; negative other capital movements of US$89 million; and negative foreign exchange movements of US$50 million.

EV includes adjusted net worth (ANW) and value of in-force business (VIF). The ANW increased by 15 per cent to US$10,906 million at 30 November 2011 from US$9,524 million at 30 November 2010. The ANW figure provides for US$7,836 million of additional reserves above local statutory requirements.

After the cost of holding required capital, VIF increased by 7 per cent to US$16,333 million at 30 November 2011, compared with US$15,224 million at 30 November 2010. Total undiscounted projected after-tax distributable earnings of US$10,685 million are expected to emerge from the VIF from 2012 through to 2016.

The total EV included a deduction of US$3,028 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)

US$ millions, unless otherwise stated	2011	2010	YoY
Hong Kong	**792**	791	–
Thailand	**560**	450	24%
Singapore	**391**	394	(1)%
Malaysia	**166**	158	5%
China	**140**	93	51%
Korea	**153**	151	1%
Other Markets	**248**	188	32%
Corporate and Other	**(69)**	(123)	n/m
Total	**2,381**	2,102	13%

The Group's OPBT for 2011 increased by 13 per cent to US$2,381 million compared with 2010. OPBT was positively impacted by one-off pre-tax adjustments of US$47 million in 2010, and negatively offset by US$6 million of one-off pre-tax adjustments in 2011. Excluding these impacts, underlying OPBT increased 16 per cent.

The Corporate and Other segment improved by US$54 million, benefitting from higher investment income on additional capital held at the corporate centre following significant remittances from the local businesses to the Group during 2011 and 2010. Hong Kong's OPBT was flat at US$792 million, partly due to slightly higher than normal claims and lower investment income following capital transfers to the Group. The 2010 figure included a one-off positive item of US$18 million relating to positive reserves experience. Thailand's OPBT increased 24 per cent to US$560 million, as a result of continuing profitable business growth, better claims experience and improved investment income from dividends. Singapore's OPBT decreased by 1 per cent to US$391 million compared with 2010. The reduction was due to a one-off US$29 million release in 2010 of a provision that was no longer required.

China's OPBT increased to US$140 million, which represented growth of 51 per cent compared with 2010. The drivers of the increase included new business growth, increased interest income and operating expense savings. Korea's OPBT increased by 1 per cent compared with 2010 driven by cost savings initiatives during the year.

Better than expected customer persistency, in-force business growth and enhanced reinsurance terms resulted in a strong operating profit result, making Australia one of the main drivers of the increase in Other Markets' OPBT growth of 32 per cent during 2011.

IFRS OPERATING PROFIT AFTER TAX ATTRIBUTABLE TO SHAREHOLDERS OF AIA (OPAT)

US$ millions, unless otherwise stated	2011	2010	YoY
Hong Kong	**736**	741	(1)%
Thailand	**395**	312	27%
Singapore	**336**	326	3%
Malaysia	**133**	117	14%
China	**119**	70	70%
Korea	**124**	141	(12)%
Other Markets	**165**	132	25%
Corporate and Other	**(86)**	(140)	n/m
Total	**1,922**	1,699	13%

The Group's OPAT increased 13 per cent to US$1,922 million in 2011, largely attributable to the growth in OPBT as discussed above, while our overall effective tax rate applicable to operating profit was stable. The significant increase in OPAT from China (70 per cent) compared with OPBT was due to a one-off tax provision of US$14 million in 2010.

TOTAL WEIGHTED PREMIUM INCOME (TWPI)

US$ millions, unless otherwise stated	2011	2010	YoY
Hong Kong	**3,142**	3,012	4%
Thailand	**2,976**	2,742	9%
Singapore	**1,949**	1,687	16%
Malaysia	**928**	813	14%
China	**1,313**	1,137	15%
Korea	**2,029**	1,951	4%
Other Markets	**2,105**	1,671	26%
Total	**14,442**	13,013	11%

TWPI increased by 11 per cent to US$14,442 million in 2011. TWPI tends to lag the growth in new business premium due to the large in-force block of regular premium business, which generates substantial renewal premiums and forms the majority of TWPI.

Management believes that TWPI provides a useful indicative measure of the pattern of potential emergence of IFRS operating profits for traditional business.

Persistency continued to strengthen to 94.5 per cent at 30 November 2011 from 94.0 per cent at 30 November 2010.

INVESTMENT INCOME(1)

US$ millions, unless otherwise stated	2011	2010	YoY
Interest income	**3,574**	3,201	12%
Dividend income	**296**	220	35%
Rental income	**76**	62	23%
Total investment income	**3,946**	3,483	13%

(1) Excluding unit-linked contracts.

Investment income grew 13 per cent to US$3,946 million for 2011, mainly reflecting a higher level of invested assets at the start of the year. Interest income increased 12 per cent to US$3,574 million for 2011, reflecting an increase in holdings of debt securities to match the growth of the in-force portfolio and an increase in shareholders' equity. An increase in dividend income of 35 per cent in 2011 was mainly driven by an increased exposure to equities at the end of 2010, as reported in last year's full year results, as well as a general recovery in corporate earnings.

OPERATING EXPENSES

US$ millions, unless otherwise stated	2011	2010	YoY
Operating expenses	**1,253**	1,146	9%

Operating expenses increased 9 per cent to US$1,253 million in 2011 from US$1,146 million in 2010. The expense ratio decreased slightly to 8.7 per cent in 2011 from 8.8 per cent in 2010 despite making a material investment in upgrading distribution channel technology to support future growth and the introduction of long-term incentive schemes. It remains one of the lowest ratios amongst insurance companies in Asia.

NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF AIA (NET PROFIT)

US$ millions, unless otherwise stated	2011	2010	YoY
OPAT	**1,922**	1,699	13%
Net (losses)/gains from equities, net of tax	**(207)**	853	(124)%
Other non-operating investment experience and items, net of tax	**(115)**	149	(177)%
Total	**1,600**	2,701	(41)%

Net profit decreased to US$1,600 million in 2011. The fall was caused by negative mark-to-market movements in equity investments over 2011 within the net profit figure compared with large positive gains in 2010. The negative non-operating investment return for equities, net of tax, was US$(207) million in 2011 compared with a positive return of US$853 million in 2010. Other non-operating investment experience and items in 2010 included a US$73 million gain from the sale of AIG shares as well as other positive non-operating investment experience from foreign exchange, derivatives and debt securities.

SENSITIVITIES

Included in note 35 to the financial statements are sensitivities for profit before tax and net assets to foreign exchange rate, interest rate and equity movements.

Included in Section 3 of the supplementary embedded value information are sensitivities for the embedded value and value of new business to risk discount rate, interest rate, equity movements and major operating assumptions.

Earnings Per Share (EPS)

OPAT earnings per share increased by 13 per cent to 16 US cents per share in 2011 from 14 US cents per share in 2010.

EPS based on net profit decreased to 13 US cents per share in 2011 from 22 US cents per share in 2010 following the mark-to-market movements in equity markets mentioned above.

The decrease in weighted average number of shares outstanding for basic earnings per share primarily results from the effects of the purchase of shares held by employee benefit trusts during 2011. In addition, dilutive earnings per share including the dilutive effects, if any, of the grants of share options, restricted share units and restricted share purchase units to eligible employees under the share-based compensation plans are described in note 37 to the financial statements.

EARNINGS PER SHARE – BASIC

	Net Profit[1]		**OPAT**[1]	
	2011	2010	**2011**	2010
Profit (US$m)	**1,600**	2,701	**1,922**	1,699
Weighted average number of shares (millions)	**12,031**	12,044	**12,031**	12,044
Basic earnings per share (US cents)	**13**	22	**16**	14

(1) Attributable to shareholders of AIA Group Limited

EARNINGS PER SHARE – DILUTED

	Net Profit[1]		OPAT[1]	
	2011	2010	**2011**	2010
Profit (US$m)	**1,600**	2,701	**1,922**	1,699
Weighted average number of shares for diluted earnings per share (millions)	**12,032**	12,044	**12,032**	12,044
Diluted earnings per share (US cents)	**13**	22	**16**	14

(1) Attributable to shareholders of AIA Group Limited

Balance Sheet

Consolidated Statement of Financial Position

US$ millions, unless otherwise stated	As at 30 November 2011	As at 30 November 2010
Assets		
Financial investments	**92,254**	88,798
Investment property	**896**	828
Cash and cash equivalents	**4,303**	2,595
Invested assets	**97,453**	92,221
Deferred acquisition and origination costs	**12,818**	12,006
Other assets	**4,190**	3,638
Total assets	**114,461**	107,865
Liabilities		
Insurance and investment contract liabilities	**87,112**	82,296
Borrowings	**559**	597
Other liabilities	**5,375**	5,337
Total liabilities	**93,046**	88,230
Total equity	**21,415**	19,635
Less: non-controlling interests	**102**	80
Total equity attributable to shareholders of AIA Group Limited	**21,313**	19,555

ASSETS

Total assets grew 6 per cent to US$114,461 million at 30 November 2011 compared with US$107,865 million at 30 November 2010, primarily driven by positive net inflows from underlying growth in the business. Cash and cash equivalents increased to US$4,303 million at 30 November 2011 compared with US$2,595 million at 30 November 2010. Deferred acquisition and origination costs increased to US$12,818 million at 30 November 2011 compared with US$12,006 million at 30 November 2010. The increase resulted primarily from the deferral and amortisation of acquisition costs of US$869 million.

LIABILITIES

Total liabilities increased by 5 per cent to US$93,046 million at 30 November 2011 compared with US$88,230 million at 30 November 2010. Insurance and investment contract liabilities increased to US$87,112 million at 30 November 2011 compared with US$82,296 million at 30 November 2010, reflecting the growth in the portfolio.

Contingent liabilities were not significant at 30 November 2011 and details of contingencies are included in note 40 to the financial statements.

EQUITY – MOVEMENT IN SHAREHOLDERS' EQUITY OF AIA

US$ millions, unless otherwise stated	2011	2010
Opening Shareholders' Equity	**19,555**	14,908
Net profit	**1,600**	2,701
Fair value gains on assets	**500**	1,386
Foreign currency translation	**(83)**	567
Purchase of shares held by employees share-based trusts	**(105)**	–
Dividends	**(170)**	–
Other	**16**	(7)
Total movement in shareholders' equity	**1,758**	4,647
Closing Shareholders' Equity	**21,313**	19,555

Shareholders' equity excluding non-controlling interests increased 9 per cent to US$21,313 million at 30 November 2011 compared with US$19,555 million at 30 November 2010. The increase was primarily from retained earnings of US$1,600 million.

Invested Assets

The carrying value of invested assets, including financial investments, investment property and cash and cash equivalents, increased to US$97,453 million at 30 November 2011 compared with US$92,221 million at 30 November 2010. Invested assets comprise total assets held in respect of policyholders, including unit-linked contracts, and shareholders.

Details of the investment mix are as follows:

Policyholder and shareholder invested assets

US$ millions, unless otherwise stated	As at 30 November 2011	Percentage of total	As at 30 November 2010	Percentage of total
Participating funds				
Government and government agency bonds	**5,640**	**7%**	5,307	7%
Corporate bonds and structured securities	**8,097**	**10%**	7,890	11%
Loans and deposits	**1,026**	**1%**	986	1%
Subtotal – Fixed income	**14,763**	**18%**	14,183	19%
Equities	**2,777**	**3%**	3,219	4%
Cash and cash equivalents	**481**	**1%**	173	–
Derivatives	**367**	**–**	327	–
Investment property	**11**	**–**	11	–
Subtotal participating funds	**18,399**	**22%**	17,913	23%
Other policyholder and shareholder				
Government and government agency bonds	**27,379**	**33%**	25,622	34%
Corporate bonds and structured securities	**24,445**	**30%**	21,291	28%
Loans and deposits	**3,396**	**4%**	2,684	3%
Subtotal – Fixed income	**55,220**	**67%**	49,597	65%
Equities	**4,388**	**6%**	5,311	7%
Cash and cash equivalents	**3,034**	**4%**	1,927	3%
Derivatives	**358**	**–**	448	1%
Investment property	**885**	**1%**	817	1%
Subtotal other policyholder and shareholder	**63,885**	**78%**	58,100	77%
Total policyholder and shareholder	**82,284**	**100%**	76,013	100%

Unit-linked contracts

US$ millions, unless otherwise stated	**As at 30 November 2011**	**Percentage of total**	As at 30 November 2010	Percentage of total
Unit-linked contracts				
Debt securities	**2,391**	**16%**	2,097	13%
Loans and deposits	**143**	**1%**	92	1%
Equities	**11,847**	**78%**	13,524	83%
Cash and cash equivalents	**788**	**5%**	495	3%
Total unit-linked contracts	**15,169**	**100%**	16,208	100%

Total invested assets

US$ millions, unless otherwise stated	**As at 30 November 2011**	**Percentage of total**	As at 30 November 2010	Percentage of total
Total policyholder and shareholder	**82,284**	**84%**	76,013	82%
Total unit-linked contracts	**15,169**	**16%**	16,208	18%
Total invested assets	**97,453**	**100%**	92,221	100%

Invested assets held in respect of policyholders and shareholders increased to US$82,284 million at 30 November 2011 compared with US$76,013 million at 30 November 2010.

Fixed income investments, including debt securities, loans, and term deposits, held in respect of policyholders and shareholders, totalled US$69,983 million at 30 November 2011 compared with US$63,780 million at 30 November 2010. Consistent with prior years, government and government agency bonds represented 47 per cent of the Group's fixed income investment portfolio that belongs to policyholders and shareholders at 30 November 2011 as compared with 48 per cent at 30 November 2010. Corporate bonds and structured securities accounted for 46 per cent of the fixed income investment portfolio at 30 November 2011 compared with 46 per cent at 30 November 2010.

Total equity securities held in respect of policyholders and shareholders were US$7,165 million at 30 November 2011 compared with US$8,530 million at 30 November 2010. The decrease in carrying value was attributable to recent market declines as well as opportunistic sales. The amount of equity securities held in the participating funds is US$2,777 million. The percentage of the portfolio that belongs to policyholders and shareholders that is held in equities is 9 per cent at 30 November 2011 as compared with 11 per cent at 30 November 2010.

Cash and cash equivalents held in respect of policyholders and shareholders totalled US$3,515 million at 30 November 2011 compared with US$2,100 million at 30 November 2010.

Invested assets held in respect of unit-linked contracts totalled US$15,169 million at 30 November 2011 compared with US$16,208 million at 30 November 2010. The main reason for the decline is the movement in equity markets over the year.

Capital

FREE SURPLUS GENERATION

The Group's free surplus at 30 November 2011 represented the excess of adjusted net worth over the required capital. Free surplus was US$5,930 million at 30 November 2011, reflecting free surplus generated of US$2,485 million; US$1,140 million of investment in new business growth; US$148 million of unallocated Group Office expenses over the year; payment of the interim dividend of US$170 million; and negative other capital movements of US$89 million. The following table shows the change in free surplus:

US$ millions, unless otherwise stated	2011	2010
Opening free surplus	**4,992**	4,011
Free surplus generated	**2,485**	2,107
Free surplus used to fund new business	**(1,140)**	(958)
Unallocated Group Office expenses	**(148)**	(168)
Dividends	**(170)**	–
Other capital movements	**(89)**	–
Closing free surplus	**5,930**	4,992

NET FUNDS TO GROUP

Business units remitted US$2.2 billion of dividends to the Group in 2011, compared with US$1.5 billion in 2010. Our working capital comprises debt and equity securities, dividends receivable from subsidiaries, and cash and cash equivalents held centrally. Working capital was US$3,912 million at 30 November 2011 compared with US$2,180 million at 30 November 2010.

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

US$ millions, unless otherwise stated	2011	2010
Opening working capital(1)	**2,180**	890
Corporate and Other segment net loss(1)	**(171)**	(141)
Capital flows from business units:		
Hong Kong	**1,100**	585
Thailand	**401**	346
Singapore	**618**	400
Malaysia	**120**	90
China(1)	**(80)**	1
Other Markets	**26**	99
Net funds remitted to Group	**2,185**	1,521
Repayment of borrowings from AIG	**–**	(50)
Payment of interim dividend	**(170)**	–
Purchase of shares held by employee share-based trusts	**(105)**	–
Other changes in working capital(1)	**(7)**	(40)
Closing working capital	**3,912**	2,180

(1) Results of a subsidiary have been reclassified from China segment to Corporate and Other segment to conform to current year presentation.

Regulatory Capital

The Group's primary 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 2011, the total available regulatory capital of AIA Co. was US$6,168 million as measured under the HKICO. This places AIA Co. in a very strong capital position with a solvency ratio of 311 per cent of the minimum regulatory capital requirement.

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

US$ millions, unless otherwise stated	As at 30 November 2011	As at 30 November 2010
Total Available Regulatory Capital	**6,168**	6,207
Regulatory Minimum Required Capital (100%)	**1,984**	1,844
Solvency Ratio (%)	**311%**	337%

AIA has given an undertaking to the HKOCI that it will maintain a solvency ratio of not less than 150 per cent in AIA Co. The Group's local operations collectively, including individual branches and subsidiaries, must also meet the regulatory capital requirements of their local prudential regulators. The various regulators overseeing the Group's branches and subsidiaries actively monitor their capital positions. 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 2011.

The total available regulatory capital is after a deduction of US$7,836 million of additional reserves on the HKICO basis above local statutory requirements.

Credit Ratings

At 30 November 2011, AIA Co. had 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 22 Hong Kong cents per share, subject to shareholders' approval at the AGM. This brings the total dividend for 2011 to 33 Hong Kong cents per share.

BUSINESS REVIEW

Distribution

AGENCY

AIA's proprietary tied agency channel remained the cornerstone of our distribution platform, providing the Group with continuity of access to customers and the important opportunity to service their ongoing needs. Close ties between AIA's customers and agents resulted in improved persistency during 2011 to 94.5 per cent continuing the previous year's positive trend.

Our agency channel represented 78 per cent of the Group's total VONB compared with 77 per cent in 2010 and generated US$811 million of VONB during the year, which is an increase of 40 per cent compared with 2010. The growth in VONB – our primary measure of new business achievement – included ANP growth of 11 per cent, reflecting our strategy of writing business that meets our profitability and margin targets.

As described in our 2010 Annual Report, AIA's core distribution strategy is to achieve sustainable growth in profits by increasing the productivity and professionalism of our agency force. This led to the introduction of a series of long-term initiatives that began delivering results during 2011. Our aim is to develop the Premier Agency force in Asia by achieving best-in-class activity levels, scale and profitability – calibrated to match the wide levels of market sophistication and complexity of customers' needs across the region. While all agency operations are under the line control of individual market CEOs, the Agency Distribution unit in the Group Office plays an essential functional leadership role in designing, promoting and rolling out the main initiatives through which we deliver our strategic objectives for agency.

In 2011, we maintained our focus on agent reactivation, eliminating inactive agents and targeting selective recruitment of high quality active agents. 2011 saw an increase in active agent numbers of 7 per cent compared with 2010.

The AIA Premier Academy was launched in 2011 to establish consistent standards of recruitment and training, agency leadership development and the sharing of agency best practices. A Premier Agency branding and segmentation initiative was rolled out across the region in cooperation with Group Marketing to establish differentiated levels of attainment and reinforce agents' awareness of the Premier Agency strategy. In parallel, we continued to promote membership of the Million Dollar Round Table (MDRT) as a benchmark for Premier Agent performance. As of 31 December 2011, the number of MDRT qualifying agents increased 25 per cent compared with 2010, excluding India. Based on the latest MDRT registered membership, AIA retained the number five position globally.

A further important aspect of our approach to agency productivity and profitability has been the alignment of our product range with customers' savings and protection needs at different stages of their lives. The redesigned product range has been complemented by initiatives to equip agents with the latest technology designed to make the sales process more efficient and by targeted marketing initiatives. As a result, the agency channel achieved a greater take-up of products incorporating a protection component than in previous years. Together, our initiatives delivered a significant improvement in margins on agency new business, up 10.0 pps in 2011 to 49.4 per cent compared with 39.4 per cent in 2010.

AIA PARTNERS

The Group's partnership team is responsible for creating value by promoting channel diversification where appropriate rates of return are available. During 2011, these support functions were regrouped within a new unit called AIA Partners, strengthening the Group's commitment to developing both existing and new partnership income streams and positioning AIA with a new operating model to take advantage of opportunities as they arise.

VONB from partnership grew by 28 per cent to US$219 million compared with 2010, including a single large Australian group insurance scheme. The focus over 2011 was on improving the penetration and working to improve the profitability of the existing portfolio of relationships to generate the required new business margins for both AIA and our partners.

Bancassurance

The ongoing roll-out with AIA's existing regional partners continued throughout 2011. We expanded our relationship with Citibank to other geographies, resulting in a significant increase in VONB. We also extended our relationship with ANZ to incorporate ANZ's Hong Kong hub in addition to Indonesia and Taiwan, which delivered a very strong VONB increase in 2011.

AIA continued to work closely with our existing domestic banking partners during 2011. The long-term agreement with Bank of Central Asia (BCA) in Indonesia was extended during the year. Insurance specialists are located in 750 of BCA's branches and support the partnership's focus on regular premium, higher-margin products. In the Philippines, more new products were launched to address the needs of the Bank of the Philippine Islands' customer base.

Other Partnership Channels

The Group continued to develop direct marketing in 2011 with a focus on deepening bank partnerships, extending strategic affinity groups and launching new direct marketing channels in AIA's markets. For example, our agreement with Tune Money in Malaysia offers a range of insurance protection products to AirAsia customers, and AIA launched a new direct marketing platform in the Philippines. The direct marketing business in Korea continues to be restructured with a reorganised outbound team and new management brought in during the final quarter of 2011.

GROUP INSURANCE

Within the group insurance sector, AIA focuses on providing group life and medical benefits to both local and international companies. AIA is a leading provider of group insurance across Asia Pacific and currently serves more than 100,000 corporate clients with more than 10 million members. AIA also has an advantaged position in the small-and-medium sized enterprise (SME) group insurance scheme market through our agency force. A focus on best practice sharing across the region with intensive training programmes has been instituted and will be developed further in 2012. The regional footprint was made stronger during 2011 in the large group insurance scheme market with the agreement of an international employees' benefits network to provide support services and products to multi-national companies. A significant proportion of new group insurance business comes to us through IFAs and other specialists. We built on direct relationships with large employers to launch exclusive regional deals, and maximised relationships with our strong network of global, regional, and local employee benefit brokers – who collectively account for over 60 per cent of distribution by premium.

In 2011, we set up a strategic distribution alliance with Citibank (Hong Kong) Limited to offer customers AIA's comprehensive range of Mandatory Provident Fund (MPF) products and services. In the third quarter of 2011, we completed the transfer of one of the largest group insurance schemes in Australia with over one million members, which contributed A$160 million in ANP.

Marketing

AIA's philosophy is that, as a life insurer, we should aim to promote the financial security of our customers through both regular savings plans and protection insurance products, delivering value for money for customers while ensuring an adequate and risk-related return on capital for our shareholders.

In 2011, as in the past, AIA strove to meet these goals across the region with an emphasis on delivering outstanding products, supported by a sound understanding of customer needs and complementary product and marketing plans at both the Group and country levels. AIA's customers share basic needs for products that safeguard their financial well-being in retirement and provide financial protection in case of accidents and ill health. However, social, welfare and taxation structures vary from one country to another, and need to be taken into account when it comes to the specifics of product design. AIA addresses all of these aspects by empowering local operations, which are in turn backed by high-quality technical support from the Group Office marketing function.

PRODUCT EXCELLENCE

A year ago, we described the steps we were taking to promote greater awareness amongst our customers regarding the need for adequate levels of protection insurance – with particular emphasis on the need for accident and health insurance to provide protection against the financial consequences of accidents, critical illness and disability. This has continued throughout 2011. In addition, we have focused on the need for protection against premature death of the family breadwinner, introducing an innovative next generation unit-linked product that combines increased mortality cover with efficient regular savings.

This next generation product was first introduced in Singapore in July 2011. Early results have been impressive. The new product achieved significant increases in both sums assured and take-up of rider attachments, resulting in a material improvement in overall VONB margins compared with the older unit-linked plans it replaced. Products of this type will be rolled out to other countries in the region, adapted to local market conditions.

BRAND STRENGTH

The AIA brand is one of the strongest in Asia, and is one of the most recognised insurance brands across the Group's key markets, as demonstrated by our receiving the "Readers' Digest Most Trusted Brand – Gold Award" for the eighth consecutive year. During 2011, we continued to invest in maintaining this high profile and level of trust through our award-winning, region-wide "Mind the Gap" advertising campaign, intended to promote awareness of the need for adequate insurance protection.

FOCUS ON OUR CUSTOMERS

In distribution, our agency force remains the dominant point of contact with AIA's existing and potential customers. This is both a key competitive advantage for AIA and a recurring opportunity to demonstrate the quality of our customer service. With around 40 million individual customer interactions during 2011, we launched a programme to enhance the customer experience by further targeting and monitoring customer service standards across the Group. The programme has been fully integrated with frontline staff recruitment, induction, training and development. We see the servicing of the needs of existing customers and the development of new customer relationships as complementary and critical drivers of success. Therefore, our marketing efforts are directed at both acquiring new customers, an important source of growth as Asian economies expand and develop, and at servicing the expanding insurance needs of the holders of our more than 24 million in-force policies.

As part of this approach, we introduced highly successful health plan upgrade programmes in China and Singapore, aimed at identifying customers with a high propensity to purchase new or enhanced levels of cover. In Malaysia, our targeted customer marketing programmes resulted in more than 25,000 in-force customers purchasing critical illness plans.

Technology and Operations

We continued to leverage AIA's significant regional scale during 2011, with a focus on increasing operating efficiencies and using technology to improve overall levels of service quality for our customers, agents and partners.

We also strengthened our operating platform through a number of strategic initiatives to offer users a better end-to-end experience. These included:

- Greater empowerment of local operations to enhance efficiency and improve the quality and speed of service to customers and agents;
- Increased use of shared services centres to boost capacity and improve capabilities;
- Innovative point-of-sale technologies to make the sales process more efficient and reduce the need for physical infrastructure; and
- Streamlining operations through increased automation and ongoing process reengineering.

While continuing to invest in targeted new technology improvements, AIA retained one of the lowest expense ratios in the industry in 2011 at 8.7 per cent, an improvement of 0.1 pps compared with 2010.

LOCAL OPERATIONS

AIA's philosophy of empowering the local operations comes from the belief that each local business understands its local markets deeply and is in the best position to react to changing conditions on the ground rather than through centrally-controlled decision making processes. By the end of 2011, the Group had completed the transfer of the responsibility for strategic initiatives delivery to the local operations. Actions to upgrade the knowledge and expertise in local operations and to share best practices continued throughout 2011.

For example, more underwriting decisions were made by local business operations as a result of a new underwriting framework implemented during 2011. Local operations were better positioned to make underwriting decisions faster while maintaining the quality of risk selection, simultaneously benefiting from the Group's scale purchasing power for reinsurance terms. Similarly, an enhanced product development process was implemented in 2011, allowing the local operations to react faster to changing market conditions as they were entrusted with the authority to develop and approve most products. The continued empowerment of local operations will be an important focus for the Group during 2012.

ENHANCED SHARED SERVICES

While working to maximise the benefits from empowerment of local operations, we also consider investment in shared services centres to provide a key opportunity for improvements in operating efficiency. During 2011, we continued to expand both capacity and capabilities of our shared services centres. Our shared services centres in China and Malaysia provided information technology, finance, actuarial and insurance processing back-office support services to both the Group Office and local business units. These centres processed over 6.8 million transactions during 2011, which was an increase of over 50 per cent compared with 2010, and handled almost 300,000 customer calls and enquiries for operations such as Hong Kong, Macau, Singapore and Australia.

Ongoing capability development, together with improved capacity, allowed back-office processing, including underwriting, claims and policy services for Hong Kong and Macau to be successfully migrated to the shared services centre in Malaysia over the year. This followed similar moves by Singapore and Australia in 2010. Key frontline customer contact points were retained with local operations.

Our shared services operation in China was declared a "China National Key Software Company" in 2011, a prestigious award jointly sponsored by various government ministries.

INNOVATIVE TECHNOLOGY AT POINT OF SALE

AIA continued to invest in upgrading technology, infrastructure and systems to support our strategic growth ambitions while maintaining cost efficiency. By developing new technology across our local operations, the Group continued to transform the way it does business. In Taiwan, AIA implemented an electronic point-of-sale system which accelerates the sales process and allows an agent or partner to provide a more efficient service to customers. Agents in Taiwan can use electronic marketing tools to carry out a comprehensive financial needs analysis remotely.

OPERATIONAL EFFICIENCY

AIA's operational processes continued to be streamlined during 2011 with improvements in productivity, risk management and service quality. As a result of the initiatives implemented, many of AIA's operational centres were recognised by awards from industry peers and associations. Our call centre in Korea received the "Excellent Call Centre Award" from Korea Management Association Consulting; our China call centre was named "China's Best Call Centre" by Customer Care & Management World Group; and our Hong Kong operations won five awards in different service categories from the Hong Kong Association for Customer Service Excellence.

In late 2011, flooding in Thailand caused major dislocation for the local business community including AIA's Thai operations. However, our comprehensive business contingency plans and skilled incident management team allowed AIA's operations to remain fully functional throughout the crisis, providing uninterrupted service quality to customers, agents and distribution partners.

Geographical Markets

HONG KONG

US$ millions, unless otherwise stated	2011	2010	YoY
VONB[(1)]	**305**	210	45%
VONB margin[(2)]	**56.1%**	45.1%	11.0 pps
ANP	**522**	449	16%
TWPI	**3,142**	3,012	4%
Operating profit before tax	**792**	791	–

AIA's Hong Kong operation achieved an excellent performance during the year with an increase in VONB of 45 per cent over 2010. This result was driven by continuing activity and productivity improvements in our leading agency distribution channel and by a change in product mix aimed at meeting the expanding life and health protection needs of Hong Kong's ageing population. Hong Kong continued to be the largest contributor to the Group's profits in 2011, accounting for 29 per cent of total VONB and 33 per cent of operating profit before tax.

VONB and VONB Margin Performance

VONB grew by 45 per cent to US$305 million compared with 2010. The strong growth was the result of improvements in both agency activity levels and product profitability. VONB margins improved by 11.0 pps to 56.1 per cent compared with 2010. Lower-margin products continued to be repriced to improve average margins across the portfolio and major new product launches during the year accounted for around 25 per cent of new business sales. Sales of critical illness and other protection-focused products grew by 32 per cent during 2011, contributing to both mix and margin improvements. The 45 per cent increase in VONB was achieved with a 16 per cent increase in ANP compared with 2010, continuing our strategy of writing business that meets our profitability and margin targets.

Distribution

AIA has a large and exceptionally experienced sales force in Hong Kong, with over one-third of our agents holding more than 10 years' client servicing experience with AIA.

Strong progress was made during 2011 in implementing AIA's Premier Agency strategy, notably through the introduction of a comprehensive and segmented approach to agency management. Initiatives ranged from agent reactivation, with focused training and stringent enforcement of contract requirements for the lowest producers, to upgraded training, conferences and seminars, new growth targets and enhanced support service standards for top agents.

AIA's Hong Kong business has developed new recruiting programmes to attract young and energetic producers from outside the insurance industry, who are selected through a rigorous screening process. Successful applicants receive extra training and development focused on attaining MDRT status and are supported by an advanced technology platform.

As a result of these programmes, over the year the Hong Kong business increased its number of active agents by 12 per cent compared with 2010, while an emphasis on quality recruitment resulted in an increase in the number of new active agents of 41 per cent during 2011 compared with 2010. Eleven per cent of AIA's Hong Kong agents are MDRT eligible, reinforcing the quality of our distribution. These impressive numbers make AIA's Hong Kong operations, viewed on a standalone basis, the sixth largest MDRT business in the world and the largest in Hong Kong.

A significant development during the year was the systematic focus on the generation of group insurance business through agents, which benefited from a transfer of best practice from Singapore to Hong Kong. The number of AIA's Hong Kong agents selling a group insurance case in 2011 trebled compared with 2010.

Partnership distribution is responsible for a smaller component of VONB than the agency force but reported a strong year with an increase in VONB for 2011 of twice the amount produced in 2010. The bancassurance channel benefited from the addition of ANZ as a partner in March 2011, as part of the wider regional alliance, as well as a greater focus on the growing high-net-worth customer segment.

Products and Marketing

AIA's Hong Kong business launched a new range of products with comprehensive cover aimed at helping customers meet their life and health protection needs while reinforcing changing attitudes to health and wellness in Hong Kong. New products ranged from hospitalisation benefit plans designed to target out-of-pocket health care costs to innovative critical illness plans offering multiple incident payments.

Marketing campaigns in 2011 supported AIA's increased product focus on life and health protection. Our "Mind the Gap" marketing and advertising campaign won the "Best-in-Class Campaign" award in the Benchmark Wealth Management Awards 2011. As well as targeted marketing campaigns, AIA's Hong Kong business launched its local Healthy Living Index Survey to identify key health concerns for residents and to stimulate public awareness of the need to increase current levels of protection cover alongside continued long-term savings.

Our interactions and relationships we have with our policyholders are very important to us. To ensure a clear understanding of customer needs and preferences, our Hong Kong operations launched a Net Promoter Score (NPS) study in 2011, designed to analyse service performance from the customer's perspective. Early results from this work have allowed us to launch initiatives to improve the interaction of agents and policy-servicing staff with both existing and new customers.

Operating Profit before Tax

Operating profit before tax for the year was flat at US$792 million, partly due to slightly higher than normal claims and lower investment income following capital transfers to the Group. The 2010 figure included a one-off positive item of US$18 million relating to positive reserves experience.

THAILAND

US$ millions, unless otherwise stated	2011	2010	YoY
VONB[(1)]	**227**	174	30%
VONB margin[(2)]	**48.8%**	41.4%	7.4 pps
ANP	**465**	420	11%
TWPI	**2,976**	2,742	9%
Operating profit before tax	**560**	450	24%

AIA's Thai operation is the Group's second largest business, accounting for 22 per cent of VONB in 2011 and generating a first-rate performance with an increase in VONB for the year of 30 per cent. The twin priorities for the business over 2011 were to enhance agent productivity through the implementation of the Premier Agency strategy and to improve overall product profitability by taking advantage of the company's leadership position in health and protection business. The results were particularly impressive having been achieved despite the severe flooding in the Bangkok region, widely regarded as the worst in 50 years, during what are normally the busiest months for our operations. Sales and agent activity were materially affected, with November new business volumes down 19 per cent compared with the same period in 2010.

VONB and VONB Margin Performance

VONB grew by 30 per cent to US$227 million compared with 2010. This significant growth in VONB was a result of increased agency productivity and the launch of new protection products. VONB margins increased by 7.4 pps compared with 2010. The main drivers of the strong performance were increased sales of rider covers to meet customers' accident, health and medical insurance needs; improved margins from repricing actions; and the ongoing replacement of low-margin base products. A new regulatory mortality table became effective in Thailand in August 2011 but the overall impact on AIA's financial results was minimised through these product mix and repricing initiatives.

Distribution

AIA has an extensive and industry-leading network of agents in Thailand that has been built up over many years. Agency remained the cornerstone of AIA's new business growth in Thailand during 2011 as we reinforced our significant leadership position in the industry.

Premier Agency initiatives established during 2011 to enhance agency performance included: the introduction of agency segmentation to provide greater clarity on agent training and career paths towards Premier Agent status; structured recruitment programmes to identify and attract the next generation of Premier Agents; and infrastructure expansion to support new business growth across Thailand, particularly up-country. As part of the process, incentives for agents were realigned with more sophisticated products that meet customers' needs and contributed to the VONB growth during the year. With an increase of 13 per cent in MDRT qualifiers during 2011 compared with 2010, AIA continued to lead the agency distribution channel in Thailand.

Direct-to-customer insurance sales grew as a new business sales channel for life insurers in Thailand during 2011, although it is currently a small proportion of total new business in the market. However, since the launch of AIA's direct marketing operation in 2009, we have leveraged our market-leading brand in Thailand to increase market share in this sector from 11 per cent in 2010 to 14 per cent in 2011.

As part of our ongoing strategy to promote the take-up of group insurance in the SME sector, we made good progress as the number of agents selling a group insurance case in 2011 increased by one-third compared with 2010.

Products and Marketing

Recent studies conducted by AIA in Thailand have shown that 76 per cent of the Thai population – more than 48 million people – do not have any form of life insurance and that much of the remainder of the population has insufficient coverage. Marketing efforts in 2011 have focused on educating customers and agents about the need for life insurance and on promoting products that help them meet their life and health protection needs while accumulating long-term savings.

Repricing actions continued to improve the profitability of the product range, with increased rider attachment ratios compared with 2010. A number of products with margins below the portfolio average continued to be withdrawn over the year.

Operating Profit before Tax

Operating profit before tax increased 24 per cent to US$560 million, as a result of continuing profitable business growth, better claims experience and improved investment income from dividends. A provision for outstanding claims expected from the floods has been fully reflected in the 2011 operating profit and embedded value figures. AIA's Thai operation remitted US$401 million of cash dividends to the Group in 2011.

A new Risk-Based Capital (RBC) regime was introduced by the local regulator with effect from September 2011, alongside a more realistic reserving approach. The effects of the increased local capital requirements were more than offset by the reduction in reserves with a slight positive effect overall. These changes do not affect the EV and VONB results for the Group, as these allow for the more conservative reserving requirements of the HKICO basis.

SINGAPORE

US$ millions, unless otherwise stated	2011	2010	YoY
VONB[(1)]	**164**	104	58%
VONB margin[(2)]	**62.3%**	49.4%	12.9 pps
ANP	**264**	210	26%
TWPI	**1,949**	1,687	16%
Operating profit before tax	**391**	394	(1)%

AIA celebrated 80 years of successful operations in Singapore during 2011. The business achieved outstanding results from a strong performance in both distribution and products. The key areas of focus over the year were on continued product innovation to address the growing life and health insurance protection gap in Singapore, improved training of new recruits to increase agent quality and reactivation programmes to meet Premier Agency goals.

VONB and VONB Margin Performance

Singapore maintained its strong first half performance throughout the full year with VONB up 58 per cent to US$164 million compared with 2010. The main drivers of growth were higher activity levels from the agency force and successful new product launches. VONB margins for the year improved by 12.9 pps to 62.3 per cent compared with 2010. This excellent performance was a result of product mix improvements and again reflected the success of newly designed products launched during the year, including next generation unit-linked plans introduced in the third quarter.

Distribution

Agency is AIA's dominant distribution channel in Singapore. The Premier Agency strategy comprises a three-pronged approach of reactivation, training and sales campaigns, with particular emphasis on new protection and health plans, improved productivity and activity. As at the end of November 2011, 81 per cent of inactive agents who had participated in new reactivation programmes had returned to being active agents. The number of MDRT qualifiers almost doubled compared with 2010, while the number of active agents increased by 11 per cent. AIA's brand and expertise in group insurance led to a 20 per cent increase in the number of agents selling a group insurance case compared with 2010.

Recruitment remained an ongoing challenge in Singapore's strong labour market. To improve retention and productivity, AIA continued to implement an advanced training programme, which included structured training to new agents over a period of nine months. As a result, the number of active new agents recruited increased by 69 per cent compared with 2010, demonstrating AIA's ability to recruit higher-calibre agents and provide them with the right tools to develop their careers.

Partnership distribution also delivered a robust performance in 2011. Our existing regional bancassurance partnerships with ANZ and Citibank were strengthened through new product offerings in Singapore, and total bancassurance ANP in 2011 was around twice the amount produced in 2010.

Products and Marketing

AIA continued to reprice existing products and launch new products during 2011, particularly those providing cover for accident and health costs including out-of-pocket health care expenses. Our next generation unit-linked product, a regular premium unit-linked plan with increased levels of insurance protection, was launched in the second half of the year. The product, called Family First, offers high but flexible levels of protection cover at an attractive price, backed by an excellent fund performance track record. An integrated media campaign and existing customer campaign accompanied the product launch, and early results have indicated significant increases in both sums assured and the take-up of rider attachments compared with previous unit-linked products.

In 2011, AIA championed several initiatives around the theme of "Bridging the Insurance Gap" for Singaporean families and launched targeted marketing campaigns to build further awareness of AIA's product category leadership in this area. These included initiating collaboration with the National Family Council to raise attention levels on building financial resilience among families in Singapore, and the launch of a White Paper based on a nationwide survey to initiate a closer partnership among industry, government and non-government agencies. The survey revealed that fewer than two in ten Singaporeans have adequate life cover.

As part of our ongoing commitment to enhance service capabilities, AIA launched its first integrated service centre at the Tampines hub in Singapore in April 2011 to provide support for both agents and customers. Service levels were recognised by multiple awards during 2011, including the "Insurance Company of the Year – Singapore 2011" award from *World Finance*.

Operating Profit before Tax

Operating profit before tax decreased by 1 per cent to US$391 million compared with 2010. The reduction was due to a one-off US$29 million release in 2010 of a provision that was no longer required.

Additional Information

The public announcement of our intention to domesticate our Singapore business from a branch was made on 18 August 2011. On 27 October 2011, the High Court confirmed the Scheme of Transfer with the transfer to take effect on and from 1 January 2012. A licence has been obtained from the Monetary Authority of Singapore (MAS) for AIA Singapore Private Limited to be registered as a Singapore composite insurer to carry on life and general insurance business in Singapore.

MALAYSIA

US$ millions, unless otherwise stated	2011	2010	YoY
VONB[1]	**58**	39	49%
VONB margin[2]	**40.7%**	33.3%	7.4 pps
ANP	**142**	117	21%
TWPI	**928**	813	14%
Operating profit before tax	**166**	158	5%

AIA's Malaysian operations made considerable progress during 2011 with a 49 per cent increase in VONB compared with 2010. Performance was particularly strong in the second half of the year, as key initiatives – including a focus on existing customers' protection needs and the launch of redesigned unit-linked products helped to drive VONB growth.

VONB and VONB Margin Performance

VONB grew by 49 per cent to US$58 million in 2011 compared with 2010. This significant growth in new business was a result of increased momentum in the second half of the year with a continued drive towards greater unit-linked sales by agents and increased agency productivity. VONB margins for the year improved by 7.4 pps to 40.7 per cent from growth in protection rider benefits following new product launches, supported by agency training and a shift towards unit-linked products within the mix. The 49 per cent improvement in VONB was achieved with an increase in ANP of 21 per cent to US$142 million.

Distribution

Agency continued to be the dominant sales channel in Malaysia. AIA's priorities over 2011 were to increase momentum and improve productivity after a prior period of slower growth. Our Premier Agency strategy focused on implementing strict validation of agency contracts and on launching a structured agency reactivation programme. The AIA Premier Academy was launched in July 2011 offering new training programmes focused on unit-linked product sales and protection rider benefits to improve the mix of business sold by agents.

The initial roll-out phase of these initiatives saw the number of active agents increase by 6 per cent compared with 2010, including an increase of 9 per cent in the second half of 2011 compared with the first half of the year.

Although agency continued to be the most significant sales channel during 2011, AIA's Malaysian operations continued to expand other forms of distribution. The direct marketing operation made good progress in developing new partnerships including an agreement with Tune Money to offer a range of insurance protection products to AirAsia customers.

AIA's Takaful joint venture operation, AIA AFG Takaful Bhd. (AATB), was in the early stages of its development during 2011 following the launch of the business, post regulatory approval, in January. AATB operates a multi-distribution channel approach, including agency, bancatakaful and direct marketing channels, and distributes a comprehensive range of Shariah-compliant Takaful products covering protection, savings and investment products. The roll-out of products continued throughout 2011, alongside comprehensive training programmes for agents and partners.

Products and Marketing

A number of initiatives led to improved profitability in 2011. The product portfolio was revitalised with the removal of lower-margin products and regular premium unit-linked products were redesigned to include increased protection content and additional rider covers. These initiatives were accompanied by a number of marketing campaigns including the Malaysian "Mind the Gap" advertising campaign, which raised customer awareness about life and health insurance protection needs, as well as additional agency training through the AIA Premier Academy.

An up-sell critical illness protection campaign to existing in-force policyholders was launched in July 2011 and successfully generated more than 25,000 new policies within the first three months, demonstrating both the success of the campaign and also the increasing recognition by AIA's customers of the need for additional life and health insurance cover.

Operating Profit before Tax

Operating profit before tax increased by 5 per cent to US$166 million during 2011 compared with 2010.

CHINA

US$ millions, unless otherwise stated	2011	2010	YoY
VONB(1)	**102**	68	50%
VONB margin(2)	**47.2%**	33.2%	14.0 pps
ANP	**215**	206	4%
TWPI	**1,313**	1,137	15%
Operating profit before tax	**140**	93	51%

AIA's operations in China delivered excellent performance, with a 50 per cent increase in VONB to US$102 million in 2011 compared with 2010. China is AIA's fourth largest market in terms of VONB and our operation is 100 per cent owned, with access to more than 200 million people.

VONB and VONB Margin Performance

VONB grew by 50 per cent to US$102 million compared with 2010 and VONB margins increased by 14.0 pps to 47.2 per cent. The drivers of growth over 2011 were a combination of increased agent activity and a focus on comprehensive cover that meets the increasing life and health insurance protection needs of customers in China. ANP increased by 4 per cent continuing our strategy of writing business that meets our profitability and margin targets.

Distribution

In China, AIA's Premier Agency strategy is based on the principle that extensive training and quality recruitment will develop a distinctive agency force that is well-equipped to provide advice on more sophisticated savings and protection products aligned with customers' needs. This approach to training and professionalism increases incomes, which in turn helps AIA's operations in China to attract and retain higher-calibre recruits, who are better able to serve the needs of their customers and are critical to sustaining the quality growth targeted by the business.

The Premier Agency programme was launched in December 2010 with newly designed training programmes centered on entrepreneurship and disciplined management provided in a segmented fashion to agents depending on their level of productivity and engagement. Dual career paths were introduced to provide clarification and attach equivalent status to sales and management roles. Agents chose to become either life consultants with aspirations to attain MDRT status or agency leaders focused on building and managing teams. Differentiated compensation schemes and competency building initiatives were introduced to ensure that agents focused on their core activities and competencies.

Through improved agency management systems, more stringent agent validation and specialised training, the number of active agents increased by 26 per cent compared with 2010.

Agency distribution remained the core channel for AIA's new business growth in China during 2011 and therefore the impact of recent changes in bancassurance regulations on AIA's new business was muted. AIA continued to focus on only those bancassurance opportunities that generate appropriate returns for shareholders, and we have continued to pursue regular premium protection business as opposed to low-margin single premium products.

Products and Marketing

In 2011, AIA intensified efforts to position itself as a total protection provider in China to complement its established role as a provider of long-term savings products. The product portfolio was actively managed with an emphasis on product innovation that included upgrading or redesigning several major products with increased life and health insurance protection components. Flagship products included an upgraded version of the award-winning All-in-One product launched in July 2011, leading to higher average policy sizes. Next generation unit-linked plans were launched in October 2011 to provide customers with high levels of protection at affordable premiums. Product launches were integrated with marketing initiatives to raise consumer awareness of the insurance protection gap together with training seminars and sales campaigns to promote agency interest.

An important indicator of profitability in the Chinese life insurance market is the quality of the business written and retained. Persistency continued to be over 90 per cent in 2011. AIA's call centre in China was awarded "China's Best Call Centre" in 2011 by Customer Care & Management World Group and AIA was granted "2011 Insurance Company of the Year" by *China Business News*.

Operating Profit before Tax

Operating profit before tax increased to US$140 million which represented growth of 51 per cent compared with 2010. The drivers of the growth included new business growth, higher interest income and operating expense savings.

KOREA

US$ millions, unless otherwise stated	2011	2010	YoY
VONB[(1)]	**74**	64	16%
VONB margin[(2)]	**27.3%**	22.8%	4.5 pps
ANP	**270**	282	(4)%
TWPI	**2,029**	1,951	4%
Operating profit before tax	**153**	151	1%

AIA's Korean operations achieved a 16 per cent increase in VONB to US$74 million compared with 2010. AIA's goals in Korea for 2011 were to put in place a solid foundation for the business and reposition the operation for future quality growth focused on writing business that meets our profitability and margin targets. Important new appointments, including the Chief Executive Officer and Chief Agency Officer (CAO), were made in the second quarter of 2011 along with the appointment of a new Chief Financial Officer from AIA's Thai business. The team's focus during 2011 was on creating greater brand awareness of AIA in Korea following the rebranding from AIG; restructuring the business to reduce expense overruns; launching the Premier Agency strategy; and revitalising the product portfolio. Although it is early days, actions taken so far have shown encouraging results.

VONB and VONB Margin

VONB increased by 16 per cent to US$74 million compared with 2010 and VONB margins expanded by 4.5 pps. This positive performance was driven by margin improvements in unit-linked life products from new product launches, reduced commission levels, repricing of existing products and withdrawal of low-margin investment products. In both the agency and direct marketing channels, margin increases in individual products were combined with an increased focus on protection products in the portfolio mix.

Efficiency improvements in the direct marketing channel, consolidation of agency office space and business restructuring helped to reduce the acquisition expense overrun by more than one-third during 2011 compared with 2010.

Distribution

As mentioned above, AIA recruited a new CAO with a record of developing high-quality agents in the second quarter of 2011 as part of our commitment to the Premier Agency model. This strategy is in its early stages, but has demonstrated good results to date. The foundations of the Premier Agency strategy for Korea have focused on restructuring the agency channel with a new compensation and benefits programme to optimise sales behaviour and retain high quality agents. Training has been specifically targeted at needs-based insurance sales skills and designed to support agents in capitalising on new product launches such as higher-margin unit-linked life products. Towards the end of 2011, the agency management structure was streamlined to provide clearer accountability and more disciplined performance measurement.

Korea represents AIA's largest direct marketing platform, and a number of initiatives are being introduced to restructure the business. The focus during 2011 was on the expansion of personnel through telesales representative (TSR) recruits, rejuvenated sales through the home shopping channel and the continued roll-out of new initiatives, such as our Martassurance partnership. Brand awareness for AIA in Korea continued to increase over the year, achieving aided awareness of 84 per cent during 2011 compared with 70 per cent in 2010.

Bancassurance continued to be a challenging distribution channel during 2011, with our focus on achieving the required levels of profitability. AIA's Korean operations deliberately avoided offering the high guaranteed variable annuity products that are difficult to hedge and are prevalent in this channel. Instead we continued our "Select and Focus" strategy to position AIA as the protection writer of choice for its bancassurance partnerships and we will continue to focus our resources on the opportunities available in this area.

Products and Marketing

AIA's product strategy in Korea during 2011 was consistent with the aims of the overall Group strategy. For example, we repriced low-margin universal life products and reduced commissions to improve both individual product profitability and overall product mix. We also launched a new unit-linked life product with improved profitability from higher sums assured accompanied by a new range of accident and health riders supported by better reinsurance terms.

The product launches during the year were accompanied by training and targeted marketing campaigns, including the "Rebalance Your Life" campaign aimed at increasing recognition of AIA's Korean business as the leading protection company in the market. Our focus on life and health business reduced pure investment product volumes relatively within the overall product mix.

Operating Profit before Tax

Operating profit before tax increased by 1 per cent compared with 2010 driven by cost savings initiatives during the year.

OTHER MARKETS

US$ millions, unless otherwise stated	2011	2010	YoY
VONB(1)	**112**	99	13%
VONB margin(2)	**18.8%**	29.0%	(10.2) pps
ANP	**594**	341	74%
TWPI	**2,105**	1,671	26%
Operating profit before tax	**248**	188	32%

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

VONB and VONB Margin Performance

VONB increased by 13 per cent to US$112 million compared with 2010. A single large group insurance scheme mandate in Australia as well as growth from Vietnam and the Philippines contributed to the increase. VONB margins fell to 18.8 per cent mainly due to the Indonesian tax effect described below and the single large Australian group insurance scheme.

Country Performance

- **Australia:** AIA's Australian business achieved excellent results in 2011, extending our market leadership in group insurance through increased new business – including a one million member group insurance scheme, and the retention of all major in-force group insurance clients during the year. In addition to our success in group insurance, we delivered strong performance in retail IFA and direct marketing – with new initiatives underway to deliver a premium IFA service model for higher-margin life insurance business – and the launch of an affinity distribution partnership.

  New products launched during 2011 included an upgraded flagship retail protection product to meet Australia's expanding needs for accident, health and mortality protection covers. We also carried out further product development to realign the product range with the new affinity partnership. During the year, we made investments in new initiatives while simultaneously reducing our expense ratio.

  Better than expected customer persistency, in-force business growth and enhanced reinsurance terms resulted in a strong operating profit result making Australia one of the main drivers behind the 32 per cent growth in Other Markets' IFRS operating profit before tax during 2011.

- **Indonesia:** AIA achieved excellent new business volume growth in Indonesia during 2011 from both agency and bancassurance channels. IFRS operating profit before tax grew strongly over the year. Recent fiscal developments in Indonesia are expected to result in increased income tax payments in the future. Given these developments, we have recognised additional tax expenses under IFRS. In addition, the associated expected impact for future tax payments after 2011 has been fully reflected in our VONB and EV figures.

- **Philippines:** AIA's business in the Philippines made good progress during 2011. The introduction of Philam Life's Premier Agency strategy revitalised the sales force with VONB for the agency channel up strongly in the final quarter of the year. Our bancassurance joint venture with Bank of the Philippine Islands also made good progress with higher regular premium sales and a focus on increasing bank penetration.

- **Taiwan:** AIA sees a significant opportunity to develop a modern agency distribution force in Taiwan focused on the new business protection market. A new Premier Agency operating model was launched in October 2011, leveraging the latest technology to offer agents a differentiated mobile office approach to the sales process.

- **New Zealand:** The key focus during 2011 was on deepening business market opportunities (particularly SMEs) and raising brand awareness amongst consumers and IFAs.

- **Vietnam:** AIA performed strongly in Vietnam during 2011. Agency is the dominant distribution channel in the market and AIA's VONB growth was robust during the year due to stable margins and ANP growth from the 32 per cent increase in active agents achieved over the year. IFRS operating profit before tax grew strongly, reflecting the underlying growth of the business.

Notes:

Throughout the Geographical Markets section:

(1) VONB figures shown in the tables 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.

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 a separate enterprise-wide risk function responsible for 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 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 an enterprise-wide RMF with the following components:

- Risk management principles that underpin all our activities;
- Effective quantitative and qualitative risk measurement to allow the Group's risks to be clearly identified and mitigated and to calibrate limits and controls in the context of our risk principles;
- An efficient governance and reporting structure that facilitates escalation of key issues to appropriate levels of management, oversees the administration of the risk 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;
- Limits and controls to address each major risk area and to ensure that risk is contained within acceptable boundaries;
- Local risk managers in each country who report to local management, the latter who remain 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 Balance Sheet and Risk department with the Group's principal risk officer, the Senior Vice President, Balance Sheet and Risk, reporting to the Group Chief Financial Officer.

Risk Management Principles

The Group's risk management principles do not seek to eliminate all risks but rather to identify, understand and manage profitably the risks arising from our insurance businesses.

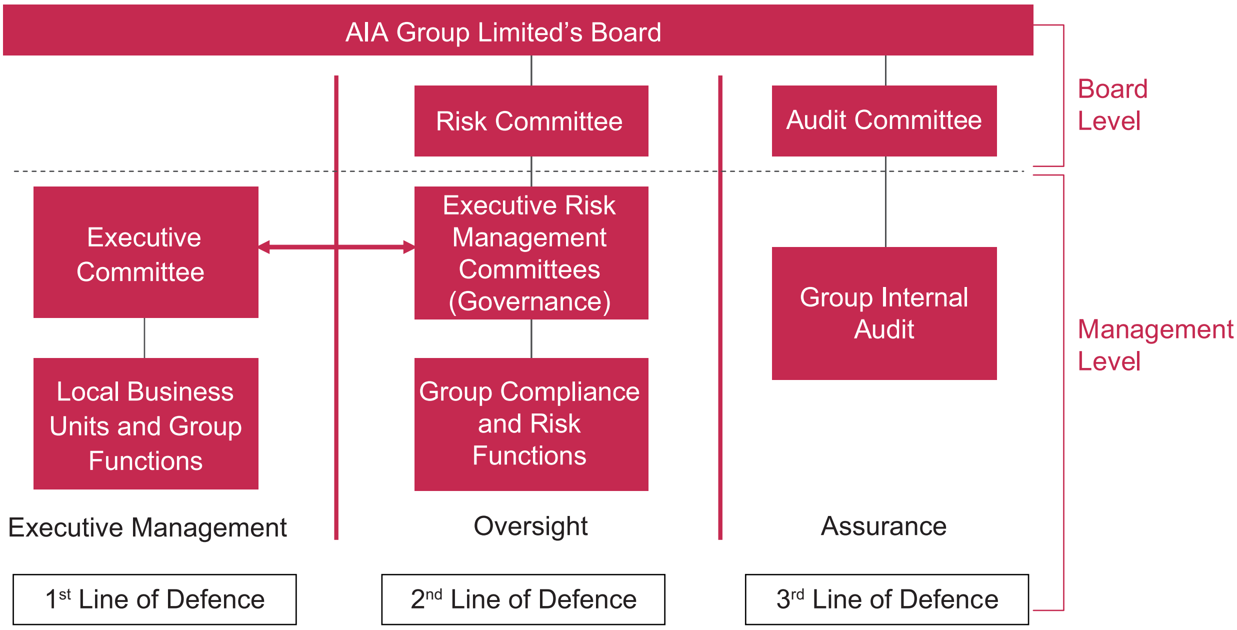
The risk management approach is driven by four key principles:

- Protecting policyholder interests by ensuring the Group's ability to meet future obligations;
- Maintaining adequate financial strength to compete in chosen markets and to ensure the Group can continue to conduct business in all but the most extreme market conditions;
- Maximising financial flexibility to ensure capital can be deployed swiftly to where it is needed; and
- Enhancing and preserving shareholder value through effective understanding, mitigation and quantification of risk.

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:

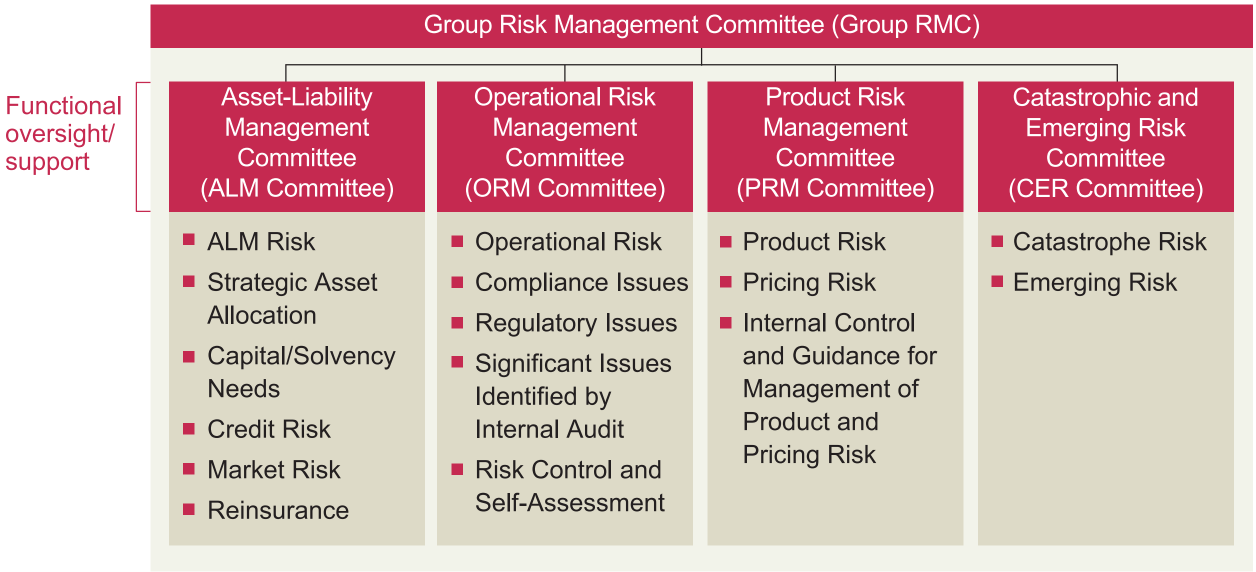


Under the "first line of defence", primary responsibility for risk identification and management lies with the local businesses along with Group functions.

The "second line of defence" consists of a number of executive risk management committees and 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 enable the Board to discharge its corporate governance responsibilities. The third line includes reviews of the RMF, risk management activities and functions, as well as risk management committees, which collectively are part of 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 Committee Structure



The Board approves the RMF and overall risk appetite. Oversight of risk management is exercised through the Risk Committee and the day-to-day management oversight is facilitated through a number of executive risk management committees. The executive risk management committee structure comprises the Group Risk Management Committee (the Group RMC) and its four principal supporting sub-committees (as illustrated in the chart above): the Asset-Liability Management Committee (the ALM Committee); the Operational Risk Management Committee (the ORM Committee); the Product Risk Management Committee (the PRM Committee); and the Catastrophic and Emerging Risk Committee (the CER Committee).

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

RISK COMMITTEE

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

- Evaluating the effectiveness of the RMF;
- Recommending to the Board an appropriate risk appetite and describing its implications for the balance sheet and earnings; and
- Reviewing the financial risks arising from significant events or potential transactions, and significant changes in the capital structure.

GROUP RISK MANAGEMENT COMMITTEE

The Group RMC is our primary executive risk management body. It focuses on managing the AIA Group's overall risk exposure and overseeing the risk sub-committees. The Group RMC reports to the Risk Committee and currently has nine members including our Group Chief Executive, Group Chief Financial Officer, Group Chief Actuary, Group Chief Investment Officer, Senior Vice President, Balance Sheet and Risk, Group Chief Compliance Officer, Group General Counsel and other members of senior management as considered appropriate.

ALM COMMITTEE

The ALM Committee focuses on the management of financial risks. These include the asset and liability mismatches that arise as a natural consequence of our business, and the credit quality of AIA's asset portfolios.

This committee currently has 10 members, including our Group Chief Financial Officer, Group Chief Actuary, Group Chief Investment Officer, and Senior Vice President, Balance Sheet and Risk.

ORM COMMITTEE

The purpose of the ORM Committee is to provide oversight of the operational risk management activities within the Group and to ensure the related operational risk management policies and programmes are implemented appropriately and consistently within our local business units. The ORM Committee is responsible for establishing operational risk management priorities and coordinating the Group's functional operational risk management activities, monitoring operational risk exposures, defining and monitoring key risk indicators and risk event data capture.

This committee currently has nine members, including our Senior Vice President, Balance Sheet and Risk, Group Chief Compliance Officer, Head of Group Technology and Operations, and Group Human Resources Director.

PRM COMMITTEE

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

This committee currently has five members, including our Group Chief Product Development Actuary and other members with actuarial, product management, investment and risk management experience.

CER COMMITTEE

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

This committee currently has seven members, including our Group Chief Underwriter and other members with actuarial, product management, investment and risk management experience.

Local and Group Risk Functions

Each country has a local risk function, which reports to local management. Local risk functions are responsible for managing local risk governance, identifying and escalating emerging risks and control weaknesses and seeking approvals for new activities. They are also required to provide assurance to local Boards and to the Group that the risk framework in their jurisdiction is effective.

The Group Risk function oversees the 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 Balance Sheet and Risk 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. Insurance Risk	The potential loss resulting from inappropriate underwriting, mispricing, adverse expense, lapse, mortality and morbidity experiences
	2. Credit Risk	The risk that third parties fail to meet their obligations to the Group when they fall due
	3. 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
	4. Liquidity Risk	The risk of having insufficient cash available to meet payment obligations to counterparties when they fall due
Non-financial Risks	5. Operational Risk	The potential direct or indirect loss (including reputational loss) resulting from inadequate or failed internal processes, personnel and systems; or from external events
	6. Strategic Risk	The risk of unexpected changes in the regulatory, market and competitive environment in which the Group operates

STRESS TESTING

The management of risk is coordinated across risk types with the help of capital models and stress testing. We perform regular stress testing to monitor the potential impact of changing investment and economic environments 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 broad-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.

PRINCIPAL RISKS

The principal individual risks and the management of them are discussed below with further information provided in note 35 to the financial statements.

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 24 to the financial statements details the insurance contract liabilities and the nature of insurance products and their principal risks.

The Group manages 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. Substantial experience has been accumulated, 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. The product development process is overseen by the PRM Committee, which sets pricing and design guidelines. We seek to manage this risk by completing pre-launch reviews of a new product by both Group and local operating unit functional departments, including product management, actuarial, legal, compliance and underwriting. 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 acceptable risk profile 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 expertise. The use of reinsurance subjects us to the risk that our reinsurers become insolvent or fail to make payments.

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

Credit Risk

Credit risk arises from the possibility of financial loss arising from default by borrowers and transactional counterparties and the decrease in value of financial instruments due to deterioration in credit quality.

The key areas where the Group is exposed to credit risk include default risk in respect of:

- Cash and cash equivalents including bank deposits, commercial paper, certificates of deposit and repurchase agreements;
- Investments in debt securities, both sovereign and corporate;
- Loans and receivables (including insurance receivables);
- Derivatives contracts; and
- Reinsurance receivables.

Note 19 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.

AIA manages credit risk through two lines of defence. Within the first line function is Group Investments, which performs detailed credit analysis of counterparties in support of their strategic and tactical asset allocations. This analysis results in an internal credit rating proposal, which is reviewed and confirmed or adjusted by Group Risk. Group Investments is then responsible for security selection within concentration, cross border and individual and sovereign credit quality limits set and monitored by Group Risk. Requests for new or increased limits are initiated by Group Investments and considered by Group Risk. Group Risk is also responsible for reviewing macro economic conditions and economic trends and for managing a watch-list of sectors and credits where material change has occurred or is expected to occur. All country credit portfolios are also reviewed annually by Group Risk. The Group's credit risk-taking activities are reported by Group Risk to the Group Credit Risk Committee (CRC), which has oversight responsibilities. The CRC is a sub-committee of the ALM Committee and is chaired by the Senior Vice President, Balance Sheet and Risk.

The Group's credit portfolio is regularly reviewed by the Risk Committee and particular issues are discussed at the Investment Committee and the Group RMC.

Market Risk

Market risk arises from the possibility of financial loss caused by changes in financial instruments' fair values or future cash flows due to fluctuations in key variables including interest rates, foreign exchange rates, equity market prices and real estate property market prices. Note 35 to the financial statements provides further detail relating to the market risks discussed below.

We manage our market risk exposure in a variety of ways. Our ALM Committee oversees the metrics used to evaluate market risk exposure. The Balance Sheet and Risk and Investment functions use quantitative models to assess market risks. These models include sensitivity analyses, value-at-risk models and stress tests. These stress tests measure the impact of interest rate, equity, foreign exchange and credit spread movements on AIA's capital position.

Interest Rate Risk

The Group's exposure to interest rate risk predominantly arises from reinvestment risk as a result of a mismatch between the tenor of the Group's liabilities and assets. This can be compounded in products with interest rate options or guarantees.

Exposure to interest rate risks is summarised in note 35 to the financial statements, which shows the financial assets and liabilities split between variable, fixed and non-interest bearing.

The Group's objective is to reduce reinvestment risk over time as local fixed income markets develop and design new products that avoid excessive long-term interest rate guarantees. For in-force policies we regularly adjust the policyholder bonus payout and credit interest rates applicable to policyholder account balances considering, 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 35 to the financial statements shows the Group's currency exposures and the sensitivity of shareholders' equity and profit to movements in those currencies.

On a local operating unit level, AIA aims to avoid mismatches between the currency of assets and liabilities in local balance sheets. While we will occasionally invest in assets denominated in currencies that are different from the underlying liabilities for purposes of improving returns and diversification, it is our policy to hedge these assets back to local currencies wherever possible.

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.

In considering the Group's equity exposures, concentrations and volatility within the portfolios are reviewed by both the Investment and the ALM Committees. Note 19 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 35 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 a part of our investment portfolios and are subject to market value changes. Real estate assets form a small portion of our investment portfolio and are expected to provide useful diversification benefits and a long-term return with some inflation protection. The Investment Committee oversees all major investment activities in respect of real estate to ensure they are appropriate.

Liquidity Risk

Liquidity risk primarily refers to the possibility that we have insufficient cash available to meet our payment obligations to counterparties as they become due. We are subject to liquidity risk on insurance products that permit surrender, withdrawal or other forms of early termination for a cash surrender value. Note 35 to the financial statements provides a maturity analysis of the Group's financial assets and liabilities and insurance contracts.

We seek to manage liquidity risk by emphasising flexible insurance product design and by matching, to the extent possible and appropriate, the duration of our investment assets with the duration of our insurance policies. We are assisted in this by the positive cash flows from our business that provide an important source of liquidity. As disclosed in note 19 to the financial statements, most of our assets are in the form of marketable securities, which we can typically convert to cash quickly should the need arise. We develop cash flow forecasts and maturity transformation analyses to quantify and monitor liquidity needs, aiming to minimise the risk that unexpected cash obligations may arise.

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

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, personnel and systems or from external events. Business unit management is responsible for managing their business and operational risks, supported by their local risk management function. The Group's Risk and Control Self-Assessment (RCSA) process is used to identify and quantify the impact of these more qualitative risks. The RCSA is an exercise whereby management considers possible or actual risk events, ascribes likelihood of occurrence and potential severity, and then agrees on mitigation strategies to reduce these factors. These strategies are then monitored and the exercise repeated, with the results stored in a dedicated operational risk database.

At the Group level, agreed Key Operational Risks common to the Group are measured using Key Risk Indicators, with each Key Risk assigned to a specific risk owner. Each quarter, the operational risk team in the Balance Sheet and Risk department draws together the results of this activity in a common framework and reporting structure for consideration by the ORM Committee, with updates provided to the Group RMC and the Risk Committee.

The ORM Committee also reviews specific operational incidents, which are recorded in the operational risk management database that is made available to all local risk functions.

In addition, AIA protects itself against operational risk events by purchasing corporate and catastrophe insurance against business disruption, property damage, etc.

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. Reputational risk is a key element in our operational risk checklists and is actively monitored by our operational risk teams, which work 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. This includes, but is not restricted to, unexpected changes in regulations and competitor actions. Frequent monitoring and strategic planning processes are the Group's primary tools to manage strategic risk. We monitor market and competitor developments, as well as possible changes in regulations, accounting standards and corporate law, to understand the potential impact on our business. Where necessary, we seek to manage risk by active engagement in regulatory and other reform processes to ensure all our stakeholders' interests are fully considered.

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AIA GROUP LIMITED
(incorporated in Hong Kong with limited liability)

pwc 羅兵咸永道

We have audited the consolidated financial statements of AIA Group Limited (the Company) and its subsidiaries (together, "the Group") set out on pages 47 to 157, which comprise the consolidated and company statements of financial position as at 30 November 2011 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.

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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 2011 and of the Group's profit and cash flows for the year then ended in accordance with both Hong Kong Financial Reporting Standards issued by the HKICPA and with International Financial Reporting Standards issued by the IASB and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 February 2012

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CONSOLIDATED INCOME STATEMENT

US$m	Notes	Year ended 30 November 2011	Year ended 30 November 2010
Revenue			
Turnover			
Premiums and fee income		**12,935**	11,557
Premiums ceded to reinsurers		**(634)**	(478)
Net premiums and fee income		**12,301**	11,079
Investment return	*7*	**1,973**	7,240
Other operating revenue	*7*	**114**	75
Total revenue		**14,388**	18,394
Expenses			
Insurance and investment contract benefits		**9,601**	12,483
Insurance and investment contract benefits ceded		**(529)**	(403)
Net insurance and investment contract benefits		**9,072**	12,080
Commission and other acquisition expenses		**1,649**	1,438
Operating expenses		**1,253**	1,146
Restructuring, separation and other non-operating costs		**50**	42
Investment management expenses		**225**	106
Finance costs		**12**	9
Change in third party interests in consolidated investment funds		**(29)**	15
Total expenses	*8*	**12,232**	14,836
Profit before share of profit/(loss) from associates		**2,156**	3,558
Share of profit/(loss) from associates	*13*	**12**	(9)
Profit before tax		**2,168**	3,549
Income tax expense attributable to policyholders' returns		**(47)**	(135)
Profit before tax attributable to shareholders' profits		**2,121**	3,414
Tax expense	*9*	**(560)**	(839)
Tax attributable to policyholders' returns		**47**	135
Tax expense attributable to shareholders' profits		**(513)**	(704)
Net profit		**1,608**	2,710
Net profit attributable to:			
Shareholders of AIA Group Limited		**1,600**	2,701
Non-controlling interests		**8**	9
Earnings per share (US$)			
Basic	*10*	**0.13**	0.22
Diluted	*10*	**0.13**	0.22

Dividends to shareholders of the Company attributable to the year:

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Interim dividend declared and paid of HK$11 cents per share (2010: nil)	**170**	–
Final dividend proposed after the balance sheet date of HK$22 cents per share (2010: nil)[1]	**339**	–
	509	–

Note (1) Based upon shares outstanding at 30 November 2011 that are entitled to a dividend.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Net profit	**1,608**	2,710
Fair value gains on available for sale financial assets (net of tax of: 2011: US$(69)m; 2010: US$(290)m)	**540**	1,543
Fair value gains on available for sale financial assets transferred to income on disposal and impairment (net of tax of: 2011: US$3m; 2010: US$4m)	**(36)**	(145)
Foreign currency translation adjustments	**(81)**	571
Other comprehensive income	**423**	1,969
Total comprehensive income	**2,031**	4,679
Total comprehensive income attributable to:		
Shareholders of AIA Group Limited	**2,017**	4,654
Non-controlling interests	**14**	25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$m	Notes	**As at 30 November 2011**	As at 30 November 2010 (restated)
Assets			
Intangible assets	*12*	**276**	252
Investments in associates	*13*	**61**	69
Property, plant and equipment	*14*	**359**	433
Investment property	*15, 16*	**896**	828
Reinsurance assets	*17*	**858**	614
Deferred acquisition and origination costs	*18*	**12,818**	12,006
Financial investments:	*19, 21*		
Loans and deposits		**4,565**	3,762
Available for sale			
Debt securities		**51,018**	45,829
At fair value through profit or loss			
Debt securities		**16,934**	16,378
Equity securities		**19,012**	22,054
Derivative financial instruments	*20*	**725**	775
		92,254	88,798
Deferred tax assets	*9*	**4**	2
Current tax recoverable		**44**	29
Other assets	*22*	**2,588**	2,239
Cash and cash equivalents	*23*	**4,303**	2,595
Total assets		**114,461**	107,865
Liabilities			
Insurance contract liabilities	*24*	**78,752**	73,205
Investment contract liabilities	*25*	**8,360**	9,091
Borrowings	*27*	**559**	597
Obligations under securities lending and repurchase agreements	*28*	**670**	1,091
Derivative financial instruments	*20*	**38**	29
Provisions	*30*	**180**	200
Deferred tax liabilities	*9*	**1,810**	1,754
Current tax liabilities		**290**	287
Other liabilities	*31*	**2,387**	1,976
Total liabilities		**93,046**	88,230

US$m	Notes	**As at 30 November 2011**	As at 30 November 2010 (restated)
Equity			
Issued share capital	*32*	**12,044**	12,044
Share premium	*32*	**1,914**	1,914
Employee share-based trusts	*32*	**(105)**	–
Other reserves	*32*	**(12,101)**	(12,117)
Retained earnings		**15,354**	13,924
Fair value reserve		**3,414**	2,914
Foreign currency translation reserve		**793**	876
Amounts reflected in other comprehensive income		**4,207**	3,790
Total equity attributable to:			
Shareholders of AIA Group Limited		**21,313**	19,555
Non-controlling interests	*33*	**102**	80
Total equity		**21,415**	19,635
Total liabilities and equity		**114,461**	107,865

Approved and authorised for issue by the Board of Directors on 24 February 2012.

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 2009		13,958	–	(12,110)	11,223	1,528	309	51	14,959
Net profit		–	–	–	2,701	–	–	9	2,710
Fair value gains on available for sale financial assets		–	–	–	–	1,531	–	12	1,543
Fair value gains on available for sale financial assets transferred to income on disposal and impairment		–	–	–	–	(145)	–	–	(145)
Foreign currency translation adjustments		–	–	–	–	–	567	4	571
Total comprehensive income for the year		–	–	–	2,701	1,386	567	25	4,679
Acquisition of subsidiary		–	–	–	–	–	–	4	4
Share-based compensation		–	–	(7)	–	–	–	–	(7)
Balance at 30 November 2010		**13,958**	**–**	**(12,117)**	**13,924**	**2,914**	**876**	**80**	**19,635**
Net profit		**–**	**–**	**–**	**1,600**	**–**	**–**	**8**	**1,608**
Fair value gains on available for sale financial assets		**–**	**–**	**–**	**–**	**536**	**–**	**4**	**540**
Fair value gains on available for sale financial assets transferred to income on disposal and impairment		**–**	**–**	**–**	**–**	**(36)**	**–**	**–**	**(36)**
Foreign currency translation adjustments		**–**	**–**	**–**	**–**	**–**	**(83)**	**2**	**(81)**
Total comprehensive income for the year		**–**	**–**	**–**	**1,600**	**500**	**(83)**	**14**	**2,031**
Capital contributions		**–**	**–**	**–**	**–**	**–**	**–**	**10**	**10**
Dividends	*11*	**–**	**–**	**–**	**(170)**	**–**	**–**	**(2)**	**(172)**
Share-based compensation		**–**	**–**	**16**	**–**	**–**	**–**	**–**	**16**
Purchase of shares held by employees share-based trusts		**–**	**(105)**	**–**	**–**	**–**	**–**	**–**	**(105)**
Balance at 30 November 2011		**13,958**	**(105)**	**(12,101)**	**15,354**	**3,414**	**793**	**102**	**21,415**

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 2011**	Year ended 30 November 2010
Cash flows from operating activities			
Profit before tax		**2,168**	3,549
Financial instruments	*19*	**(2,963)**	(11,615)
Insurance and investment contract liabilities		**3,823**	7,590
Obligations under securities lending and repurchase agreements	*28*	**(441)**	779
Other non-cash operating items, including investment income		**(3,665)**	(3,833)
Operating cash items:			
Interest received		**3,476**	3,093
Dividends received		**336**	223
Interest paid		**(11)**	(7)
Tax paid		**(601)**	(413)
Net cash provided by/(used in) operating activities		**2,122**	(634)
Cash flows from investing activities			
Payments for investments in associates	*13*	**–**	(15)
Disposals of investments in associates	*13*	**–**	9
Acquisitions of subsidiaries, net of cash acquired		**–**	(15)
Payments for investment property and property, plant and equipment	*14, 15*	**(88)**	(109)
Proceeds from sale of investment property and property, plant and equipment		**23**	–
Payments for intangible assets	*12*	**(54)**	(19)
Net cash used in investing activities		**(119)**	(149)
Cash flows from financing activities			
Dividends paid during the year		**(172)**	–
Proceeds from borrowings	*27*	**–**	66
Repayment of borrowings	*27*	**(39)**	(173)
Purchase of shares held by employee share-based trusts		**(105)**	–
Capital contributions from non-controlling interests		**10**	–
Net cash used in financing activities		**(306)**	(107)
Net increase/(decrease) in cash and cash equivalents		**1,697**	(890)
Cash and cash equivalents at beginning of the financial year		**2,595**	3,405
Effect of exchange rate changes on cash and cash equivalents		**11**	80
Cash and cash equivalents at the end of the financial year	*23*	**4,303**	2,595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

1. Corporate information

AIA Group Limited (the Company) was established as a company with limited liability incorporated in Hong Kong on 24 August 2009. The address of its registered office is 35/F, AIA Central, 1 Connaught Road, Central, Hong Kong.

AIA Group Limited 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 “the AIA Group” or “the Group”) is a life insurance based financial services provider operating in 15 jurisdictions throughout the Asia Pacific region. The Group’s principal activity is the writing of life insurance business, providing life, pensions and accident and health insurance throughout Asia, and distributing related investment and other financial services products to its customers.

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 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 24 February 2012.

The consolidated financial statements have been prepared using the historical cost convention, as modified by the revaluation of available for sale financial assets, certain financial assets and liabilities designated at fair value through profit or loss and derivative financial instruments, all of which are carried at fair value.

The accounting policies adopted are consistent with those of the previous financial year, except as described below. In addition, the Group reclassified receivables of US$1,100m to other assets in the consolidated statement of financial position as of 30 November 2010 to be consistent with current year presentation.

During 2011, the Group changed the presentation for certain consolidated unit-linked investment funds to present on a gross basis the investment return and related investment expenses. The impact of this during 2011, was an increase in investment return, as well as an increase in investment expenses of US$82m in the consolidated income statement. In addition, in note 4, similar impacts are presented including increases in investment income related to unit-linked contracts of US$130m, investment expenses related to unit-linked contracts of US$82m, and investment experience of US$48m.

(a) The following new amendments to standards have been adopted by the Group for the financial year ended 30 November 2011:

- Amendments to IAS 17, Leases: Classification of leases of land and buildings. Before the amendments, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepayments in the consolidated statement of financial position. The amendments to IAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 30 November 2011 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepayments on leasehold land to property, plant and equipment or investment property on a retrospective basis. This resulted in prepayments on leasehold land with the carrying amounts of US$45m and US$587m as at 30 November 2011 (30 November 2010: US$115m and US$519m) being reclassified to property, plant and equipment and investment property respectively. As the impact is not material, an additional balance sheet for year ended 30 November 2009 has not been presented in the consolidated statement of financial position. The application of the amendments to IAS 17 has not affected the measurement of reported net income or equity.

(b) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 December 2010 and have no material impact for the Group:

- Amendments to IFRS 2, Share-based payments, Group cash-settled share-based payment transactions;
- Amendments to IFRS 8, Operating Segments: Disclosure of information about segment assets;
- Amendments to IAS 7, Statement of Cash Flows: Classification of expenditure on unrecognised assets;
- Amendments to IAS 36, Impairment of Assets: Unit of accounting for goodwill impairment test;
- Amendments to IFRS 3, Business Combinations, Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS, Measurement of non-controlling interests, Un-replaced and voluntarily replaced share-based payment awards;
- Amendments to IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations: Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations;
- Amendments to IAS 18, Revenue, Determining whether an entity is acting as a principal or as an agent; and
- Amendments to IAS 21, The effects of changes in foreign exchange rates, IAS 28, Investments in associates, and IAS 31, Interests in joint ventures, Transition requirements for amendments arising as a result of IAS 27, Consolidated and separate financial statements.

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year ended 30 November 2011 and 2010 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 24, Related Party Disclosures, Revised definition of related parties (as revised in 2009) (2012);

- 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 Financial Statements, Clarification of statement of changes in equity (2012);

- Amendment to IAS 1, Presentation of Items of Other Comprehensive Income (2013);

- Amendments to IFRS 7, Financial Instruments: Disclosures, Clarification of disclosures (2012);

- Amendments to IFRS 7, Financial Instruments: Disclosures, Enhancing disclosures about transfers of financial assets (2012);

- 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 IFRS 7, Financial Instruments: Disclosures on offsetting financial assets and financial liabilities (2014); and

- Amendment to IFRIC Int – 14, Prepayments of a minimum funding requirement (2012).

(d) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year ended 30 November 2011 and 2010 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).

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.

All key terms 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.

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 2.3) and changes in third party interests in consolidated investment funds resulting from the above;

- policyholders' share of tax relating to changes in insurance and investment contract liabilities; and

- other significant items that management considers to be non-operating income and expenses.

Whilst these excluded non-operating items are significant components of the Group's profit, the Group considers that the presentation of operating profit enhances the understanding and comparability of its performance and that of its operating segments. The Group considers that trends can be more clearly identified without the fluctuating effects of these non-operating items, many of which are largely dependent on market factors.

Operating profit is provided as additional information to assist in the comparison of business trends in different reporting periods on a consistent basis and enhance overall understanding of financial performance.

2.3 CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

Critical accounting policies

The preparation of consolidated financial statements requires the Group to select accounting policies and make estimates and assumptions that affect items reported in the consolidated income statement, consolidated statement of financial position, other primary statements and notes to the consolidated financial statements. The Group considers its critical accounting policies to be those where a diverse range of accounting treatments is permitted by IFRS and significant judgments and estimates are required.

Product classification

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

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

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

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

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

For contracts with an explicit account balance, such as universal life and 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 also regularly reviewed by the Group.

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

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

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

Deferred policy acquisition and origination costs

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

Deferred acquisition costs for traditional life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are applied consistently throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

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

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

The judgments exercised in the deferral and amortisation of acquisition and origination costs affect amounts recognised in the consolidated financial statements as deferred acquisition and origination costs and insurance and investment contract benefits.

Liability adequacy testing

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

For traditional life insurance contracts, insurance contract liabilities, reduced by deferred acquisition costs and value of business acquired on acquired insurance contracts are compared with the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortised balance of deferred acquisition costs and value of business acquired on acquired insurance contracts are written down to the extent of the deficiency. If, after writing down deferred acquisition costs for the specific portfolio of contracts to nil, a deficiency still exists, the net liability is increased by the amount of the remaining deficiency.

For universal life and investment contracts with DPF, deferred acquisition costs, net of unearned revenue liabilities, are compared to estimated gross profits. If a deficiency exists, deferred acquisition costs are written down.

Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. The judgments exercised in liability adequacy testing affect amounts recognised in the consolidated financial statements as commission and other acquisition expenses, deferred acquisition costs and insurance contract benefits and insurance and investment contract liabilities.

Financial assets at fair value through profit or loss

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

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

Available for sale financial assets

The available for sale category of financial assets is used where the relevant investments are not managed on a fair value basis. These assets principally consist of the Group's portfolio of debt securities (other than those backing participating fund liabilities and unit-linked contracts). Available for sale financial assets are initially recognised at fair value plus attributable transaction costs and are subsequently measured at fair value. Changes in the fair value of available for sale securities, except for impairment losses and foreign exchange gains and losses on monetary items, are recorded in a separate fair value reserve within total equity, until such securities are disposed of.

The classification and designation of financial assets, either as at fair value through profit or loss, or as available for sale, determines whether movements in fair value are reflected in the consolidated income statement or in the consolidated statement of comprehensive income respectively.

Fair values of financial assets

The Group determines the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions and values obtained from current bid prices of comparable investments. More judgment is used in measuring the fair value of financial assets for which market observable prices are not available or are available only infrequently.

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

Changes in the fair value of financial assets held to back the Group's 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.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment regularly. This requires the exercise of significant judgment. A financial investment is impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the investment.

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 and officers 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 2.17 and 37.

Use of estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly.

The table below sets out those items we consider particularly sensitive to changes in estimates and assumptions, and the relevant accounting policy.

Item	**Accounting policy**
Insurance and investment contract liabilities	2.5
Deferred acquisition and origination costs	2.5
Liability adequacy testing	2.5.1
Impairment of financial instruments classified as available for sale	2.6.3
Fair value of financial instruments not traded in active markets	2.6.2

Further details of estimation uncertainty in respect of the valuation and impairment of financial instruments are given in notes 21 and 29 respectively. Further details of the estimation of amounts for insurance and investment contract liabilities and deferred acquisition and origination costs are given in notes 24, 25, 26 and 18 respectively.

2.4 BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are those entities (including special purpose entities) over which the Group, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from consolidation from the date at which the Group no longer has control. Intercompany transactions are eliminated.

The Group utilises the purchase method of accounting to account for the acquisition of subsidiaries, unless the acquisition forms part of the Group reorganisation of entities under common control. Under this method, the cost of an acquisition is measured as the fair value of consideration payable, shares issued or liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see 2.11 below). Any surplus of the acquirer's interest in the subsidiary's net assets over the cost of acquisition is credited to the consolidated income statement.

The consolidated financial statements of the Group include the assets, liabilities and results of the Company and subsidiaries in which AIA Group Limited has a controlling interest, using accounts drawn up to the balance sheet date.

Investment funds

In several countries, the Group has invested in investment funds, such as mutual funds and unit trusts. These invest mainly in equities, debt securities and cash and cash equivalents. The Group's percentage ownership in these funds can fluctuate from day to day according to the Group's and third party participation in them. Where the Group is deemed to control such funds, with control determined based on an analysis of the guidance in IAS 27 and SIC 12, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the issuer to repurchase or redeem units in such funds for cash. These are presented as 'Third party interests in consolidated investment funds' within other liabilities in the consolidated statement of financial position. In instances where the Group's ownership of investment funds declines marginally below 50% and, based on historical analysis and future expectations, the decline in ownership is expected to be temporary, the funds continue to be consolidated as subsidiaries under IAS 27. Likewise, marginal increases in ownership of investment funds above 50% which are expected to be temporary are not consolidated. Where the Group does not control such funds, they are not accounted for as associates and are, instead, carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

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 'Shares held by 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% and 50% of voting rights. Joint ventures are entities whereby the Group and other parties undertake an economic activity which is subject to joint control arising from a contractual agreement.

Gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Losses are also eliminated, unless the transaction provides evidence of an impairment of an asset transferred between entities.

Investments in associates are accounted for using the equity method of accounting. Under this method, the cost of the investment in an associate, together with the Group's share of that entity's post-acquisition changes to equity, is included as an asset in the consolidated statement of financial position. Cost includes goodwill arising on acquisition. The Group's share of post-acquisition profits or losses is recognised in the consolidated income statement and its share of post-acquisition movement in equity is recognised in equity. Equity accounting is discontinued when the Group no longer has significant influence over the investment. If the Group's share of losses in an associate equals or exceeds its interest in the undertaking, additional losses are provided for, and a liability recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. The Group accounts for investments in joint ventures that are subject to joint control using the proportionate consolidation method.

The Company's investments

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

2.5 INSURANCE AND INVESTMENT CONTRACTS

Consistent accounting policies for the measurement and recognition of insurance and investment contracts have been adopted throughout the Group to substantially all of its business.

In a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction, without deferral of acquisition costs.

Product classification

Insurance contracts are those contracts that transfer significant insurance risk. These contracts may also transfer financial risk. Significant insurance risk is defined as the possibility of paying significantly more in a scenario where the insured event occurs than in a scenario in which it does not. Scenarios considered are those with commercial substance.

Investment contracts are those contracts without significant insurance risk.

Once a contract has been classified as an insurance or investment contract no reclassification is subsequently performed, unless the terms of the agreement are later amended.

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

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

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

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

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

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

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

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

Universal life	Benefits are based on an account balance, credited with interest at a rate set by the insurer, and a death benefit, which may be varied by the customer	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment return credited, less deductions for front end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded	Not applicable as such contracts generally contain significant insurance risk
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)

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

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

2.5.1 Insurance contracts and investment contracts with DPF

Premiums

Premiums from life insurance contracts, including participating policies and annuity policies with life contingencies, are recognised as revenue when due from the policyholder. Benefits and expenses are provided in respect of such revenue so as to recognise profits over the estimated life of the policies. For limited pay contracts, premiums are recognised in profit or loss when due, with any excess profit deferred and recognised in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from insurance contracts with investment features but with sufficient insurance risk to be considered insurance contracts, such as universal life, and certain 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 business, including commissions, underwriting and other policy issue expenses, which vary with and are primarily related to the production of new business, are deferred. Deferred acquisition costs are subject to the testing of recoverability when issued and at least annually thereafter. Future investment income is taken into account in assessing recoverability.

Deferred acquisition costs for life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing (see below).

Deferred acquisition costs for universal life and 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.

Unamortised acquisition costs associated with internally replaced contracts that are, in substance, contract modifications, continue to be deferred and amortised. Any remaining unamortised balance of deferred acquisition costs associated with internally replaced contracts that are, in substance, new contracts, are expensed.

Deferred sales inducements

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

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

Unbundling

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

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

Bifurcation

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

Benefits and claims

Insurance contract benefits reflect the cost of all maturities, surrenders, withdrawals and claims arising during the year, as well as policyholder dividends accrued in anticipation of dividend declarations.

Accident and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, and are included in operating expenses.

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

These represent the estimated future policyholder benefit liability for life insurance policies.

Future policy benefits for life insurance policies are calculated using a net level premium valuation method which represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. The method uses best estimate assumptions set at the policy inception date, adjusted for a provision for the risk of adverse deviation for mortality, morbidity, expected investment yields, dividends (for other participating business), surrenders and expenses, which remain locked in thereafter, unless a deficiency arises on liability adequacy testing (see below).

Interest rate assumptions can vary by country, year of issuance and product. Mortality assumptions are based on actual experience by geographic area and are modified to allow for variations in policy form. Surrender assumptions are based on actual experience by geographic area and are modified to allow for variations in policy form.

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

Settlement options are accounted for as an integral component of the underlying insurance or investment contract unless they provide annuitisation benefits, in which case an additional liability is established to the extent that the present value of expected annuitisation payments at the expected annuitisation date exceeds the expected account balance at that date. Where settlement options have been issued with guaranteed rates less than market interest rates, the insurance or investment contract liability does not reflect any provision for subsequent declines in market interest rates unless a deficiency is identified through liability adequacy testing.

The Group accounts for participating policies within participating funds by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders assuming all performance were to be declared as a dividend based upon local regulations. The Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

Liability adequacy testing

The adequacy of liabilities is assessed by portfolio of contracts, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. Liability adequacy testing is performed for each geographic market.

For traditional life insurance contracts, insurance contract liabilities reduced by deferred acquisition costs and value of business acquired on acquired insurance contracts, are compared to the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortised balance of deferred acquisition cost and value of business acquired on acquired insurance contracts are written down to the extent of the deficiency. If, after writing down the unamortised balance for the specific portfolio of contracts to nil, a deficiency still exists, the net liability is increased by the amount of the remaining deficiency.

For universal life and investment contracts, deferred acquisition costs, net of unearned revenue liabilities, are compared to estimated gross profits. If a deficiency exists, deferred acquisition costs are written down.

Financial guarantees

Financial guarantees are regarded as insurance contracts. Liabilities in respect of such contracts are recognised as incurred.

2.5.2 Investment contracts

Investment contracts do not contain sufficient insurance risk to be considered insurance contracts and are accounted for as a financial liability, other than investment contracts with DPF which are excluded from the scope of IAS 39 and are accounted for as insurance contracts.

Revenue from these contracts consists of various charges (policy fees, handling fees, management fees and surrender charges) made against the contract for the cost of insurance, expenses and early surrender. First year charges are amortised over the life of the contract as the services are provided.

Investment contract fee revenue

Customers are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's account balance. The fees are recognised as revenue in the period in which they are received unless they relate to services to be provided in future periods, in which case they are deferred and recognised as the service is provided.

Origination and other "upfront" fees (fees that are assessed against the account balance as consideration for origination of the contract) are charged on some non-participating investment and pension contracts. Where the investment contract is recorded at amortised cost, these fees are amortised and recognised over the expected term of the policy as an adjustment to the effective yield. Where the investment contract is measured at fair value, the front end fees that relate to the provision of investment management services are amortised and recognised as the services are provided.

Deferred origination costs

The costs of acquiring investment contracts with investment management services, including commissions and other incremental expenses directly related to the issue of each new contract, are deferred and amortised over the period that services are provided. Deferred origination costs are tested for recoverability at each reporting date.

The costs of acquiring new investment contracts without investment management services are included as part of the effective interest rate used to calculate the amortised cost of the related investment contract liabilities.

Investment contract liabilities

Deposits received in respect of investment contracts are not accounted for through the consolidated income statement, except for the investment income and fees attributable to those contracts, but are accounted for directly through the consolidated statement of financial position as an adjustment to the investment contract liability, which reflects the account balance.

The majority of the Group's contracts classified as investment contracts are 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 rate method of any difference between that initial amount and the maturity value, and less any write down for surrender payments. The effective interest rate equates the discounted cash payments to the initial amount. At each reporting date, the unearned revenue liability is determined as the value of the future best estimate cash flows discounted at the effective interest rate. Any adjustment is immediately recognised as income or expense in the consolidated income statement.

The amortised cost of the financial liability is never recorded at less than the amount payable on surrender, discounted for the time value of money where applicable, if the investment contract is subject to a surrender option.

2.5.3 Insurance and investment contracts

Reinsurance

The Group cedes reinsurance in the normal course of business, with retentions varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for such policies.

Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated income statement and statement of financial position.

Reinsurance assets consist of amounts receivable in respect of ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured insurance or investment contract liabilities or benefits paid and in accordance with the relevant reinsurance contract.

To the extent that reinsurance contracts principally transfer financial risk (as opposed to insurance risk) they are accounted for directly through the consolidated statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the consolidated income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Group will receive from the reinsurer can be reliably measured.

Value of business acquired (VOBA)

The VOBA in respect of a portfolio of long-term insurance and investment contracts, either directly or through the purchase of a subsidiary, is recognised as an asset. If this results from the acquisition of an investment in a joint venture or an associate, the VOBA is held within the carrying amount of that investment. In all cases, the VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated income statement.

Shadow accounting

Shadow accounting is applied to insurance and certain investment contracts where financial assets backing insurance and investment contracts liabilities are classified as available for sale. Shadow accounting is applied to deferred acquisition costs, VOBA, deferred origination costs and the contract liabilities for investment contracts with DPF to take into account the effect of unrealised gains or losses on insurance liabilities or assets that are recognised in equity in the same way as for a realised gain or loss recognised in the consolidated income statement. Such assets or liabilities are adjusted with corresponding charges or credits recognised directly in shareholders' equity as a component of the related unrealised gains and losses.

Other assessments and levies

The Group is potentially subject to various periodic insurance related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included in insurance or investment contract liabilities but are included under "Provisions" in the consolidated statement of financial position.

2.6 FINANCIAL INSTRUMENTS

2.6.1 Classification of and designation of financial instruments

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss comprise two categories:

- financial assets designated at fair value through profit or loss; and
- derivative assets and liabilities.

Management designates financial assets at fair value through profit or loss if this eliminates a measurement inconsistency or if the related assets and liabilities are actively managed on a fair value basis, including:

- financial assets held to back 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.

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest rate method less any impairment losses. Interest income from loans and receivables is recognised in investment income in the consolidated income statement using the effective interest rate method.

Term deposits

Deposits include time deposits with financial institutions which do not meet the definition of cash and cash equivalents as their maturity at acquisition exceeds three months. Certain of these balances are subject to regulatory or other restriction as disclosed in note 19 "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.

2.6.2 Fair values of non-derivative financial assets

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, having regard to the specific characteristics of the asset or liability concerned, assuming that the transfer takes place in the most advantageous market to which the Group has access. The fair values of financial instruments traded in active markets (such as financial instruments at fair value through profit or loss and available for sale securities) are based on quoted market prices at the date of the consolidated statement of financial position. The quoted market price used for financial assets held by the Group is the current bid price. The fair values of financial instruments that are not traded in active markets are determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions at the date of each consolidated statement of financial position. The objective of using a valuation technique is to estimate the price at which an orderly transaction would take place between market participants at the date of the consolidated statement of financial position.

Financial instruments carried at fair value are measured using a fair value hierarchy described in note 21.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

2.6.3 Impairment of financial assets

General

Financial assets are assessed for impairment on a regular basis. A financial asset is impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the financial asset.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset, or group of financial assets, is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset, or group of assets, is impaired includes observable data that comes to the attention of the Group about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data, including market prices, indicating that there is a potential decrease in the estimated future cash flows since the initial recognition of those assets, including:
  - adverse changes in the payment status of issuers; or
  - national or local economic conditions that correlate with increased default risk.

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.

Available for sale financial instruments

When a decline in the fair value of an available for sale asset has been recognised in shareholders' equity and there is objective evidence that the asset is impaired, the cumulative loss already recognised directly in shareholders' equity is recognised in current period profit or loss. The Group generally considers an available for sale equity instrument for evidence of impairment if the fair value is significantly below cost or has been below cost for a prolonged period. If such assets are considered to be impaired, the amount of the cumulative loss that is removed from shareholders' equity and recognised in current period profit or loss is the difference between acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised.

If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in income, the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available for sale are not reversed.

Where, following the recognition of an impairment loss in respect of an available for sale debt security, the asset suffers further falls in value, such further falls are recognised as an impairment only in the case when objective evidence exists of a further impairment event to which the losses can be attributed.

Loans and receivables

For loans and receivables, impairment is considered to have taken place if it is probable that the Group will not be able to collect principal and/or interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount is decreased through a charge to profit or loss. The carrying amount of mortgage loans or receivables is reduced through the use of an allowance account, and the amount of any allowance is recognised as an impairment loss in profit or loss. The allowance is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for trends in the group of financial assets or individual accounts.

2.6.4 Derivative financial instruments

Derivative financial instruments include foreign exchange contracts and interest rate swaps that derive their value mainly from underlying foreign exchange rates and interest rates. All derivatives are initially recognised in the consolidated statement of financial position at their fair value, which represents their cost excluding transaction costs, which are expensed, giving rise to a day one loss. They are subsequently remeasured at their fair value, with movements in this value recognised in profit or loss. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivative instruments for economic hedging

Whilst the Group enters into derivative transactions to provide economic hedges under the Group's risk management framework, it does not currently apply hedge accounting to these transactions. This is either because the transactions would not meet the specific IFRS rules to be eligible for hedge accounting or the documentation requirements to meet hedge accounting criteria would be unduly onerous. These transactions are therefore treated as held for trading and fair value movements are recognised immediately in investment experience.

Embedded derivatives

Embedded derivatives are derivatives embedded within other non-derivative host financial instruments to create hybrid instruments. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value with changes in fair value recognised in profit or loss, the embedded derivative is bifurcated and carried at fair value as a derivative in accordance with IAS 39.

2.7 SEGMENT REPORTING

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

2.8 FOREIGN CURRENCY TRANSLATION

Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the year as this approximates to the exchange rates prevailing at the transaction date. Their statements of financial position are translated at year or period end exchange rates. Exchange differences arising from the translation of the net investment in foreign operations, are taken to the currency translation reserve within equity. On disposal of a foreign operation such exchange differences are transferred out of this reserve and are recognised in the consolidated income statement as part of the gain or loss on sale.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies into functional currency, are recognised in the consolidated income statement.

Translation differences on financial assets designated at fair value through profit or loss are included in investment experience. For monetary financial assets classified as available for sale, translation differences are calculated as if they were carried at amortised cost and so are recognised in the consolidated income statement. Foreign exchange movements on non-monetary equities that are accounted for as available for sale are included in the fair value reserve.

2.9 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated using the straight line method to allocate cost less any residual value over the estimated useful life, generally:

Furniture, fixtures and office equipment	5 years
Buildings	20-40 years
Other assets	3-5 years
Freehold land	No depreciation

Subsequent costs are included in the carrying amount or recognised as a separate asset, as appropriate, when it is probable that future economic benefits will flow to the Group. Repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Residual values and useful lives are reviewed and adjusted, if applicable, at each reporting date. An asset is written down to its recoverable amount if the carrying value is greater than the estimated recoverable amount.

Any gain and loss arising on disposal of property, plant and equipment is measured as the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

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 2.19).

2.10 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 2.19). These leases are recorded at original cost and amortised over the term of the lease. Buildings that are held as investment properties are amortised on a straight line basis over their estimated useful lives of 20-40 years.

If an investment property becomes held for use, it is reclassified as property, plant and equipment. Where a property is partly used as an investment property and partly for the use of the Group, these elements are recorded separately within property, plant and equipment and investment property respectively, where the component used as investment property would be capable of separate sale or finance lease.

The fair value of investment properties and property held for use is disclosed under note 16. It is the Group's policy to perform external property valuation annually except in the case a discrete event occurs in the interim that has a significant impact on the fair value of the properties.

2.11 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions prior to 1 December 2006 (the date of transition to IFRS) is carried at book value (original cost less cumulative amortisation) on that date, less any impairment subsequently incurred. Goodwill arising on the Group's investment in subsidiaries since that date is shown as a separate asset, whilst that on associates and joint ventures is included within the carrying value of those investments. With effect from the date of adoption of IFRS 3 (Revised) from 1 December 2009, all acquisition related costs are expensed as incurred.

Other intangible assets

Other intangible assets consist primarily of acquired computer software and contractual relationships, such as access to distribution networks, and are amortised over their estimated useful lives.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs directly associated with the internal production of identifiable and unique software by the Group that will generate economic benefits exceeding those costs over a period greater than a year, are recognised as intangible assets. All other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs of acquiring computer software licences and incurred in the internal production of computer software are amortised using the straight line method over the estimated useful life of the software, which does not generally exceed a period of 3-15 years.

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

2.12 IMPAIRMENT OF NON-FINANCIAL ASSETS

Property, plant and equipment, goodwill and other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised to the extent that the carrying amount of the asset exceeds its recoverable amount, which is the higher of the asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped into cash generating units at the level of the Group's operating segments, the lowest level for which separately identifiable cash flows are reported. The carrying value of goodwill and intangible assets with indefinite useful lives 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.

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 balance sheet exceeds its carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.13 SECURITIES LENDING INCLUDING REPURCHASE AGREEMENTS

The Group has been party to various securities lending agreements under which securities are loaned to third parties on a short term basis. The loaned securities are not derecognised and so they continue to be recognised within the appropriate investment classification.

Assets sold under repurchase agreements (repos)

Assets sold under repurchase agreements continue to be recognised and a liability is established for the consideration received. The Group may be required to provide additional collateral based on the fair value of the underlying assets, and such collateral assets remain on the consolidated statement of financial position.

Assets purchased under agreements to resell (reverse repos)

The Group enters into purchases of assets under agreements to resell (reverse repos). Reverse repos are initially recorded at the cost of the loan or collateral advanced within the caption "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.

2.14 BORROWINGS

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest rate method. All borrowing costs are expensed as they are incurred, except for borrowing costs directly attributable to the development of investment properties and other qualifying assets, which are capitalised as part of the cost of the asset.

2.15 INCOME TAXES

The current tax expense is based on the taxable profits for the year, including any adjustments in respect of prior years. Tax is allocated to profit or loss before taxation and amounts charged or credited to equity as appropriate.

Deferred tax is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except as described below.

The principal temporary differences arise from the basis of recognition of insurance and investment contract liabilities, revaluation of certain financial assets and liabilities including derivative contracts, deferred acquisition costs and the future taxes arising on the surplus in life funds where the relevant local tax regime is distributions based. The rates enacted or substantively enacted at the date of the consolidated statement of financial position are used to determine deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In countries where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is evidence that future profits will be available.

Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill or from goodwill for which amortisation is not deductible for tax purposes, or from the initial recognition of an asset or liability in a transaction which is not a business combination and which affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred tax related to fair value 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.

2.16 REVENUE

Investment return

Investment income consists of dividends, interest and rents receivable for the reporting period. Investment experience comprises realised gains and losses, impairments and unrealised gains and losses on investments held at fair value through profit or loss. Interest income is recognised as it accrues, taking into account the effective yield on the investment. Rental income on investment property is recognised on an accruals basis. Investment return consists of investment income and investment experience.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains and losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase price if purchased during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

Other fee and commission income

Other fee and commission income consists primarily of fund management fees, income from any incidental non-insurance activities, distribution fees from mutual funds, commissions on reinsurance ceded and commission revenue from the sale of mutual fund shares. Reinsurance commissions receivable are deferred in the same way as acquisition costs. All other fee and commission income is recognised as the services are provided.

2.17 EMPLOYEE BENEFITS

Annual leave and long service leave

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the reporting date.

Post-retirement benefit obligations

The Group operates a number of funded and unfunded post-retirement employee benefit schemes, whose members receive benefits on either a defined benefit basis (generally related to salary and length of service) or a defined contribution basis (generally related to the amount invested, investment return and annuity rates), the assets of which are generally held in separate trustee administered funds. The defined benefit plans provide life and medical benefits for employees after retirement and a lump sum benefit on cessation of employment, and the defined contribution plans provide post-retirement pension benefits.

For defined benefit plans, the costs are assessed using the projected unit credit method. Under this method, the cost of providing benefits is charged to the consolidated income statement so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability. The resulting scheme surplus or deficit appears as an asset or liability in the consolidated statement of financial position.

For each plan, AIA Group recognises a portion of its actuarial gains and losses in income or expense if the unrecognised actuarial net gain or loss at the end of the previous reporting period exceeds the greater of:

- 10% of the projected benefit obligations at that date; or

- 10% of the fair value of any plan assets at that date.

Any recognised actuarial net gain or loss exceeding the greater of these two values is generally recognised in the consolidated income statement over the expected average remaining service periods of the employees participating in the plans.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, has no further payment obligations. The Group's contributions are charged to the consolidated income statement in the reporting period to which they relate and are included in staff costs.

Share-based compensation and cash incentive plans

Following the public listing of the Group on the Stock Exchange of Hong Kong and the divestiture by AIG of more than 50% 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 employees, directors and officers as consideration for the shares and/or options of the Company. These share-based compensation plans comprise the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme), and the Employee Share Purchase Plan (ESPP). Previously, the Group had various share-based compensation plans sponsored by AIG; in connection with AIG's divestiture of more than 50% of the Group on 29 October 2010, all unvested incentive awards sponsored by AIG were considered to be unvested.

The Group's share 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 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 options granted. Non-market vesting conditions are included in assumptions about the number of shares and/or options that are expected to be vested. At each period end, the Group revises its estimates of the number of shares and/or 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 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 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.

2.18 PROVISIONS AND CONTINGENCIES

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract held, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated.

2.19 LEASES

Leases, where a significant portion of the risks and rewards of ownership is retained by the Group as a lessor, are classified as operating leases. Assets subject to such leases are included in property, plant and equipment 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.

2.20 SHARE CAPITAL

Issued capital represents the nominal value of shares issued plus any share premium received from the issue of share capital.

Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue.

Dividends

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

2.21 PRESENTATION OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's insurance and investment contract liabilities and related assets are realised and settled over periods of several years, reflecting the long-term nature of the Group's products. Accordingly, the Group presents the assets and liabilities in its consolidated statement of financial position in approximate order of liquidity, rather than distinguishing current and non-current assets and liabilities. The Group regards its intangible assets, investments in associates and joint ventures, property, plant and equipment, investment property and deferred acquisition and origination costs as non-current assets as these are held for the longer term use of the Group.

2.22 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.

2.23 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.

2.24 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 investing cash flows.

2.25 RELATED PARTY TRANSACTIONS

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

3. Exchange rates

The Group's principal overseas operations during the reporting period were located within the Asia Pacific region. The results and cash flows of these operations have been translated into US Dollars at the following average rates:

	US dollar exchange rates	
	Year ended 30 November 2011	Year ended 30 November 2010
Hong Kong	**7.78**	7.77
Thailand	**30.40**	31.94
Singapore	**1.26**	1.37
Malaysia	**3.06**	3.24
China	**6.49**	6.79
Korea	**1,107.01**	1,156.07

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

	US dollar exchange rates	
	As at 30 November 2011	As at 30 November 2010
Hong Kong	**7.79**	7.77
Thailand	**31.21**	30.22
Singapore	**1.30**	1.32
Malaysia	**3.18**	3.16
China	**6.37**	6.68
Korea	**1,145.48**	1,160.09

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

4. Operating profit before tax

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

US$m	Note	**Year ended 30 November 2011**	Year ended 30 November 2010
Operating profit before tax	6	**2,381**	2,102
Non-operating investment return:			
Investment experience		**(2,177)**	3,683
Investment income related to unit-linked contracts		**204**	74
Investment management expenses related to unit-linked contracts		**(98)**	(14)
Other investment management expenses		**(15)**	–
Corresponding changes in insurance and investment contract liabilities for unit-linked contracts		**1,622**	(1,772)
Corresponding changes in insurance contract liabilities for participating funds		**213**	(539)
Corresponding changes in third party interests in consolidated investment funds		**29**	(15)
Non-operating investment return		**(222)**	1,417
Other non-operating items:			
Changes in insurance and investment contract liabilities for policyholders' tax on operating profit before tax		**59**	72
Restructuring, separation and other non-operating costs		**(50)**	(42)
Non-operating items		**(213)**	1,447
Profit before tax		**2,168**	3,549
Tax on operating profit before tax		**(451)**	(394)
Non-operating tax expense		**(50)**	(373)
Policyholders' tax on operating profit before tax		**(59)**	(72)
Tax expense		**(560)**	(839)
Net profit		**1,608**	2,710
Operating profit before tax		**2,381**	2,102
Tax on operating profit before tax		**(451)**	(394)
Operating profit after tax		**1,930**	1,708
Operating profit after tax attributable to:			
Shareholders of AIA Group Limited		**1,922**	1,699
Non-controlling interests		**8**	9

Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Separation costs are those significant and identifiable costs related to the Group's separation from AIG.

5. Total weighted premium income and annualised new premiums

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 premiums (ANP). Both measures are reported gross of reinsurance ceded.

TWPI consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the Group's accounting policies.

Management considers that 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% of annualised first year premium and 10% of single premium, before reinsurance ceded. ANP excludes renewal premiums and first year premiums are reported on an annualised basis.

TWPI US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
TWPI by geography		
Hong Kong	**3,142**	3,012
Thailand	**2,976**	2,742
Singapore	**1,949**	1,687
Malaysia	**928**	813
China	**1,313**	1,137
Korea	**2,029**	1,951
Other Markets	**2,105**	1,671
Total	**14,442**	13,013
First year premiums by geography		
Hong Kong	**471**	428
Thailand	**420**	389
Singapore	**189**	175
Malaysia	**124**	113
China	**201**	192
Korea	**244**	278
Other Markets	**452**	315
Total	**2,101**	1,890
Single premiums by geography		
Hong Kong	**308**	98
Thailand	**147**	134
Singapore	**585**	291
Malaysia	**29**	39
China	**72**	113
Korea	**120**	158
Other Markets	**238**	171
Total	**1,499**	1,004

TWPI US$m	Year ended 30 November 2011	Year ended 30 November 2010
Renewal premiums by geography		
Hong Kong	**2,640**	2,574
Thailand	**2,541**	2,340
Singapore	**1,702**	1,483
Malaysia	**801**	696
China	**1,105**	934
Korea	**1,773**	1,657
Other Markets	**1,629**	1,339
Total	**12,191**	11,023

ANP US$m	Year ended 30 November 2011	Year ended 30 November 2010
ANP by geography(1)		
Hong Kong	**522**	449
Thailand	**465**	420
Singapore	**264**	210
Malaysia	**142**	117
China	**215**	206
Korea	**270**	282
Other Markets	**594**	341
Total	**2,472**	2,025

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

6. 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 'Corporate and Other' segment, writes life insurance business, providing life, pensions, and accident and health products to customers in its local market, and distributes related investment and other financial services products. The reportable segments, as required to be disclosed separately under IFRS 8, are Hong Kong, Thailand, Singapore, Korea, Malaysia, China, Other Markets and Corporate and Other. The Group's Hong Kong reportable segment includes Macau. The Group's Singapore reportable segment includes Brunei. Other Markets primarily includes the Group's operations in the Philippines, Indonesia, Vietnam, India, Australia, New Zealand and Taiwan. The activities of the Corporate and Other segment consist of the AIA Group's corporate functions, shared services and eliminations of intragroup transactions.

Because each reportable segment other than the Corporate and Other segment focuses on serving the life insurance needs of its local market there are limited transactions between reportable segments. The key performance indicators reported in respect of each segment are:

- ANP;
- TWPI;
- investment income (excluding investment income in respect of unit-linked contracts);
- operating expenses;

- operating profit before tax (see note 4);
- 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 segment equity, measured as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a simple average of opening and closing allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests, fair value and foreign currency translation reserves, and adjusted for subordinated intercompany debt).

In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Corporate and Other segment and capital inflows consist of capital injections into reportable segments by the Corporate and Other segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.

Business volumes in respect of the Group's five largest customers are less than 30 per cent of premiums and fee income.

US$m	Key markets: Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets	Corporate and Other	Total
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)	2,548	3,027	1,921	813	1,245	1,517	1,343	1	12,415
Investment income(1)	904	835	720	288	299	342	486	72	3,946
Total revenue	3,452	3,862	2,641	1,101	1,544	1,859	1,829	73	16,361
Net insurance and investment contract benefits(2)	2,149	2,670	1,878	769	1,120	1,331	1,049	–	10,966
Commission and other acquisition expenses	313	432	223	87	97	246	251	–	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	2,660	3,302	2,251	938	1,404	1,706	1,589	142	13,992
Share of profit from associates	–	–	1	3	–	–	8	–	12
Operating profit/(loss) before tax	792	560	391	166	140	153	248	(69)	2,381
Tax on operating profit/(loss) before tax	(52)	(165)	(55)	(34)	(21)	(29)	(78)	(17)	(451)
Operating profit/(loss) after tax	740	395	336	132	119	124	170	(86)	1,930
Operating profit/(loss) after tax attributable to:									
Shareholders of AIA Group Limited	736	395	336	133	119	124	165	(86)	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	25.2%	18.8%	20.1%	17.9%	10.7%	7.5%	11.8%	–	16.5%
Operating return on allocated equity	17.4%	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

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

Note: (2) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for unit-linked contracts and participating funds and investment income related to unit-linked contracts. It also excludes policyholders' share of tax relating to the change in insurance and investment contract liabilities.

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

Operating profit/(loss) before tax may be reconciled to net profit/(loss) as follows:

	Key markets								
US$m	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets	Corporate and Other	Total
Year ended 30 November 2011									
Operating profit/(loss) before tax	**792**	**560**	**391**	**166**	**140**	**153**	**248**	**(69)**	**2,381**
Non-operating items	(196)	103	21	15	(136)	(11)	72	(81)	(213)
Profit/(loss) before tax	**596**	**663**	**412**	**181**	**4**	**142**	**320**	**(150)**	**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)
Other 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)	**544**	**452**	**336**	**131**	**17**	**115**	**184**	**(171)**	**1,608**
Net profit/(loss) attributable to:									
Shareholders of AIA Group Limited	**540**	**452**	**336**	**132**	**17**	**115**	**179**	**(171)**	**1,600**
Non-controlling interests	4	–	–	(1)	–	–	5	–	8

Allocated equity may be analysed as follows:

	Key markets								
US$m	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets	Corporate and Other	Total
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(4)	**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	(1,100)	(401)	(618)	(120)	80	–	(26)	1,926	(259)

Note: (4) Corporate and Other and Other Markets adjusted for subordinated intercompany debt provided to Other Markets of US$27m.

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

					Related changes in insurance and investment contract benefits					
US$m	Segment information	Investment experience	Investment income related to unit-linked contracts	Investment management expenses related to unit-linked contracts	Unit-linked contracts	Participating funds	Third party interests in consolidated investment funds	Other non-operating items	Consolidated income statement	
Year ended 30 November 2011										
Total revenue	**16,361**	**(2,177)**	**204**	**–**	**–**	**–**	**–**	**–**	**14,388**	**Total revenue**
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:										
Net insurance and investment contract benefits	10,966	–	–	–	(1,622)	(213)	–	(59)	9,072	Net insurance and investment contract benefits
Restructuring, separation and other non-operating costs	–	–	–	–	–	–	–	50	50	Restructuring, separation 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 4).

US$m	Key markets: Hong Kong	Thailand	Singapore	Malaysia	China[4]	Korea	Other Markets	Corporate and Other[4]	Total
Year ended 30 November 2010									
ANP	449	420	210	117	206	282	341	–	2,025
TWPI	3,012	2,742	1,687	813	1,137	1,951	1,671	–	13,013
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	2,245	2,776	1,658	754	1,116	1,462	1,143	–	11,154
Investment income[1]	845	753	645	254	247	282	455	2	3,483
Total revenue	3,090	3,529	2,303	1,008	1,363	1,744	1,598	2	14,637
Net insurance and investment contract benefits[2]	1,844	2,502	1,640	705	1,002	1,235	906	7	9,841
Commission and other acquisition expenses	271	404	129	84	78	222	250	–	1,438
Operating expenses	180	145	122	62	184	133	216	104	1,146
Investment management expenses and finance costs[3]	4	28	18	3	6	3	25	14	101
Total expenses	2,299	3,079	1,909	854	1,270	1,593	1,397	125	12,526
Share of profit/(loss) from associates	–	–	–	4	–	–	(13)	–	(9)
Operating profit/(loss) before tax	791	450	394	158	93	151	188	(123)	2,102
Tax on operating profit/(loss) before tax	(47)	(138)	(68)	(41)	(23)	(10)	(51)	(16)	(394)
Operating profit/(loss) after tax	744	312	326	117	70	141	137	(139)	1,708
Operating profit/(loss) after tax attributable to:									
Shareholders of AIA Group Limited	741	312	326	117	70	141	132	(140)	1,699
Non-controlling interests	3	–	–	–	–	–	5	1	9
Key operating ratios:									
Expense ratio	6.0%	5.3%	7.2%	7.6%	16.2%	6.8%	12.9%	–	8.8%
Operating margin	26.3%	16.4%	23.4%	19.4%	8.2%	7.7%	11.3%	–	16.2%
Operating return on allocated equity	17.1%	9.7%	21.3%	22.1%	10.3%	10.8%	9.8%	–	11.8%
Operating profit/(loss) before tax includes:									
Finance costs	4	1	7	–	1	–	1	(5)	9
Depreciation and amortisation	5	12	10	8	23	10	9	4	81

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

Note: (2) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for unit-linked contracts and participating funds and investment income related to unit-linked contracts. It also excludes policyholders' share of tax relating to the change in insurance and investment contract liabilities.

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

Note: (4) Results of a subsidiary have been reclassified from China segment to Corporate and Other segment to conform to current year presentation. As a result, operating profit, allocated equity and net capital outflow of China segment have been increased by US$1m, US$(38)m and US$26m, respectively. The reclassification has no impact to the operating profit, allocation equity and net capital outflow of the Group as of 30 November 2010.

Operating profit/(loss) before tax may be reconciled to net profit/(loss) as follows:

US$m	Key markets: Hong Kong	Thailand	Singapore	Malaysia	China(4)	Korea	Other Markets	Corporate and Other(4)	Total
Year ended 30 November 2010									
Operating profit/(loss) before tax	791	450	394	158	93	151	188	(123)	2,102
Non-operating items	198	931	184	70	(10)	28	40	6	1,447
Profit/(loss) before tax	989	1,381	578	228	83	179	228	(117)	3,549
Tax on operating profit/(loss) before tax	(47)	(138)	(68)	(41)	(23)	(10)	(51)	(16)	(394)
Policyholders' tax on operating profit before tax	–	–	(54)	(14)	–	–	(4)	–	(72)
Other non-operating tax expense	–	(279)	(52)	(30)	2	(6)	–	(8)	(373)
Tax expense	(47)	(417)	(174)	(85)	(21)	(16)	(55)	(24)	(839)
Net profit/(loss)	942	964	404	143	62	163	173	(141)	2,710
Net profit/(loss) attributable to:									
Shareholders of AIA Group Limited	939	964	404	143	62	163	168	(142)	2,701
Non-controlling interests	3	–	–	–	–	–	5	1	9

Allocated equity may be analysed as follows:

US$m	Key markets: Hong Kong	Thailand	Singapore	Malaysia	China(4)	Korea	Other Markets	Corporate and Other(4)(5)	Total
30 November 2010									
Assets before investments in associates	27,171	20,955	23,504	7,434	7,618	8,849	9,660	2,605	107,796
Investments in associates	–	1	2	8	–	–	58	–	69
Total assets	27,171	20,956	23,506	7,442	7,618	8,849	9,718	2,605	107,865
Total liabilities(5)	21,555	16,041	21,528	6,782	6,899	7,392	7,461	572	88,230
Total equity	5,616	4,915	1,978	660	719	1,457	2,257	2,033	19,635
Non-controlling interests	5	–	–	–	–	–	73	2	80
Amounts reflected in other comprehensive income:									
Fair value reserve	1,093	837	202	37	(59)	222	693	(111)	2,914
Foreign currency translation reserve	–	541	246	66	70	(155)	106	2	876
Allocated equity	4,518	3,537	1,530	557	708	1,390	1,385	2,140	15,765
Net capital (out)/in flows	(585)	(346)	(400)	(90)	(1)	–	(99)	1,514	(7)

Note: (4) Results of a subsidiary have been reclassified from China segment to Corporate and Other segment to conform to current year presentation. As a result, operating profit, allocated equity and net capital outflow of China segment have been increased by US$1m, US$(38)m and US$26m, respectively. The reclassification has no impact to the operating profit, allocated equity and net capital outflow of the Group as of 30 November 2010.

Note: (5) Corporate and Other and Other Markets adjusted for subordinated intercompany debt provided to Other Markets of US$18m.

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

US$m	Segment information	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: Unit-linked contracts	Related changes in insurance and investment contract benefits: Participating funds	Third party interests in consolidated investment funds	Other non-operating items	Consolidated income statement	
Year ended 30 November 2010										
Total revenue	14,637	3,683	74	–	–	–	–	–	18,394	**Total revenue**
Of which:										
Net premiums, fee income and other operating revenue	11,154	–	–	–	–	–	–	–	11,154	Net premiums, fee income and other operating revenue
Investment return	3,483	3,683	74	–	–	–	–	–	7,240	Investment return
Total expenses	12,526	–	–	14	1,772	539	15	(30)	14,836	**Total expenses**
Of which:										
Net insurance and investment contract benefits	9,841	–	–	–	1,772	539	–	(72)	12,080	Net insurance and investment contract benefits
Restructuring, separation and other non-operating costs	–	–	–	–	–	–	–	42	42	Restructuring, separation and other non-operating costs
Investment management expenses and finance costs	101	–	–	14	–	–	–	–	115	Investment management expenses and finance costs
Change in third party interests in consolidated investment funds	–	–	–	–	–	–	15	–	15	Change in third party interests in consolidated investment funds
Share of loss from associates	(9)	–	–	–	–	–	–	–	(9)	Share of loss from associates
Operating profit before tax	2,102	3,683	74	(14)	(1,772)	(539)	(15)	30	3,549	**Profit before tax**

Other non-operating items in 2010 consist of restructuring, separation and other non-operating costs of US$42m (see note 4).

7. Revenue

INVESTMENT RETURN

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Interest income	**3,685**	3,243
Dividend income	**389**	252
Rental income	**76**	62
Investment income	**4,150**	3,557
Available for sale		
Net realised gains from debt securities	**39**	76
Net realised gains from equity securities	**–**	74
Impairment of debt securities	**–**	(1)
Net gains of available for sale financial assets reflected in the consolidated income statement	**39**	149
At fair value through profit or loss		
Net gains of debt securities	**44**	424
Net (losses)/gains of equity securities	**(2,181)**	3,138
Net fair value movement on derivatives	**47**	343
Net (losses)/gains in respect of financial assets at fair value through profit or loss	**(2,090)**	3,905
Net foreign exchange losses	**(129)**	(373)
Other net realised gains	**3**	2
Investment experience	**(2,177)**	3,683
Investment return	**1,973**	7,240

Other net realised gains include impairment of intangible assets of US$3m (2010: US$nil).

Foreign currency movements resulted in the following losses recognised in the income statement (other than gains and losses arising on items measured at fair value through profit or loss):

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Foreign exchange losses	**(57)**	(244)

OTHER OPERATING REVENUE

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

8. Expenses

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Insurance contract benefits	**7,036**	5,988
Change in insurance contract liabilities	**3,426**	5,730
Investment contract benefits	**(861)**	765
Insurance and investment contract benefits	**9,601**	12,483
Insurance and investment contract benefits ceded	**(529)**	(403)
Insurance and investment contract benefits, net of ceded reinsurance	**9,072**	12,080
Commissions and other acquisition expenses incurred	**2,506**	2,099
Deferral and amortisation of acquisition costs	**(857)**	(661)
Commission and other acquisition expenses	**1,649**	1,438
Employee benefit expenses	**812**	720
Depreciation	**65**	70
Amortisation	**26**	11
Operating lease rentals	**101**	103
Other operating expenses	**249**	242
Operating expenses	**1,253**	1,146
Restructuring and other non-operating costs	**50**	3
Separation costs	**–**	39
Restructuring, separation and other non-operating costs	**50**	42
Investment management expenses	**225**	106
Finance costs	**12**	9
Change in third party interests in consolidated investment funds	**(29)**	15
Total	**12,232**	14,836

Other operating expenses include auditors' remuneration of US$11m (2010: US$8m).

Investment management expenses may be analysed as:

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Investment management expenses including fees paid to related parties	**221**	105
Depreciation on investment property	**4**	1
Total	**225**	106

Finance costs may be analysed as:

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Securities lending and repurchase agreements (see note 28 for details)	**8**	4
Bank and other loans	**4**	5
Total	**12**	9

Interest expense includes US$4m (2010: US$5m) on bank loans, overdrafts and related party loans wholly repayable within five years.

Employee benefit expenses consist of:

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Wages and salaries	**683**	602
Share-based compensation	**16**	8
Pension costs – defined contribution plans	**41**	34
Pension costs – defined benefit plans	**11**	11
Other employee benefit expenses	**61**	65
Total	**812**	720

9. Income tax

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Tax charged/(credited) in the consolidated income statement		
Current income tax – Hong Kong Profits Tax	**44**	36
Current income tax – overseas	**538**	442
Deferred income tax on temporary differences	**(22)**	361
Total	**560**	839

The tax benefit or expense attributable to Singapore, Malaysia, Indonesia, Australia and New Zealand life insurance policyholder returns is included in the tax charge or credit and is analysed separately in the consolidated income statement in order to permit comparison of the underlying effective rate of tax attributable to shareholders from year to year. The tax attributable to policyholders' returns included above is US$47m charge (2010: US$135m charge).

The provision for Hong Kong Profits Tax is calculated at 16.5%. Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions of which the most significant jurisdictions are outlined below.

	Year ended 30 November 2011	Year ended 30 November 2010
Thailand	**30%**	30%
Singapore	**17%**	17%
Korea	**24.2%**	24.2%
Malaysia	**25%**	25%
China	**25%**	25%
Hong Kong	**16.5%**	16.5%
Other	**17%-30%**	20%-30%

The table above reflects the principal rate of corporate income taxes, as at the end of each year. The rate changes reflect changes to the enacted or substantively enacted corporate tax rates throughout the period in each jurisdiction. The table above does not include prospective rate changes in corporate tax rates for Thailand and Korea which were enacted after 30 November 2011. For Thailand, the corporate income tax rate will reduce to 23% for assessment year 2012 and 20% for assessment year 2013 and 2014 and will return to 30% for assessment year 2015 and onwards. For Korea, the corporate income tax rate was previously reduced to 22% for the assessment years beginning April 2012. Due to changes in the tax law, the corporate income tax rate on the portion of assessable profits exceeding 20 billion Korean won will increase from 22% to 24.2% for the assessment years beginning April 2012.

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Income tax reconciliation		
Profit before income tax	**2,168**	3,549
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective jurisdictions	**479**	800
Reduction in tax payable from:		
Exempt investment income	**(68)**	(61)
Unrecognised deferred tax assets	**–**	(12)
Other	**(39)**	(4)
	(107)	(77)
Increase in tax payable from:		
Life insurance tax[1]	**48**	8
Withholding taxes	**20**	25
Disallowed expenses	**18**	17
Changes in tax rate and law	**–**	31
Amounts under provided in prior years	**6**	1
Unrecognised deferred tax assets	**38**	–
Provisions for uncertain tax positions	**58**	34
	188	116
Total income tax expense	**560**	839

Note: (1) Life insurance tax refers to the permanent differences which arise where the tax regime specific to the life insurance business does not adopt net income as the basis for calculating taxable profit, for example Hong Kong, where life business taxable profit is derived from life premiums.

The movement in net deferred tax liabilities in the period may be analysed as set out below:

US$m	Net deferred tax asset/(liability) at 1 December	(Charged)/ credited to the income statement	(Charged)/credited to other comprehensive income		Net deferred tax asset/(liability) at year end
			Fair value reserve	Foreign exchange	
30 November 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)(2)**	**(10)**	**(1,806)**
30 November 2010					
Revaluation of financial instruments	(282)	(338)	(286)	(53)	(959)
Deferred acquisition costs	(1,472)	(127)	–	(21)	(1,620)
Insurance and investment contract liabilities	1,041	301	–	48	1,390
Withholding taxes	(63)	(19)	–	(3)	(85)
Provision for expenses	59	(72)	–	(11)	(24)
Losses available for offset against future taxable income	4	(2)	–	–	2
Life surplus(1)	(399)	(26)(3)	–	(6)	(431)
Other	25	(43)	–	(7)	(25)
Total	(1,087)	(326)	(286)(2)	(53)	(1,752)

Note: (1) Life surplus relates to the temporary difference which arises where the taxable profits are based on actual distributions from the long-term fund. This primarily relates to Singapore and Malaysia.

(2) Of the fair value reserve deferred tax charge/(credit) of US$66m (2010: US$286m) for 2011, US$69m (2010: US$290m) relates to fair value gains and losses on available for sale financial assets and US$(3)m (2010: US$(4)m) relates to fair value gains and losses on available for sale financial assets transferred to income on disposal and impairment.

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

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

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

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Tax losses	**158**	92
Insurance and investment contract liabilities	**24**	75
Total	**182**	167

The Group has not provided deferred tax liabilities of US$53m (2010: US$48m) 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, the Philippines, Indonesia and Thailand. The tax losses of Hong Kong and Malaysia can be carried forward indefinitely. The tax losses of the Philippines, Indonesia and Thailand are due to expire within the periods ending 2014 (the Philippines), 2015 (Indonesia) and 2016 (Thailand).

10. 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 2011	Year ended 30 November 2010
Net profit attributable to shareholders of AIA Group Limited (US$m)	**1,600**	2,701
Weighted average number of ordinary shares in issue (million)	**12,031**	12,044
Basic earnings per share (cents per share)	**13**	22

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 2011, the Group has potentially dilutive instruments which are the share options, restricted share units and restricted share purchase units granted to eligible employees, directors and officers under share-based compensation plans as described in note 37. As of 30 November 2010, the Group had no potential dilutive instruments in issue.

	Year ended 30 November 2011	Year ended 30 November 2010
Net profit attributable to shareholders of AIA Group Limited (US$m)	**1,600**	2,701
Weighted average number of ordinary shares in issue (million)	**12,031**	12,044
Adjustment for restricted share units and restricted share purchase units granted under share-based compensation plans	**1**	–
Weighted average number of ordinary shares for diluted earnings per share (million)	**12,032**	12,044
Diluted earnings per share (cents per share)	**13**	22

At 30 November 2011, 20,426,519 share options were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

OPERATING PROFIT AFTER TAX PER SHARE

Operating profit after tax (see note 4) 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 2011, the Group has potentially dilutive instruments which are the share options, restricted share units and restricted share purchase units to eligible employees, directors and officers under share-based compensation plans as described in note 37. As of 30 November 2010, the Group had no potential dilutive instruments in issue.

	Year ended 30 November 2011	Year ended 30 November 2010
Basic (cents per share)	**16**	14
Diluted (cents per share)	**16**	14

11. Dividends

Dividends to shareholders of the Company attributable to the year:

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Interim dividend declared and paid of HK$11 cents per share (2010: nil)	**170**	–
Final dividend proposed after the balance sheet date of HK$22 cents per share (2010: nil)[(1)]	**339**	–
	509	–

Note: (1) Based upon shares outstanding at 30 November 2011 that are entitled to a dividend.

The above final dividend was proposed by the board on 24 February 2012 subject to shareholders approval at the AGM to be held on 8 May 2012. The proposed final dividend has not been recognised as a liability at the balance sheet date.

12. Intangible assets

US$m	**Goodwill**	**Computer software**	**Distribution and other rights**	**Total**
Cost				
At 1 December 2009	129	136	24	289
Additions	–	14	5	19
Acquisition of a subsidiary	(3)	–	13	10
Disposals	–	(6)	–	(6)
Foreign exchange movements	–	7	2	9
At 30 November 2010	**126**	**151**	**44**	**321**
Additions	**–**	**44**	**10**	**54**
Disposals	**–**	**(3)**	**(1)**	**(4)**
Foreign exchange movements	**–**	**1**	**1**	**2**
At 30 November 2011	**126**	**193**	**54**	**373**
Accumulated amortisation and impairment				
At 1 December 2009	(6)	(49)	(1)	(56)
Amortisation charge for the year	–	(10)	(1)	(11)
Disposals	–	2	–	2
Foreign exchange movements	–	(4)	–	(4)
At 30 November 2010	**(6)**	**(61)**	**(2)**	**(69)**
Amortisation charge for the year	**–**	**(24)**	**(2)**	**(26)**
Impairment loss	**–**	**–**	**(3)**	**(3)**
Disposals	**–**	**1**	**–**	**1**
Foreign exchange movements	**–**	**–**	**–**	**–**
At 30 November 2011	**(6)**	**(84)**	**(7)**	**(97)**
Net book value				
At 30 November 2010	120	90	42	252
At 30 November 2011	**120**	**109**	**47**	**276**

Of the above, US$250m (2010: US$241m) 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.

13. Investments in associates

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Group		
At beginning of financial year	**69**	53
Additions	**–**	15
Disposals	**–**	(6)
Share of net profit/(loss)	**12**	(9)
Others	**(14)**	14
Foreign exchange movements	**(6)**	2
At end of financial year	**61**	69

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

	Country of incorporation	**Type of shares held**	**Principal activity**	**As at 30 November 2011**	As at 30 November 2010
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 2011**	Year ended 30 November 2010
Share of income	**131**	146
Share of expenses	**(119)**	(155)
Share of net profit/(loss)	**12**	(9)

	As at 30 November 2011	As at 30 November 2010
Share of current assets	**482**	511
Share of long-term assets	**336**	348
Share of current liabilities	**(21)**	(21)
Share of long-term liabilities	**(736)**	(769)
Share of net assets	**61**	69

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.

14. Property, plant and equipment

US$m	Property held for use	Fixtures and fittings	Computer hardware	Total
Cost				
At 1 December 2009				
– before restatement	385	240	166	791
Opening balance adjustment				
– amendments to IAS 17				
(see note 2.1 for details)	114	–	–	114
At 1 December 2009 – restated	499	240	166	905
Additions	2	29	19	50
Disposals	(8)	(15)	(8)	(31)
Net transfers from investment property				
– restated	3	–	–	3
Foreign exchange movements	21	11	7	39
At 30 November 2010 – restated	**517**	**265**	**184**	**966**
Additions	**2**	**48**	**35**	**85**
Disposals	**(9)**	**(16)**	**(30)**	**(55)**
Net transfers to investment property	**(73)**	**–**	**–**	**(73)**
Foreign exchange movements	**1**	**1**	**1**	**3**
At 30 November 2011	**438**	**298**	**190**	**926**
Accumulated depreciation				
At 1 December 2009	(156)	(174)	(135)	(465)
Depreciation charge	(14)	(39)	(17)	(70)
Disposals	8	12	7	27
Net transfers from investment property	(1)	–	–	(1)
Foreign exchange movements	(8)	(9)	(7)	(24)
At 30 November 2010	**(171)**	**(210)**	**(152)**	**(533)**
Depreciation charge	**(13)**	**(34)**	**(18)**	**(65)**
Disposals	**4**	**13**	**21**	**38**
Net transfers from investment property	**(6)**	**–**	**–**	**(6)**
Foreign exchange movements	**–**	**(1)**	**–**	**(1)**
At 30 November 2011	**(186)**	**(232)**	**(149)**	**(567)**
Net book value				
At 30 November 2010 – restated	346	55	32	433
At 30 November 2011	**252**	**66**	**41**	**359**

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 22.

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.

15. Investment property

US$m	Investment property
Cost	
At 1 December 2009 – before restatement	294
Opening balance adjustment – amendments to IAS 17 (see note 2.1 for details)	522
At 1 December 2009 – restated	816
Additions	59
Disposals	(6)
Net transfers to property, plant and equipment – restated	(3)
Foreign exchange movements	16
At 30 November 2010 – restated	**882**
Additions	**3**
Disposals	**(12)**
Net transfers from property, plant and equipment	**73**
Foreign exchange movements	**(4)**
At 30 November 2011	**942**
Accumulated depreciation	
At 1 December 2009 – before restatement	(50)
Opening balance adjustment – amendments to IAS 17 (see note 2.1 for details)	(1)
At 1 December 2009 – restated	(51)
Charge for the year	(1)
Disposals	2
Net transfers to property, plant and equipment	1
Foreign exchange movements	(5)
At 30 November 2010 – restated	**(54)**
Charge for the year	**(4)**
Disposals	**6**
Net transfers to property, plant and equipment	**6**
Foreign exchange movements	**–**
At 30 November 2011	**(46)**
Net book value	
At 30 November 2010 – restated	828
At 30 November 2011	**896**

The Group holds investment property for the long-term, and so the annual amortisation charge approximates to the amount expected to be recovered within 12 months after the reporting period.

The Group leases out its investment property under operating leases. The leases typically run for an initial period of two to twelve years, with an option to renew the lease based on future negotiations. Lease payments are usually negotiated every two years to reflect market rentals. None of the leases include contingent rentals. Rental income generated from investment properties amounted to US$76m (2010: US$62m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US$9m (2010: US$10m).

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 22.

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 2011**	As at 30 November 2010
Leases of investment property		
Expiring no later than one year	**55**	55
Expiring later than one year and no later than five years	**97**	83
Expiring after five years or more	**6**	9
Total	**158**	147

16. Fair value of investment property and property held for use

US$m	**As at 30 November 2011**	As at 30 November 2010 (restated)
Carrying value(1)		
Investment properties	**896**	828
Property held for use (classified as property, plant and equipment)	**252**	346
Leasehold land under operating lease (classified as prepayments in other assets)	**64**	56
Total	**1,212**	1,230
Fair value(1)		
Investment properties (including land)	**2,477**	2,018
Properties held for use (including land)	**1,054**	1,059
Total	**3,531**	3,077

Note: (1) Carrying and fair values are presented before non-controlling interests and, for assets held in participating funds, before allocation to policyholders.

17. Reinsurance assets

US$m	**As at 30 November 2011**	As at 30 November 2010
Amounts recoverable from reinsurers	**100**	46
Ceded insurance and investment contract liabilities	**758**	568
Total	**858**	614

18. Deferred acquisition and origination costs

US$m	**As at 30 November 2011**	As at 30 November 2010
Carrying amount		
Deferred acquisition costs on insurance contracts	**12,063**	11,195
Deferred origination costs on investment contracts	**755**	811
Total	**12,818**	12,006

	Year ended 30 November 2011	Year ended 30 November 2010
Movements in the year		
At beginning of financial year	**12,006**	10,976
Deferral and amortisation of acquisition costs	**869**	635
Foreign exchange movements	**(24)**	457
Impact of assumption changes	**(12)**	26
Other movements	**(21)**	(88)
At end of financial year	**12,818**	12,006

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.

19. Financial investments

The following tables analyse the AIA Group's financial investments by type and nature. The AIA Group manages its financial investments in two distinct categories: 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 AIA Group's profit for the year before tax, as the AIA Group has elected the fair value option for all Unit-linked Investments with corresponding change 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 in the previous sentence.

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 designated at fair value through profit or loss and "AFS" indicates financial investments classified as available for sale.

DEBT SECURITIES

In compiling the tables, external ratings have been used where available. Where external ratings are not readily available an internal rating methodology has been adopted. The following conventions have been adopted to conform the various ratings.

External ratings		Internal ratings	Reported as
Standard and Poor's	**Moody's**		
AAA	Aaa	1	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.

Debt securities by type comprise the following:

US$m	Rating	Policyholder and shareholder: Participating funds FVTPL	Other policyholder and shareholder FVTPL	Other policyholder and shareholder AFS	Subtotal	Unit-linked FVTPL	Total
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**

Note: (1) Of the total government bonds listed as 'Other' at 30 November 2011, 88% is rated as investment grade and a further 8% is rated BB- and above. The balance is rated below BB- or unrated.

Note: (2) Government agency bonds comprise bonds issued by government sponsored institutions such as provincial and municipal authorities and supranational financial institutions, such as the Asian Development Bank.

US$m	Rating	Policyholder and shareholder: Participating funds FVTPL	Other policyholder and shareholder FVTPL	Other policyholder and shareholder AFS	Subtotal	Unit-linked FVTPL	Total
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

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

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

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

Note: (2) Government agency bonds comprise bonds issued by government sponsored institutions such as provincial and municipal authorities and supranational financial institutions, such as the Asian Development Bank.

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

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

EQUITY SECURITIES

Equity securities by type comprise the following:

US$m	Policyholder and shareholder: Participating funds FVTPL	Policyholder and shareholder: Other policyholder and shareholder FVTPL	Subtotal	Unit-linked FVTPL	Third party interest FVTPL	Total
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**

US$m	Policyholder and shareholder: Participating funds FVTPL	Policyholder and shareholder: Other policyholder and shareholder FVTPL	Subtotal	Unit-linked FVTPL	Third party interest FVTPL	Total
30 November 2010						
Ordinary shares	2,469	3,827	6,296	3,556	–	9,852
Interests in investment funds	750	1,484	2,234	9,706	262	12,202
Total	3,219	5,311	8,530	13,262	262	22,054

DEBT AND EQUITY SECURITIES

US$m	**As at 30 November 2011**	As at 30 November 2010
Debt securities		
Listed		
Hong Kong	**1,877**	953
Overseas	**43,228**	31,957
	45,105	32,910
Unlisted	**22,847**	29,297
Total	**67,952**	62,207
Equity securities		
Listed		
Hong Kong	**276**	597
Overseas	**8,373**	10,236
	8,649	10,833
Unlisted	**10,363**	11,221
Total	**19,012**	22,054

LOANS AND DEPOSITS

US$m	As at 30 November 2011	As at 30 November 2010
Policy loans	**1,837**	1,786
Mortgage loans on residential real estate	**427**	459
Mortgage loans on commercial real estate	**17**	21
Other loans	**683**	618
Allowance for loan losses	**(21)**	(28)
Loans	**2,943**	2,856
Term deposits	**1,622**	906
Total	**4,565**	3,762

Certain term deposits with financial institutions are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within the term deposits classification is US$130m (2010: US$113m).

20. Derivative financial instruments

The Group's non-hedge derivative exposure was as follows:

		Fair value	
US$m	Notional amount	Assets	Liabilities
30 November 2011			
Foreign exchange contracts:			
Forwards	**846**	**1**	**(8)**
Cross currency swaps	**8,875**	**706**	**(30)**
Total foreign exchange contracts	**9,721**	**707**	**(38)**
Interest rate contracts			
Interest rate swaps	**1,114**	**14**	**–**
Other			
Warrants and call options	**81**	**4**	**–**
Currency options	**7**	**–**	**–**
Credit default swap	**59**	**–**	**–**
Total	**10,982**	**725**	**(38)**
30 November 2010			
Foreign exchange contracts:			
Forwards	107	1	–
Cross currency swaps	8,501	756	(25)
Total foreign exchange contracts	8,608	757	(25)
Interest rate contracts			
Interest rate swaps	1,318	14	(4)
Other			
Warrants	21	4	–
Total	9,947	775	(29)

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

Of the total derivatives, US$1m (2010: US$3m) 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's derivative risk management policies are outlined in note 35. 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 call options are option agreements that give the owner the right to buy shares at an agreed price and settlement date. Credit default swap (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.

21. Fair value of financial instruments

The Group classifies all financial assets as either at fair value through profit or loss, or as available for sale, which are carried at fair value, or as loans and receivables, which are carried at amortised cost. Financial liabilities are classified as either at fair value through profit or loss or at amortised cost, except for investment contracts with DPF which are accounted for under IFRS 4.

The following tables presents the fair values of the Group's financial assets and financial liabilities.

US$m	Notes	Fair value: Fair value through profit or loss	Fair value: Available for sale	Cost/ amortised cost	Total carrying value	Total fair value
30 November 2011						
Financial investments:	19					
Loans and deposits		**–**	**–**	**4,565**	**4,565**	**4,590**
Debt securities		**16,934**	**51,018**	**–**	**67,952**	**67,952**
Equity securities		**19,012**	**–**	**–**	**19,012**	**19,012**
Derivative financial instruments	20	**725**	**–**	**–**	**725**	**725**
Reinsurance receivables	17	**–**	**–**	**100**	**100**	**100**
Other receivables	22	**–**	**–**	**1,298**	**1,298**	**1,298**
Cash and cash equivalents	23	**–**	**–**	**4,303**	**4,303**	**4,303**
Financial assets		**36,671**	**51,018**	**10,266**	**97,955**	**97,980**

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities:					
Investment contract liabilities	25	**7,048**	**1,312**	**8,360**	**8,360**
Borrowings	27	**–**	**559**	**559**	**559**
Obligations under securities lending and repurchase agreements	28	**–**	**670**	**670**	**670**
Derivative financial instruments	20	**38**	**–**	**38**	**38**
Other liabilities(1)		**–**	**2,128**	**2,128**	**2,128**
Financial liabilities		**7,086**	**4,669**	**11,755**	**11,755**

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

US$m	Notes	Fair value: Fair value through profit or loss	Fair value: Available for sale	Cost/ amortised cost	Total carrying value	Total fair value
30 November 2010						
Financial investments:	19					
Loans and deposits		–	–	3,762	3,762	3,798
Debt securities		16,378	45,829	–	62,207	62,207
Equity securities		22,054	–	–	22,054	22,054
Derivative financial instruments	20	775	–	–	775	775
Reinsurance receivables	17	–	–	46	46	46
Other receivables	22	–	–	1,100	1,100	1,100
Cash and cash equivalents	23	–	–	2,595	2,595	2,595
Financial assets		39,207	45,829	7,503	92,539	92,575

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	25	7,786	1,305	9,091	9,091
Borrowings	27	–	597	597	597
Obligations under repurchase agreements	28	–	1,091	1,091	1,091
Derivative financial instruments	20	29	–	29	29
Other liabilities(1)		–	1,714	1,714	1,714
Financial liabilities		7,815	4,707	12,522	12,522

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

The carrying amount of assets included in the above tables represents the maximum credit exposure.

Foreign currency exposure, including the net notional amount of foreign currency derivative positions, is shown in note 35 for the Group's key foreign exchange exposures.

The fair value of investment contract liabilities measured at amortised cost is not considered to be materially different from the amortised cost carrying value.

The carrying value of financial instruments expected to be settled within 12 months (after taking into account valuation allowances, where applicable) is not considered to be materially different from the fair value.

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS

The Group measures at fair value financial instruments designated at fair value through profit or loss, available for sale securities portfolios, derivative assets and liabilities, investments held by investment funds which are consolidated, investments in non-consolidated investment funds and certain investment contract liabilities on a recurring basis. The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

An other than active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

The following methods and assumptions were used by the Group to estimate the fair value of financial instruments.

FINANCIAL ASSETS AND LIABILITIES

Loans and receivables

For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

The fair values of mortgage loans are estimated by discounting future cash flows using interest rates currently being offered in respect of similar loans to borrowers with similar credit ratings. The fair values of fixed rate policy loans are estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying values of policy loans with variable rates approximate to their fair value.

Debt securities and equity securities

The fair values of equity securities are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. For holdings in hedge funds and limited partnerships, fair values are determined based on the net asset values provided by the general partner or manager of each investment, the accounts of which are generally audited on an annual basis. The transaction price is used as the best estimate of fair value at inception.

Derivative financial instruments

The Group values its derivative financial assets and liabilities using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contract terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The Group generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment.

Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatilities for commonly traded option products. Examples of inputs that may be unobservable include volatilities for less commonly traded option products and correlations between market factors.

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance receivables

The carrying amount of amounts receivable from reinsurers is not considered materially different to their fair value.

Fair value of securities sold under repurchase agreement and the associated payables

The contract values of payables under repurchase agreements approximate fair value as these obligations are short term in nature.

Other assets

The carrying amount of other assets is not materially different to their fair value. The fair values of deposits with banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates offered for receivables with similar characteristics.

Investment contract liabilities

For investment contract liabilities the fair values have been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts where the investment risk is borne by the policyholder the fair value generally approximates to the fair value of the underlying assets.

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured and classified according to the Group practice for insurance contract liabilities and hence are disclosed within note 24. These are not measured at fair value as there is currently no agreed definition of fair value for investment and insurance contracts with DPF under IFRS. In the absence of any agreed methodology it is not possible to provide a range of estimates within which fair value is likely to fall. The IASB is expecting to address this issue in Phase II of its insurance contracts project.

Borrowings

The fair values of borrowings with stated maturities have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities.

Other liabilities

The fair values of other unquoted liabilities is estimated by discounting expected future cash flows using current market rates applicable to their yield, credit quality and maturity, except for those with no stated maturity, where the carrying value approximates to fair value.

FAIR VALUE HIERARCHY

Assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three 'levels' based on the observability of inputs available in the market place used to measure their fair values as discussed below:

- **Level 1:** Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Group does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded listed equities. The Group considers that government debt securities issued by G7 countries (United States, Canada, France, Germany, Italy, Japan, the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.

- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, hedge fund investments and derivative contracts.

- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain classes of structured securities, certain derivative contracts, private equity and real estate fund investments, and direct private equity investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Group's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, the Group considers factors specific to the asset or liability.

A summary of investments carried at fair value according to fair value hierarchy is given below:

	Fair value hierarchy			
US$m	**Level 1**	**Level 2**	**Level 3**	**Total**
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 assets	**1**	**723**	**1**	**725**
Total	**17,221**	**69,231**	**1,237**	**87,689**
Total %	***19.6***	***79.0***	***1.4***	***100.0***
Financial liabilities				
Investment contract liabilities	**–**	**–**	**7,048**	**7,048**
Derivative financial instruments	**–**	**38**	**–**	**38**
Total	**–**	**38**	**7,048**	**7,086**
Total %	**–**	***0.5***	***99.5***	***100.0***

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

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 2010 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 2010 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 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, issues and settlements	**75**	**58**	**–**	**1**	**–**
Transfers in to/(out of) Level 3	**(108)**	**16**	**–**	**–**	**–**
At 30 November 2011	**861**	**375**	**1**	**–**	**(7,048)**

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

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 25.

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.

22. Other assets

US$m	**As at 30 November 2011**	As at 30 November 2010
Prepayments		
Operating leases of leasehold land	**64**	56
Other	**171**	105
Accrued investment income	**1,046**	970
Pension scheme assets		
Defined benefit pension scheme surpluses (note 36)	**9**	8
Insurance receivables		
Due from insurance and investment contract holders	**684**	591
Due from agents, brokers and intermediaries	**71**	49
Related party receivables	**–**	1
Receivables from sales of investments	**101**	112
Other receivables	**442**	347
Total	**2,588**	2,239

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 2011, the carrying value of such receivables is US$156m (2010: US$36m).

Below sets out an analysis of the Group's interest in land and land use rights.

	As at 30 November 2011				As at 30 November 2010			
US$m	**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**	**589**	**–**	**632**	114	519	–	633
Medium-term leases (10-50 years)	**–**	**–**	**–**	**–**	–	–	–	–
Short-term leases (<10 years)	**–**	**–**	**–**	**–**	–	–	–	–
Land held outside Hong Kong								
Freehold	**77**	**112**	**–**	**189**	77	116	–	193
Long-term leases (>50 years)	**–**	**1**	**56**	**57**	1	–	56	57
Medium-term leases (10-50 years)	**–**	**1**	**8**	**9**	–	–	–	–
Short-term leases (<10 years)	**–**	**4**	**–**	**4**	–	–	–	–
Total	**120**	**707**	**64**	**891**	192	635	56	883

23. Cash and cash equivalents

US$m	**As at 30 November 2011**	As at 30 November 2010
Cash	**1,636**	931
Cash equivalents	**2,667**	1,664
Total(1)	**4,303**	2,595

Note (1) Of cash and cash equivalents, US$788m (2010: US$495m) 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.

24. Insurance contract liabilities

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
At beginning of financial year	**73,205**	63,255
Valuation premiums and deposits[1]	**11,888**	9,719
Liabilities released for policy termination or other policy benefits paid and related expenses	**(7,788)**	(6,436)
Fees from account balances[1]	**(617)**	(321)
Accretion of interest	**2,617**	2,396
Foreign exchange movements	**131**	2,958
Change in asset values attributable to policyholders	**(560)**	1,829
Other movements[2]	**(124)**	(195)
At end of financial year	**78,752**	73,205

Note: (1) Valuation premiums and deposits and fees from account balances have been grossed up by US$205m in 2010 to conform to the current year presentation.

Note: (2) Premium deposits of US$249m, other policy benefits paid of US$(1,185)m, change in unearned revenue liabilities of US$301m and policyholders' share of participating surplus of US$743m in 2010 have been reclassified from "Other movements" to "Valuation premiums and deposits", "Liabilities released for policy termination or other policy benefits paid and related expenses", "Fees from account balances" and "Change in net asset values to policyholders" respectively to conform to the current year presentation.

BUSINESS DESCRIPTION

The table below summarises the key variables on which insurance and investment contract cash flows depend.

Type of contract		Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows	Key reportable segments
Traditional participating life assurance with DPF	Participating funds	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities. The timing of dividend declarations is at the discretion of the insurer. Local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	• 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	• 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	• Mortality • Morbidity • Lapses • Expenses	All[1]

Type of contract	Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows	Key reportable segments
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	• Mortality • Morbidity • Lapses • Expenses • Claims experiences	All(1)
Unit-linked	Unit-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitised funds	Benefits are based on the value of the unitised funds and death benefits	• 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	• Investment performance • Crediting rates • Lapses • Expenses • Mortality	All(1)

Note: (1) Other than the Group's corporate and other segment.

METHODOLOGY AND ASSUMPTIONS

The most significant items to which profit for the period and shareholders' equity are sensitive are market, insurance and lapse risks which are shown in the table below. Indirect exposure indicates that there is a second order impact. For example, whilst the profit for the period attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders (for example, in respect of 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.

		Market and credit risk			
		Direct exposure			
Type of contract		Insurance and investment contract liabilities	Risks associated with related investment portfolio	Indirect exposure	Significant insurance and lapse risks
Traditional participating life assurance with DPF	Participating funds	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Investment performance subject to smoothing through dividend declarations	• Impact of persistency on future dividends • Mortality
	Other participating business	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Investment performance	• Impact of persistency on future dividends • Mortality
Traditional non-participating life assurance		• Investment performance • Credit risk • Asset liability mismatch risk	• Guarantees • Asset liability mismatch risk	• Not applicable	• Mortality • Persistency • Morbidity
Accident and health		• Loss ratio • Asset liability mismatch risk	• Investment performance • Credit risk • Asset liability mismatch risk	• Not applicable	• Claims experience • Morbidity • Persistency

Type of contract	Market and credit risk			Significant insurance and lapse risks
	Direct exposure			
	Insurance and investment contract liabilities	Risks associated with related investment portfolio	Indirect exposure	
Pensions	• Net neutral • Asset liability mismatch risk	• Net neutral • Asset liability mismatch risk	• Performance related investment management fees	• Persistency
Unit-linked	• Net neutral	• Net neutral	• Performance related investment management fees	• Persistency • Mortality
Universal life	• Guarantees • Asset liability mismatch risk	• Investment performance • Credit risk • Asset liability mismatch risk	• Spread between earned rate and crediting rate to policyholders	• Mortality • Persistency • Withdrawals

The Group is also exposed to currency risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

Valuation interest rates

As at 30 November 2010 and 2011, the range of applicable valuation interest rates for traditional insurance contracts, which vary by territory, year of issuance and products, within the first 20 years are as follows:

	As at 30 November 2011	As at 30 November 2010
Hong Kong	**3.50% – 7.50%**	3.50% – 7.50%
Thailand	**2.60% – 9.00%**	2.60% – 9.00%
Singapore	**2.00% – 10.00%**	2.00% – 10.00%
Malaysia	**3.70% – 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	**3.75% – 9.20%**	4.40% – 9.20%
Indonesia	**3.37% – 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%

25. Investment contract liabilities

US$m	Year ended 30 November 2011	Year ended 30 November 2010
At beginning of financial year	**9,091**	7,780
Effect of foreign exchange movements	**26**	107
Investment contract benefits	**(861)**	765
Fees charged	**(187)**	(285)
Net deposits and other movements	**291**	724
At end of financial year	**8,360**	9,091

26. 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 2011	As at 30 November 2010
(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax		
0.5pps increase in investment return	**9**	6
0.5pps decrease in investment return	**(9)**	(6)
10% increase in expenses	**(2)**	(2)
10% increase in mortality rates	**(15)**	(11)
10% increase in lapse/discontinuance rates	**(15)**	(16)

Future policy benefits for traditional life insurance policies (including investment contracts with DPF) are calculated using a net level premium valuation method with reference to best estimate assumptions set at policy inception date unless a deficiency arises on liability adequacy testing. There is no impact of the above assumption sensitivities on the carrying amount of traditional life insurance liabilities as the sensitivities presented would not have triggered a liability adequacy adjustment. During the periods presented there was no effect of changes in assumptions and estimates on the Group’s traditional life products.

For interest sensitive insurance contracts, such as universal life products and 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$12m decrease in profit (2010: US$15m decrease).

27. Borrowings

US$m	As at 30 November 2011	As at 30 November 2010
Bank loans	**456**	496
Bank overdrafts	**99**	97
Other loans	**4**	4
Total	**559**	597

Properties with a book value of US$762m at 30 November 2011 (2010: US$760m) and a fair value of US$1,809m at 30 November 2011 (2010: US$1,675m) and cash and cash equivalents with a book value of US$66m (2010: US$63m) 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 8. Further information relating to interest rates and the maturity profile of borrowings is presented in note 35.

28. Obligations under securities lending and repurchase agreements

The Group has entered into securities lending agreement whereby securities are 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. The following table specifies the amounts included within financial investments subject to securities lending or repurchase agreements at each period end:

US$m	**As at 30 November 2011**	As at 30 November 2010
Debt securities:		
Securities lending	**321**	–
Repurchase agreements	**663**	1,545
Total	**984**	1,545

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 2011**	As at 30 November 2010
Repurchase agreements	**670**	1,091
Total	**670**	1,091

29. Impairment of financial assets

IMPAIRMENT OF FINANCIAL ASSETS

In accordance with the Group's accounting policies, impairment reviews were performed for available for sale securities and loans and receivables.

AVAILABLE FOR SALE DEBT SECURITIES

During the year ended 30 November 2011, impairment losses of US$nil (2010: US$1m) 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 2011 was US$59m (2010: US$57m).

LOANS AND DEPOSITS

The Group's primary potential credit risk exposure in respect of loans and deposits arises in respect of policy loans and a portfolio of mortgage loans on residential and commercial real estate (see note 19 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 deposits that are individually determined to be impaired at 30 November 2011 was US$39m (2010: US$30m).

The Group has a portfolio of residential and commercial mortgage loans which it originates. To the extent that any such loans are past their due dates specific allowance is made, together with a collective allowance, based on historical delinquency. Insurance receivables are short term in nature and cover is not provided if consideration is not received. An ageing of accounts receivable is not provided as all amounts are due within 1 year and cover is cancelled if consideration is not received.

30. Provisions

US$m	Employee benefits	Other	Total
At 1 December 2009	70	210	280
Charged to the consolidated income statement	11	57	68
Exchange differences	2	5	7
Released during the year	–	(24)	(24)
Utilised during the year	(2)	(129)	(131)
At 30 November 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**

Further details of provisions for employee post-retirement benefits are provided in note 36.

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.

31. Other liabilities

US$m	**As at 30 November 2011**	As at 30 November 2010
Trade and other payables	**1,660**	1,438
Third party interests in consolidated investment funds	**259**	262
Payables from purchases of investments	**304**	186
Reinsurance payables	**164**	90
Total	**2,387**	1,976

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.

32. Share capital and reserves

SHARE CAPITAL

	As at 30 November 2011		As at 30 November 2010	
	Million shares	**US$m**	Million shares	US$m
Authorised				
Ordinary shares of US$1 each	**20,000**	**20,000**	20,000	20,000
Issued and fully paid				
At start of the financial year	**12,044**	**12,044**	12,000	12,000
Shares issued during the year	**–**	**–**	44	44
At 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 in the period.

Except for the purchase of 30,540,802 shares by the Company under the Company's Restricted Share Unit Scheme and Employee Share Purchase Plan, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the financial year ended 30 November 2011. 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 37 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.

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.

Shares held by 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.

33. Non-controlling interests

US$m	**As at 30 November 2011**	As at 30 November 2010
Equity shares in subsidiaries	**60**	54
Share of earnings	**18**	11
Share of other reserves	**24**	15
Total	**102**	80

34. 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.

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 (HK OCI), which requires that AIA Co. and AIA-B meet the solvency margin requirements of the Hong Kong Insurance Companies Ordinance. The Hong Kong Insurance Companies Ordinance (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The HK OCI requires AIA Co. and AIA-B to maintain an excess of assets over liabilities of not less than the required minimum solvency margin. The amount required under the Hong Kong Insurance Companies Ordinance is 100% of the required minimum solvency margin. The excess of assets over liabilities to be maintained by AIA Co. and AIA-B required by the HK OCI is not less than 150% of the required minimum solvency margin.

The capital positions of the Group's two principal operating companies as of 30 November 2010 and 2011 are as follows:

US$m			**30 November 2011**			30 November 2010
	Total available capital	**Required capital**	**Solvency ratio**	Total available capital	Required capital	Solvency ratio
AIA Co.	**6,168**	**1,984**	**311%**	6,207	1,844	337%
AIA-B	**3,419**	**1,150**	**297%**	3,341	1,040	321%

For these purposes, the Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the Insurance Companies Ordinance and 'required capital' as the minimum required margin of solvency calculated in accordance with the Insurance Companies Ordinance. The solvency 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 HK OCI of their solvency margin position based on their annual audited accounts, and the Group's other operating units perform similar annual filings with their respective local regulators.

The ability of the Company to pay dividends 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 HK OCI.

CAPITAL AND REGULATORY ORDERS SPECIFIC TO THE GROUP

Since September 2008, certain regulators of the Group imposed additional requirements or restrictions on certain of its branches and subsidiaries. These requirements and restrictions may be or may have been amended or revoked at the relevant regulator's discretion. As of 30 November 2011, 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

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

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

AIG has given the Insurance Authority an undertaking that, with effect from 29 October 2010 and for so long as AIG directly or indirectly holds a legal or beneficial interest in AIA Group Limited in excess of 10% of the outstanding or issued share capital of AIA Group Limited (or AIG directly or indirectly is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of AIA Group Limited), AIG will ensure that, except with the prior written consent of the Insurance Authority:

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

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

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

(i) ensure that (a) AIA Co. and AIA-B will at all times maintain a solvency ratio of not less than 150%, both on an individual insurer basis and on an AIA Co./AIA-B consolidated basis; (b) it will not withdraw capital or transfer any funds or assets out of either AIA Co. or AIA-B that will cause AIA Co.'s or AIA-B's solvency ratio to fall below 150%, except with, in either case, the prior written consent of the Insurance Authority; and (c) should the solvency ratio of either AIA Co. or AIA-B fall below 150%, AIA Group Limited will take steps as soon as possible to restore it to at least 150% in a manner acceptable to the Insurance Authority;

(ii) ensure that, for so long as AIG directly or indirectly holds a legal or beneficial interest in AIA Group Limited in excess of 10% of the outstanding or issued share capital of AIA Group Limited (or AIG directly or indirectly is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of AIA Group Limited), AIA Co. and AIA-B shall not, without first obtaining written consent from the Insurance Authority: (a) place any deposit with AIG and/or any member of the AIG Group that AIG controls (excluding the Company, its subsidiaries and their branches); (b) transfer any assets to AIG and/or any member of the AIG Group that AIG controls (excluding the Company, its subsidiaries and their branches), except for normal insurance transactions or any arrangements on normal commercial terms in place as of the date of the undertaking (including renewals thereof); or (c) provide any financial assistance to AIG and/or any member of the AIG Group that AIG controls (excluding the Company, its subsidiaries and their branches);

(iii) notify the Insurance Authority in writing as soon as the Company becomes aware of any person (a) becoming a controller (within the meaning of Section 9(1)(c)(ii) of the 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;

(iv) 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

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

35. Risk management

RISK MANAGEMENT FRAMEWORK

The managed acceptance of risk is fundamental to the Group's insurance business model. The Group's risk management framework seeks to effectively manage, rather than eliminate, the risks the Group faces.

The Group's central risk management framework requires all operations to establish processes for identifying, evaluating and managing the key risks faced by the organisation. This risk management framework has evolved in recent years and encompasses an established risk governance structure with clear oversight and assignment of responsibility for monitoring and management of financial, operational and strategic risks.

FINANCIAL RISK EXPOSURES

As an insurance group, the Group is exposed to a range of financial risks, including insurance risk, credit risk, market risk, and liquidity risk. The Group applies a consistent risk management philosophy that is embedded in management processes and controls such that both existing and emerging risks are considered and addressed.

The following section summarises the Group's key risk exposures and the primary policies and processes used by the Group to manage its exposures to these risks.

INSURANCE RISK

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

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

The Group monitors closely the performance of new products and focuses on actively managing each part of the actuarial control cycle to minimise risk in the in-force book as well as for new products. A significant component of the Group's long-term insurance business is participating in nature where the Group has the ability to adjust dividends to reflect market conditions. This reduces the Group's exposure to changes in circumstances, in particular investment returns, that may arise during the life of long-term insurance policies.

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.

Lapse risk

Lapse risk refers to the possibility of actual lapse experience that diverges from the anticipated experience assumed when products were priced. It includes the potential financial loss due to early termination of contracts where the acquisition cost incurred may not be recoverable from future revenue.

The Group carries out regular reviews of persistency experience. The results are assimilated into new and in-force business management. Target pay back periods that form part of the product pricing controls enable monitoring of the Group's exposure to lapse risk. In addition, many of the Group's products include surrender charges that entitle the Group to additional fees on early termination by the policyholder, thereby reducing exposure to lapse risk.

Claims 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.

For insurance contracts where death and diagnosis of critical illness are the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS, SARS or other communicable conditions) or widespread changes in lifestyle resulting in earlier or more claims than expected. Other factors affecting the frequency and severity of claims include the following:

- insurance risk under disability contracts is dependent on economic conditions. Recession and unemployment tend to increase the number of claims for disability benefits as well as reduce the rate of recovery from disability;
- insurance risk under hospitalisation contracts is dependent on medical costs and medical technology; and
- insurance risk under accident contracts is more random and dependent on occupation.

The Group seeks to mitigate claims risk by conducting regular experience studies, including reviews of mortality and morbidity experience, reviewing internal and external data, and considering the impact of these on product design, pricing and reinsurance needs. As a result of the Group's history and scale, a substantial volume of experience data has been accumulated which assists in evaluation and pricing of insurance risk.

Mortality and morbidity risk in excess of the respective retention limits are ceded to reduce volatility in claims experience for the Group. The Group's capital position combined with its profitable product portfolio and diversified geographical presence are factors in management's decision to retain (rather than reinsure) a high proportion of its written insurance risks.

Concentration of insurance risk can be a cause of elevated claims risk and refers to the possibility of significant financial losses arising from a lack of diversification, either geographical or by product type, of the Group's portfolio. Certain events, such as viral pandemics, may give rise to higher levels of mortality or morbidity experience and exhibit geographical concentrations.

The breadth of the Group's geographical spread and product portfolio creates natural diversification and reduces the extent to which concentrations of insurance risk arise. The Group has a broad geographical footprint across Asia and its results are not substantially dependent upon any one of these individual markets. This breadth provides a natural diversification of geographic concentrations of insurance and other risks (such as political risks). However, given the Group's exposure to Asia, it may be relatively more exposed to pandemics localised in Asia than insurance groups with a worldwide presence.

Although long-term insurance and investment business are the Group's primary operations, the Group has a range of product offerings, such as term life, accident and health, participating, annuity and unit-linked, which vary in the extent and nature of risk coverage and thereby reduce exposures to concentrations of mortality or morbidity risk.

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

CREDIT RISK

Credit risk arises from the possibility of financial loss arising from default by borrowers and transactional counterparties and the decrease in the value of financial instruments due to deterioration in credit quality. The key areas where the Group is exposed to credit risk include repayment risk in respect of:

- cash and cash equivalents including bank deposits, commercial paper, certificates of deposit and repurchase agreements;
- investments in debt securities, both sovereign and corporate;
- loans and receivables (including insurance receivables);
- derivative contracts; and
- reinsurance receivables.

The geographical concentration of the Group's government bonds is disclosed in note 19.

The Group has in place a credit analysis process that accounts for diverse factors, including market conditions, industry specific conditions, company cash flows and quality of collateral. The Group also has a monitoring programme in place whereby the Group's credit analysis teams review the status of the obligor on a regular basis to anticipate any credit issues.

Cross-border investment exposures are controlled through the assignment of individual country counterparty risk limits by the Credit Risk Management Committee, a sub-committee of the ALM Committee.

The Group monitors its credit exposures to any single unrelated external reinsurer or group.

The maximum exposure to credit risk for loans and receivables, debt securities and cash and cash equivalents is the carrying value (net of allowances) in the consolidated statement of financial position.

MARKET RISK

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

The Group manages the risk of market-based fluctuations in the value of the Group's investments, as well as liabilities with exposure to market risk.

The Group uses various quantitative measures to assess market risk, including sensitivity analysis. The level of movements in market factors on which the sensitivity analysis is based were determined based on economic forecasts and historical experience of variations in these factors.

The Group routinely conducts sensitivity analysis of its fixed income portfolios to estimate its exposure to movements in interest rates. The Group's fixed income sensitivity analysis is primarily a duration-based approach.

Interest rate risk

The Group's exposure to interest rate risk predominantly arises from the Group's duration gap between the liabilities and assets for interest rate sensitive products, especially those providing interest rate guarantees. For other products, including those with participation or unit-linked features, interest rate risk is significantly reduced due to the non-guaranteed nature of additional policyholder benefits. The Group manages its interest rate risk by investing in financial instruments with tenors that match the duration of its liabilities as much as practicable and appropriate.

The Group also considers the effect of interest rate risk in its overall product strategy. Certain products such as unit-linked, universal life and participating business, inherently have lower interest rate risk as their design provides flexibility as to crediting rates and policyholder dividend scales. For new products, the Group emphasises flexibility in product design and generally designs products to avoid excessive long-term interest rate guarantees. For in-force policies, policyholder bonus payout and credit interest rates applicable to policyholder account balances are regularly adjusted considering, among others, the earned yields and policyholders' communications and reasonable expectations.

Exposure to interest rate risk

The table below summarises the nature of the interest rate risk associated with financial assets, financial liabilities and insurance contract liabilities. In preparing this analysis, fixed rate interest bearing instruments that mature or reprice within 12 months of the reporting date have been disclosed as variable rate instruments. The contractual and estimated maturity dates of the liabilities are shown below.

US$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 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**
Cash and cash equivalents	**4,093**	**–**	**210**	**4,303**
Derivative financial instruments	**–**	**–**	**725**	**725**
Total financial assets	**11,465**	**65,270**	**21,220**	**97,955**
Financial liabilities and insurance contracts				
Insurance contract liabilities (net of reinsurance)	**–**	**–**	**77,994**	**77,994**
Investment contract liabilities	**–**	**–**	**8,360**	**8,360**
Borrowings	**460**	**–**	**99**	**559**
Obligations under securities lending and repurchase agreements	**670**	**–**	**–**	**670**
Other liabilities	**–**	**–**	**2,128**	**2,128**
Derivative financial instruments	**–**	**–**	**38**	**38**
Total financial liabilities and insurance contracts	**1,130**	**–**	**88,619**	**89,749**
Net financial assets, financial liabilities and insurance contracts	**10,335**	**65,270**	**(67,399)**	**8,206**

US$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 2010				
Financial assets				
Loans and deposits	695	3,043	24	3,762
Other receivables	36	–	1,064	1,100
Debt securities	5,876	56,331	–	62,207
Equity securities	–	–	22,054	22,054
Reinsurance receivables	–	–	46	46
Cash and cash equivalents	2,428	–	167	2,595
Derivative financial instruments	–	–	775	775
Total financial assets	9,035	59,374	24,130	92,539
Financial liabilities and insurance contracts				
Insurance contract liabilities (net of reinsurance)	–	–	72,637	72,637
Investment contract liabilities	–	–	9,091	9,091
Borrowings	500	–	97	597
Obligations under securities lending and repurchase agreements	1,091	–	–	1,091
Other liabilities	–	–	1,714	1,714
Derivative financial instruments	–	–	29	29
Total financial liabilities and insurance contracts	1,591	–	83,568	85,159
Net financial assets, financial liabilities and insurance contracts	7,444	59,374	(59,438)	7,380

Foreign exchange rate risk

Foreign exchange risk arises from the Group's operations in multiple jurisdictions in the Asia Pacific region. Foreign currency risk associated with assets and liabilities denominated in non-functional currencies results in gains and losses being recognised in the consolidated income statement. Foreign currency risk associated with the translation of the net assets of operations with non-US dollar functional currencies results in gains or losses being recorded directly in total equity.

On a local operating unit level, we have invested in assets denominated in currencies that match the related liabilities, to the extent possible and appropriate, to avoid currency mismatches. However, for yield enhancement and risk diversification purposes, the Group's business units also invest, in some instances, in instruments in currencies that are different from the originating liabilities. These activities expose the Group to gains and losses arising from foreign exchange rate movements. The Group's business units monitor foreign currency exposures to ensure that these exposures are undertaken within the Group's acceptable levels of risks. Foreign exchange positions may be closed or hedging instruments such as swaps, futures and forwards may be purchased to mitigate foreign exchange risks.

The Group's net foreign currency exposures and the estimated impact of changes in foreign exchange rates are set out in the tables below after taking into account the effect of economic hedges of currency risk. Whilst providing economic hedges that reduce the Group's net exposure to foreign exchange risk, hedge accounting is not applied. Currencies for which net exposure is not significant are excluded from the analysis below. In compiling the table below the impact of a 5% strengthening of original currency is stated relative to the functional currency of the relevant operation of the Group. The impact of a 5% strengthening of the US dollar is also stated relative to functional currency. Currency exposure reflects the net notional amount of currency derivative positions as well as net equity by currency.

Net exposure

US$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
30 November 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)**
30 November 2010							
Equity analysed by original currency	13,195	21	3,727	(1,898)	652	777	1,380
Net notional amounts of currency derivative positions	(3,787)	–	1,266	3,110	–	–	–
Currency exposure	9,408	21	4,993	1,212	652	777	1,380
5% strengthening of original currency **Impact on profit before tax**	103	(24)	–	13	1	9	2
5% strengthening of the US dollar **Impact on shareholders' equity**	(103)	(12)	(249)	(60)	(32)	(34)	(67)

Equity market and interest rate risk

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

SENSITIVITY ANALYSIS

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in note 26. 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 equity arising from a change in a single variable before taking into account the effects of taxation.

For the purpose of illustrating the sensitivity of profit 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 2011** Impact on profit before tax	**30 November 2011** Impact on net assets (before the effects of taxation)	30 November 2010 Impact on profit before tax	30 November 2010 Impact on net assets (before the effects of taxation)
Equity market risk				
10 per cent increase in equity prices	**497**	**497**	595	595
10 per cent decrease in equity prices	**(497)**	**(497)**	(595)	(595)
Interest rate risk				
+ 50 basis points shift in yield curves	**(80)**	**(2,120)**	(87)	(1,861)
– 50 basis points shift in yield curves	**80**	**2,120**	87	1,861

LIQUIDITY RISK

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet the payment obligations to counterparties when they become due. This can arise when internal funds are insufficient to meet cash outflow obligations and where the Group is unable to obtain funding at market rates or liquidate assets at fair value resulting in the forced liquidation of assets at depressed prices. The Group is exposed to liquidity risk in respect of insurance and investment policies that permit surrender, withdrawal or other forms of early termination for a cash surrender value specified in the contractual terms and conditions.

The Group's liquidity position is monitored in compliance with regulatory and internal requirements in combination with maturity gap analyses. To manage liquidity risk, the Group has implemented a variety of measures, including emphasising flexible insurance product design so that it can retain the greatest flexibility to adjust contract pricing or crediting rates. The Group also seeks to match, to the extent possible and appropriate, the duration of its investment assets with the duration of insurance policies issued.

The maturity analysis presented in the tables below presents the estimated maturity of carrying amounts in the consolidated statement of financial position. The estimated maturity for insurance and investment contracts, is proportionate to their carrying values based on projections of estimated undiscounted cash flows arising from insurance and investment contracts in force at that date. The Group has made significant assumptions to determine the estimated undiscounted cash flows of insurance benefits and claims and investment contract benefits, which include assumptions in respect of mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. The maturity profile of the Group's borrowings is presented on the presumption that the Group will continue to satisfy loan covenants which, if breached, would cause the borrowings to be repayable on demand. The Group regularly monitors its compliance with these covenants and was in compliance with them at the date of the consolidated statement of financial position and throughout each of the periods presented. Due to the significance of the assumptions used, the maturity profiles presented below could be materially different from actual payments.

A maturity analysis based on the earliest contractual repayment date would present the insurance and investment contract liabilities as falling due in the earliest period in the table because of the ability of policyholders to exercise surrender options. Financial assets and liabilities other than investment contract liabilities are presented based on their respective contractual maturities.

US$m	Total	No fixed maturity	Due in one year or less	Due after one year through five years	Due after five years through 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**	**–**	**–**	**–**
Cash and cash equivalents	**4,303**	**–**	**4,303**	**–**	**–**	**–**
Derivative financial instruments	**725**	**–**	**204**	**392**	**134**	**(5)**
Total	**97,955**	**20,971**	**8,947**	**16,303**	**19,492**	**32,242**
Financial liabilities and insurance contracts						
Insurance and investment contracts 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	**2,128**	**–**	**2,128**	**–**	**–**	**–**
Derivative financial instruments	**38**	**–**	**8**	**20**	**10**	**–**
Total	**89,749**	**103**	**2,741**	**1,975**	**8,171**	**76,759**

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 2010						
Financial assets						
Loans and deposits	3,762	1,833	415	363	669	482
Other receivables	1,100	472	622	3	3	–
Debt securities	62,207	–	2,843	13,459	16,536	29,369
Equity securities	22,054	22,054	–	–	–	–
Reinsurance receivables	46	–	46	–	–	–
Cash and cash equivalents	2,595	–	2,595	–	–	–
Derivative financial instruments	775	–	58	550	167	–
Total	92,539	24,359	6,579	14,375	17,375	29,851
Financial liabilities and insurance contracts						
Insurance and investment contracts liabilities (net of reinsurance)	81,728	–	(383)	1,775	8,185	72,151
Borrowings	597	101	7	489	–	–
Obligations under securities lending and repurchase agreements	1,091	–	1,091	–	–	–
Other liabilities	1,714	–	1,714	–	–	–
Derivative financial instruments	29	–	4	10	11	4
Total	85,159	101	2,433	2,274	8,196	72,155

36. Employee benefits

DEFINED BENEFIT PLANS

US$m	**As at 30 November 2011**	As at 30 November 2010
Present value of unfunded obligations	**107**	72
Present value of funded obligations	**60**	57
Total present value of obligations	**167**	129
Fair value of plan assets	**(60)**	(60)
Present value of net obligations	**107**	69
Unrecognised actuarial (losses)/gains	**(31)**	5
Unrecognised past service cost	**(1)**	(1)
Net recognised defined benefit obligations	**75**	73
Recognised defined benefit deficits	**84**	81
Recognised defined benefit surpluses	**(9)**	(8)

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 2011 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 36% (2010: 47%) covered by the plan assets held by the trustees.

Plan assets comprise:

US$m	**As at 30 November 2011**	As at 30 November 2010
Equity securities	**3**	3
Debt securities	**1**	2
Real estate	**40**	40
Investment contracts issued by third party financial institutions	**16**	15
Total	**60**	60

Movement in the present value of defined benefit obligations

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
At beginning of financial year	**129**	110
Benefits paid by the plan	**(9)**	(5)
Current service costs and interest (see next page)	**16**	16
Actuarial losses	**36**	–
Plan settlement, curtailment or amendment	**(4)**	(2)
Foreign exchange movements	**(1)**	10
At end of financial year	**167**	129

Movement in the fair value of plan assets

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
At beginning of financial year	**60**	53
Contributions paid into the plan	**8**	6
Benefits paid by the plan	**(9)**	(5)
Expected return on plan assets	**5**	5
Actuarial gains/(losses)	**1**	(3)
Foreign exchange movements	**–**	7
Asset distributed on settlement	**(5)**	(3)
At end of financial year	**60**	60

Expense recognised in consolidated income statement

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Current service costs	**10**	10
Interest on obligation	**6**	6
Expected return on plan assets	**(5)**	(5)
Settlement/curtailment (gains)/losses recognised	**(2)**	1
Others	**2**	(1)
Total	**11**	11

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

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Operating expenses	**11**	11

Actuarial assumptions

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

	As at 30 November 2011	As at 30 November 2010
Expected return on plan assets at the start of the financial year	**2.5 – 10.7%**	2.5 – 9.75%
Future salary increases	**3.0 – 10.0%**	2.5 – 10.0%
Healthcare trend rate:		
Immediate trend rate	**4.0 – 12.0%**	4.0 – 12.0%
Ultimate trend rate	**4.0 – 12.0%**	4.0 – 12.0%
Year in which the ultimate trend rate is reached	**2012 – 2016**	2010 – 2016
Discount rate at the end of the financial year	**1.5 – 7.25%**	2.0 – 11.0%

The overall expected long-term rate of return is based on the portfolios as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns without adjustment.

Assumptions regarding future mortality rates are based on published statistics and mortality tables. Average retirement ages and life expectancies are set out below for the principal locations with defined benefit employee benefit.

	Hong Kong	Singapore	Thailand	Malaysia	Philippines
Retirement age	**65**	**62**	**60**	**55 – 60**	**60**
Average life expectancy on retirement					
Males	**17.9 years**	**21.5 years**	**19.2 years**	**19.2 – 23.3 years**	**21.3 years**
Females	**22.5 years**	**24.1 years**	**22 years**	**25.5 – 29.9 years**	**25.1 years**

Assumed healthcare cost trend rates affect the amounts recognised in profit or loss. A 1% change in assumed healthcare cost trend rates would have the following effects (expressed as weighted averages):

US$m	1% increase		1% decrease	
	2011	2010	**2011**	2010
Effect on the aggregate service and interest cost	**1**	–	**(1)**	–
Effect on defined benefit obligation	**9**	5	**(7)**	(4)

Historical information

US$m	**As at 30 November 2011**	As at 30 November 2010	As at 30 November 2009	As at 30 November 2008	As at 30 November 2007
Present value of the defined benefit obligation	**167**	129	110	101	101
Fair value of plan assets	**(60)**	(60)	(53)	(50)	(56)
Deficits of the plans	**107**	69	57	51	45
Experience loss arising on plan liabilities	**(23)**	(4)	(7)	(14)	(2)
Experience gain/(loss) arising on plan assets	**1**	3	(2)	(2)	6

Contributions to funded and unfunded defined benefit plans during the year ended 30 November 2011 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$41m (2010: US$34m). Employees and the employer are required to make monthly contributions equal to 5% to 22% 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$2m (2010: US$1m).

37. Share-based compensation

STOCK COMPENSATION PLANS

During 2011, the Group made its first grants of share options and restricted share units (RSUs) to certain employees, directors and officers of the Group under the SO Scheme and the RSU Scheme adopted on 28 September 2010. In addition, the Group has adopted an ESPP under which the eligible employees will be awarded one matching restricted stock purchase unit for each two shares purchased through the qualified employee contributions at the end of the vesting period subject to conditions being met.

In connection with AIG's divestiture of more than 50% of the Group on 29 October 2010, all equity-settled share-based compensation arrangements of AIG in which the Group's employees participated were either settled or terminated; any unvested incentive awards associated with the terminated plans were treated as unvested.

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, representing 2.5 percent of the number of shares in issue at 30 November 2011.

	Year ended 30 November 2011 Number of shares
Restricted Share Units	
Outstanding at beginning of financial year	–
Granted	**31,792,008**
Forfeited	**(589,189)**
Outstanding at end of financial year	**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, during which, the eligible participants are required to remain in employment with the Group. For SO grants made in 2011 that are vested in tranches, one-third of the share options become exercisable on 1 April 2014, 1 April 2015, and 1 April 2016 respectively; 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 ten 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, representing 2.5 percent of the number of shares in issue at 30 November 2011. The measurement date for grants made in 2011 was determined to be 15 June 2011 in accordance with IFRS 2.

Information about options outstanding and options exercisable by the Group's employees and directors as at the end of the reporting period is as follows:

	Year ended 30 November 2011	
	Number of options	**Weighted average exercise price (HK$)**
Options		
Outstanding at beginning of financial year	–	–
Granted	**20,426,519**	**27.35**
Exercised	–	–
Cancelled	–	–
Forfeited or expired	–	–
Outstanding at end of financial year	**20,426,519**	**27.35**
Options exercisable at end of financial year	–	–
Weighted average remaining contractual life (years)	**9.50**	

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 share 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% of the annual basic salary subject to a maximum. During 2011, eligible employees paid less than US$1 million to purchase 232,328 ordinary shares of the Company.

Valuation methodology

The Group utilises a binomial lattice model to calculate the fair value of the share options grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU and ESPP 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 Stock Exchange of Hong Kong and takes into consideration the historical volatility of peer companies (the constituent companies in Dow Jones Insurance Titans Index) in view of the short trading history of the Company's shares on the measurement date. The expected life of the 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.

	2011		
	Options	**Restricted Share Units**	**ESPP Restricted Share Purchase Units**
Assumptions			
Risk free interest rate	**2.28%**	**0.24% – 0.51%***	**0.32% – 0.37%**
Volatility	**25%**	**25%**	**25%**
Dividend yield	**1.2%**	**1.2%**	**1.2%**
Exercise price (HK$)	**27.35**	**N/A**	**N/A**
Option life (in years)	**9.96**	**N/A**	**N/A**
Expected life (in years)	**7.42 – 7.87**	**N/A**	**N/A**
Weighted average fair value per option/ unit at measurement date (HK$)	**7.68**	**24.73**	**22.96**

* Applicable to RSU with market conditions.

The weighted average share price for share option valuation is HK$27.25. The total fair value of share options granted in 2011 is US$20m.

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to share-based compensation awards granted under the RSU Scheme, SO Scheme and ESPP in 2011 is US$16m.

38. 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 37.

US$	Directors' fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Post-employment benefits	Share-based payments	Inducement fees	Termination fees	Total
30 November 2011									
Executive Director									
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**

US$	Directors' fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Post-employment benefits	Share-based payments[1]	Inducement fees	Termination fees	Total
30 November 2010									
Executive Directors									
Mark Edward Tucker	–	392,559	2,313,568	18,122	3,786	–	–	–	2,728,035
Mark Andrew Wilson[2]	–	2,371,866	7,377,051	26,290	5,286	(837,137)	–	3,062,580	12,005,936
Stephen Bernard Roder[2]	–	907,546	–	15,524	–	(378,820)	–	1,313,333	1,857,583
Total	–	3,671,971	9,690,619	59,936	9,072	(1,215,957)	–	4,375,913	16,591,554

Note: (1) The bonus paid to the current Executive Director in respect of 2010, excluding the amount described in the following sentence exceeded the amount disclosed previously by US$277,034. The current Executive Director was issued share-based compensation in lieu of US$1,706,730 of bonuses for 2010 as previously disclosed. This share-based compensation was granted in 2011 and is subject to vesting conditions. Therefore the remuneration will be recognised and disclosed over the vesting period commencing from 2011.

(2) Mr. Mark Andrew Wilson and Mr. Stephen Bernard Roder resigned as directors of the Company on 1 September 2010 and 22 April 2010 respectively.

The remuneration of Non-executive Directors and Independent Non-executive Directors of the Company at 30 November 2011 and 2010 are included in the tables below.

US$	Directors' fees	Salaries, allowance and benefits in kind	Bonuses	Pension scheme contributions	Post-employment benefits	Share-based payments	Inducement fees	Termination fees	Total
30 November 2011									
Non-executive Directors									
Edmund Sze Wing Tse[1]	**501,896**	**76,098**	**–**	**–**	**–**	**–**	**–**	**–**	**577,994**
Jack Chak-Kwong So	**215,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**215,000**
Jeffrey Joy Hurd	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Jay Steven Wintrob	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Independent Non-executive Directors									
Sir Chung-Kong (CK) Chow	**235,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**235,000**
Rafael Si-Yan Hui	**220,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**220,000**
Qin Xiao	**226,616**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**226,616**
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.

US$	Directors' fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Post-employment benefits	Share-based payments	Inducement fees	Termination fees	Total
30 November 2010									
Non-executive Directors									
Edmund Sze Wing Tse[(1)]	42,609	–	–	–	–	–	–	–	42,609
Jack Chak-Kwong So[(2)]	66,796	–	–	–	–	–	–	–	66,796
Robert Herman Benmosche[(3)]	–	–	–	–	–	–	–	–	–
David Lawrence Herzog[(3)]	–	–	–	–	–	–	–	–	–
Jeffrey Joy Hurd[(3)]	–	–	–	–	–	–	–	–	–
Jay Steven Wintrob[(3)]	–	–	–	–	–	–	–	–	–
Independent Non-executive Directors									
Sir Chung-Kong (CK) Chow	41,205	–	–	–	–	–	–	–	41,205
Rafael Si-Yan Hui	38,575	–	–	–	–	–	–	–	38,575
Qin Xiao	41,205	–	–	–	–	–	–	–	41,205
Total	230,390	–	–	–	–	–	–	–	230,390

Notes: (1) Included in directors' fees is US$8,869 which represents remuneration to Mr. Edmund Sze Wing Tse in respect of his services as director of a subsidiary of the Company.

(2) Included in directors' fees is US$29,097 which represents remuneration to Mr. Jack Chak-Kwong So in respect of his services as director of a subsidiary of the Company.

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

REMUNERATION OF FIVE HIGHEST PAID INDIVIDUALS

The aggregate remuneration of the five highest paid individuals employed by the Group in each of the years ended 30 November 2011 and 2010 is presented in the table below.

US$	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Post-employment benefits	Share-based payments	Inducement fees	Termination fees	Total
30 November 2011	**7,374,823**	**10,193,295**	**178,683**	**20,273**	**4,786,939**	**–**	**–**	**22,554,013**
30 November 2010	6,648,875	14,152,323	208,944	11,991	(873,486)	–	3,062,580	23,211,227

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

HK$	**Year ended 30 November 2011**	Year ended 30 November 2010
17,500,001 to 18,000,000	**–**	1
18,000,001 to 18,500,000	**–**	1
21,000,001 to 21,500,000	**–**	1
24,000,001 to 24,500,000	**1**	–
26,000,001 to 26,500,000	**–**	1
27,500,001 to 28,000,000	**1**	–
31,000,001 to 31,500,000	**1**	–
31,500,001 to 32,000,000	**1**	–
60,500,001 to 61,000,000	**1**	–
96,500,001 to 97,000,000	**–**	1

KEY MANAGEMENT PERSONNEL REMUNERATION

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

US$	**Year ended 30 November 2011**	Year ended 30 November 2010
Key management compensation and other expenses		
Salaries and other short term employee benefits	**24,195,898**	17,959,530
Termination benefits	**422,374**	5,342,580
Post-employment benefits – defined contribution	**366,772**	451,517
Post-employment benefits – defined benefit	**–**	26,218
Post-employment benefits – medical & life	**52,510**	29,435
Other long-term benefits	**1,236,641**	14,702,635
Share-based payment	**7,193,522**	(1,572,619)
Total	**33,467,717**	36,939,296

The emoluments of the Key Management Personnel are within the following bands:

US$	**Year ended 30 November 2011**	Year ended 30 November 2010
100,001 to 200,000	**–**	1
500,001 to 1,000,000	**1**	2
1,000,001 to 1,500,000	**2**	2
1,500,001 to 2,000,000	**3**	4
2,000,001 to 2,500,000	**3**	4
2,500,001 to 3,000,000	**–**	2
3,000,001 to 3,500,000	**1**	–
3,500,001 to 4,000,000	**2**	–
7,500,001 to 8,000,000	**1**	–
12,000,001 to 12,500,000	**–**	1

39. Related party transactions

TRANSACTIONS WITH RELATED PARTIES

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Transactions with related parties		
Reinsurance related parties (income)/expense		
Premiums assumed	**–**	(3)
Premiums ceded to reinsurers	**1**	34
Claims recovered from reinsurers	**(3)**	(18)
Commissions and fee income	**–**	(4)
	(2)	9
Non-insurance related party income		
Income from services provided	**(1)**	(22)
	(1)	(22)
Non-insurance related party expenses		
Purchases of services	**5**	22
Corporate service fees	**1**	15
	6	37
Total	**3**	24

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Amounts due from related parties		
Insurance related amounts receivable	**1**	–
Other amounts receivable	**–**	1
Total	**1**	1
Amounts due to related parties		
Insurance related amounts payable	**1**	–
Other amounts payable	**3**	18
Total	**4**	18

Insurance related and other amounts due from/to related parties are unsecured, non-interest bearing balances which are expected to be settled within one year.

Remuneration of directors and key management personnel is disclosed in note 38.

40. 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 2011**	Year ended 30 November 2010
Properties and others expiring		
Not later than one year	**80**	83
Later than one and not later than five years	**102**	137
Later than five years	**36**	83
Total	**218**	303

The Group is the lessee in respect of a number of properties and items of office equipment held under operating leases. The leases typically run for an initial period of one to seven years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased at the end of the lease term to reflect market rates. None of the leases include contingent rentals.

INVESTMENT AND CAPITAL COMMITMENTS

US$m	**Year ended 30 November 2011**	Year ended 30 November 2010
Not later than one year	**396**	148
Later than one and not later than five years	**31**	–
Later than five years	**2**	46
Total	**429**	194

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 is fully retroceded to a subsidiary of AIG. The Group is exposed to the risk of losses in the event of the failure of the counterparty retrocessionaire to honour its obligations. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US$2,525m at 30 November 2011 (2010: US$2,923m). The liabilities and related reinsurance assets, which totalled US$11m (2010: US$12m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the balance sheet date under the terms of this agreement from the retrocessionaire. In the event of a change in control of one party, the other party has the right to terminate the retrocession cover with the Group electing whether the termination is on a run-off basis or clean cut basis.

At 30 November 2011, the Group has issued capital guarantees and guarantees of indebtedness and minimum guaranteed rates of return ranging from 0% to 5% to holders of units of pension funds that have an accumulation value of approximately US$1,336m (2010: US$1,309m). The Group has the ability to reduce the guaranteed rates of return, subject to obtaining approvals of applicable regulators.

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

41. 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:

				Group's interest %	
	Place of incorporation and operation	Principal activity	Issued share capital	**As at 30 November 2011**	As at 30 November 2010
American International Assurance Company, Limited[1] (AIA Co.)	Hong Kong	Insurance	805,902,610 shares of US$5 each	**100%**	100%
American International Assurance Company (Bermuda) Limited (AIA-B)	Bermuda	Insurance	3,000,000 shares of US$1.20 each	**100%**	100%
AIA Australia Limited (formerly known as American International Assurance Company (Australia) Limited)	Australia	Insurance	1,972,800 shares of A$1 each and 95,500 redeemable preference shares	**100%**	100%
AIA Pension and Trustee Company Limited	British Virgin Islands	Trusteeship	1,300,000 ordinary shares of US$1 each	**100%**	100%
American International Assurance Berhad	Malaysia	Insurance	241,706,000 ordinary shares of RM1 each	**100%**	100%
PT AIA Financial	Indonesia	Insurance	477,711,032 shares of Rp1,000 each	**100%**	100%
The Philippine American Life & General Insurance Company	Philippines	Insurance	200,000,000 shares of PHP$10 each	**99.78%**	99.78%
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND1,034,836,791,693	**100%**	100%
Grand Design Development Limited	British Virgin Islands	Investment holding company	10,000 shares of HK$100 each	**100%**	100%
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 shares of US$1 each	**90%**	90%
BPI-Philam Life Assurance Corporation	Philippines	Insurance	749,993,979 shares of PHP$1 each and 6,000 treasury shares	**51%**	51%
AIA Singapore Private Limited[2]	Singapore	Insurance	100,000,001 shares of SGD1 each	**100%**	–

Notes: (1) The Company's subsidiary.

(2) The Company is newly set up in 2011.

(3) All of the above subsidiaries are audited by PricewaterhouseCoopers.

All subsidiaries are unlisted.

42. Events after the reporting period

The corporate tax rates for Thailand and Korea have changed after 30 November 2011. For Thailand, the corporate income tax rate will reduce to 23% for assessment year 2012 and 20% for assessment year 2013 and 2014 and return to 30% for assessment year 2015 and onwards. For Korea, the corporate income tax rate was previously reduced to 22% for the assessment years beginning April 2012. After the tax law change, the corporate income tax rate on the portion of assessable profits exceeding 20 billion Korean won will increase from 22% to 24.2% for the assessment years beginning April 2012.

On 1 January 2012, AIA Co. completed the transfer of its insurance business in Singapore from a branch to its wholly-owned subsidiary, AIA Singapore Private Limited (AIA Singapore). This transfer did not have any financial impact on the consolidated financial statements of the AIA Group.

On 24 February 2012, the Directors of the Company proposed a final dividend of 22 Hong Kong cents per share.

STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 30 NOVEMBER 2011

US$m	Notes	**30 November 2011**	30 November 2010
Assets			
Investments in subsidiaries	*2*	**13,994**	13,994
Other assets		**2**	3
Cash and cash equivalents	*3*	**473**	35
Total assets		**14,469**	14,032
Liabilities			
Other liabilities		**7**	–
Total liabilities		**7**	–
Equity			
Issued share capital	*4*	**12,044**	12,044
Share premium	*4*	**1,914**	1,914
Employee share-based trusts	*4*	**(105)**	–
Retained earnings		**593**	74
Other reserves	*5*	**16**	–
Total equity		**14,462**	14,032
Total liabilities and equity		**14,469**	14,032

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 2010 and 2011 were US$74m and US$689m, respectively.

(3) The Company reclassified receivables of US$3m from loans and receivables to other assets as of 30 November 2010 to be consistent with current year presentation.

Approved and authorised for issue by the Board of Directors on 24 February 2012.

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 54 to 81. The Company's financial statements comply with both IFRS and HKFRS.

2. Investments in subsidiaries and trusts

There is no movement in the Company's investments in its subsidiaries during the years ended 30 November 2010 and 2011. See note 41 of the Group's consolidated financial information for further information of the Company's subsidiaries.

During the year, certain trusts are set up by the Company to acquire shares of the Company for distribution to participants in future periods through the share-based compensation schemes. Shares acquired by the trusts to the extent not transferred to the participants upon vesting are carried at cost and reported as 'Employee share-based trusts' in the statement of financial position of the Company.

3. Cash and cash equivalents

The cash and cash equivalents balance consists of cash of US$366m (2010: US$35m) and cash equivalents of US$107m (2010: US$nil).

4. Share capital, share premium and employee share-based trusts

Details of share capital, share premium and employee share-based trusts are presented in note 32 of the Group's consolidated financial information.

5. Other reserves

Other reserves comprise of share-based compensation recognised under the Restricted Share Units (RSUs), ESPP and Share Option Scheme.

6. Risk management

Risk management in the context of the Group is discussed in note 35 of the Group's consolidated financial information.

The business of the Company is managing its investments in subsidiaries and associates operations. Its risks are considered to be the same as those described in the context of the consolidated group. Such investments are held by the Company at cost in accordance with accounting policy 2.4.

Financial assets, other than investments in subsidiaries and associates, largely consist of cash and cash equivalents.

7. 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.

SUPPLEMENTARY EMBEDDED VALUE INFORMATION

Towers Watson Report on the Review of the Supplementary Embedded Value Information

AIA Group Limited (AIA or the Group) has prepared supplementary embedded value results (EV Results) for the financial year ended 30 November 2011. 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 Group 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 2011 and the value of new business for the twelve-month period 1 December 2010 to 30 November 2011;

- A review of the economic and operating assumptions used to calculate the embedded value as at 30 November 2011 and the value of new business for the twelve-month period 1 December 2010 to 30 November 2011; 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 and its subsidiaries.

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 2011, the value of new business for the twelve-month period 1 December 2010 to 30 November 2011, the analysis of movement in embedded value for the twelve-month period ended 30 November 2011, and the sensitivity tests.

Towers Watson
24 February 2012

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 2011	At 30 November 2010	Growth
Embedded value (EV)	**27,239**	24,748	10%
Adjusted net worth (ANW)	**10,906**	9,524	15%
Value of in-force business (VIF)	**16,333**	15,224	7%
	Twelve months ended 30 November 2011	Twelve months ended 30 November 2010	YoY
Annualised new premium (ANP)[2] [3]	**2,472**	2,025	22%
Value of new business (VONB)	**932**	667	40%
VONB Margin[3]	**37.2%**	32.6%	4.6 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.

EV increased 10 per cent to US$27,239 million at 30 November 2011, compared with US$24,748 million at 30 November 2010.

The change in EV was driven by higher VONB of US$932 million, US$2,029 million from the increased expected return on EV, overall positive operating experience variances and operating assumption changes of US$144 million, investment return variances of US$(297) million mainly due to falls in equity markets, economic assumption changes of US$(26) million, other non-operating variances of US$18 million, dividend payments of US$(170) million, other capital movements of US$(89) million and foreign exchange movements of US$(50) million.

The EV as at 30 November 2011 includes ANW of US$10,906 million and VIF of US$16,333 million up 15 per cent and 7 per cent respectively over the 2010 financial year.

VONB for the year ended 30 November 2011 was US$932 million, an increase of US$265 million, or 40 per cent, from US$667 million in the same period in 2010. VONB growth benefited from an expansion of the VONB Margin by 4.6 percentage points, and 22 per cent growth in ANP.

2. EV Results

2.1 EMBEDDED VALUE BY BUSINESS UNIT

The EV as at 30 November 2011 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)

	At 30 November 2011					At 30 Nov 2010
Business Unit	**ANW[1]**	**VIF before CoC[2]**	**CoC[2]**	**VIF after CoC[2]**	**EV**	EV
AIA Hong Kong	3,797	6,363	335	6,028	**9,825**	9,977
AIA Thailand	5,092	962	307	655	**5,747**	5,557
AIA Singapore	1,155	2,289	475	1,814	**2,969**	3,167
AIA Malaysia	588	601	143	458	**1,046**	1,068
AIA China[3]	366	1,524	125	1,399	**1,765**	1,416
AIA Korea	1,172	783	296	487	**1,659**	1,630
Other Markets	2,321	947	218	729	**3,050**	2,482
Corporate and Other[3]	4,251	(45)	–	(45)	**4,206**	2,490
Subtotal	18,742	13,424	1,899	11,525	**30,267**	27,787
Adjustment to reflect additional Hong Kong reserving and capital requirements[4]	(7,836)	5,467	63	5,404	**(2,432)**	(2,499)
After-tax value of unallocated Group Office expenses	–	(596)	–	(596)	**(596)**	(540)
Total	10,906	18,295	1,962	16,333	**27,239**	24,748

Notes:

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

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

(3) Results of a subsidiary have been reclassified from AIA China segment to Corporate and Other segment to conform to current year presentation. As a result, the EV of AIA China segment has decreased by US$39m as at 2010. The reclassification has no impact on the EV of the Group as of 30 November 2010.

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

2.2 RECONCILIATION OF ANW TO IFRS EQUITY

Table 2.2 sets out the derivation of ANW from IFRS equity as at 30 November 2011.

Table 2.2

Derivation of the Group ANW from IFRS equity (US$ millions)

	At 30 November 2011	At 30 November 2010
IFRS equity attributable to shareholders of the Group	**21,313**	19,555
Elimination of IFRS deferred acquisition costs asset	**(12,818)**	(12,006)
Difference between IFRS policy liabilities and local statutory policy liabilities (for entities included in the EV Results)	**7,961**	6,678
Difference between net IFRS policy liabilities and local statutory policy liabilities (for entities included in the EV Results)	**(4,857)**	(5,328)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	**2,003**	1,676
Elimination of intangible assets	**(276)**	(252)
Recognition of deferred tax impacts of the above adjustments	**652**	647
Recognition of non-controlling interests impacts of the above adjustments	**(93)**	(100)
Group ANW (local statutory basis)	**18,742**	16,198
Adjustment to reflect additional Hong Kong reserving requirements, net of tax	**(7,836)**	(6,674)
Group ANW (after additional Hong Kong reserving requirements)	**10,906**	9,524

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 2011	
	Local statutory basis	**Hong Kong basis for branches of AIA Co. and AIA-B**
Free surplus	14,089	5,930
Required capital	4,653	4,976
ANW	**18,742**	**10,906**

The Group'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 2011, 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 2011 reduced by US$8,159 million under the Hong Kong basis compared to the local statutory basis, reflecting US$7,836 million higher reserving requirements and 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)

	At 30 November 2011	
Financial year	**Undiscounted**	**Discounted**
2012 – 2016	10,685	8,755
2017 – 2021	9,762	5,143
2022 – 2026	8,887	3,135
2027 – 2031	7,706	1,820
2031+	32,504	2,456
Total	**69,544**	**21,309**

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US$21,309 million plus the free surplus of US$5,930 million shown in Table 2.3 is equal to the EV of US$27,239 million shown in Table 2.1.

2.5 VALUE OF NEW BUSINESS

The VONB for the Group for the twelve-month period from 1 December 2010 to 30 November 2011 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 twelve months ended 30 November 2011 was US$932 million, an increase of US$265 million, or 40 per cent, from US$667 million in the same period in 2010. VONB growth benefited from an expansion of the VONB Margin, which increased from 32.6 per cent for the twelve months ended 30 November 2010 to 37.2 per cent for the twelve months ended 30 November 2011, and 22 per cent growth in ANP.

Table 2.5

Summary of VONB by Business Unit (US$ millions)

	Twelve months ended 30 November 2011			Twelve months ended 30 November 2010
Business Unit	**VONB before CoC(1)**	**CoC(1)**	**VONB after CoC(1)(3)**	VONB after CoC(1)(3)
AIA Hong Kong	337	32	**305**	210
AIA Thailand	241	14	**227**	174
AIA Singapore	193	29	**164**	104
AIA Malaysia	74	16	**58**	39
AIA China	120	18	**102**	68
AIA Korea	85	11	**74**	64
Other Markets	140	28	**112**	99
Total before unallocated Group Office expenses (local statutory basis)	1,190	148	**1,042**	758
Adjustment to reflect additional Hong Kong reserving and capital requirements(2)	(24)	25	**(49)**	(49)
Total before unallocated Group Office expenses (after additional Hong Kong reserving and capital requirements)	1,166	173	**993**	709
After-tax value of unallocated Group Office expenses	(61)	–	**(61)**	(42)
Total	1,105	173	**932**	667

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.

(3) The amounts of VONB attributable to non-controlling interests for the twelve months ended 30 November 2011 and 2010 were US$4 million and US$2 million respectively.

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)

	Twelve months ended 30 November 2011			Twelve months ended 30 November 2010
Business Unit	**VONB Excluding Corporate Pension**	**ANP[(1)]**	**VONB Margin[(1)]**	VONB Margin[(1)]
AIA Hong Kong	293	522	**56.1%**	45.1%
AIA Thailand	227	465	**48.8%**	41.4%
AIA Singapore	164	264	**62.3%**	49.4%
AIA Malaysia	58	142	**40.7%**	33.3%
AIA China	102	215	**47.2%**	33.2%
AIA Korea	74	270	**27.3%**	22.8%
Other Markets	112	594	**18.8%**	29.0%
Total before unallocated Group Office expenses (local statutory basis)	1,030	2,472	**41.6%**	37.1%
Adjustment to reflect additional Hong Kong reserving and capital requirements[(2)]	(49)	–		
Total before unallocated Group Office expenses (after additional Hong Kong reserving and capital requirements)	981	2,472	**39.7%**	34.7%
After-tax value of unallocated Group Office expenses	(61)	–		
Total[(3)]	920	2,472	**37.2%**	32.6%

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.

(3) Excluding a previously announced single large group insurance scheme in Australia, the 2011 VONB Margin was 38.8%.

Table 2.7 shows the breakdown of the VONB and the VONB Margin for the Group by quarter for business written in the twelve months to 30 November 2011. For comparison purposes, the quarterly VONB and the VONB Margin for business written in the twelve months to 30 November 2010 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 2011			
Three months ended 28 February 2011	**182**	**512**	**35.2%**
Three months ended 31 May 2011	**217**	**582**	**36.7%**
Three months ended 31 August 2011[(3)]	**245**	**766**	**31.6%**
Three months ended 30 November 2011	**288**	**612**	**46.5%**
Values for 2010			
Three months ended 28 February 2010	151	437	33.9%
Three months ended 31 May 2010	152	450	33.6%
Three months ended 31 August 2010	160	503	31.5%
Three months ended 30 November 2010	204	635	31.9%

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%.

2.6 ANALYSIS OF EV MOVEMENT

Table 2.8 shows the analysis of movement in the EV from 30 November 2010 to 30 November 2011.

Table 2.8

Analysis of movement in EV (US$ millions)

	Twelve months ended 30 November 2011			Twelve months ended 30 November 2010	YoY
	ANW	**VIF**	**EV**	EV	EV
Opening EV	9,524	15,224	**24,748**	20,966	18%
Value of new business	(807)	1,739	**932**	667	40%
Expected return on EV	2,643	(614)	**2,029**	1,846	10%
Operating experience variances	(141)	306	**165**	(104)	n/m
Operating assumption changes	5	(26)	**(21)**	3	n/m
EV operating profit	1,700	1,405	**3,105**	2,412	29%
Investment return variances	(114)	(183)	**(297)**	1,073	n/m
Effect of changes in economic assumptions	–	(26)	**(26)**	(333)	n/m
Other non-operating variances	116	(98)	**18**	(150)	n/m
Total EV profit	1,702	1,098	**2,800**	3,002	(7)%
Dividends	(170)	–	**(170)**	–	n/m
Other capital movements	(89)	–	**(89)**	–	n/m
Effect of changes in exchange rates	(61)	11	**(50)**	780	n/m
Ending EV	10,906	16,333	**27,239**	24,748	10%

The EV operating profit grew by 29 per cent to US$3,105 million in 2011. This strong performance was a result of higher VONB of US$932 million, US$2,029 million from the increased expected return on EV and overall positive operating experience variances and operating assumption changes of US$144 million. Each of these components of operating profit increased materially over the 2010 financial year.

The VONB shown in Table 2.8 is at the point of sale for business written during the period. The expected return on EV is the expected change in the EV over the year plus the expected return on the VONB from the point of sale to 30 November 2011. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the year and that expected based on the operating assumptions.

The main operating experience variances (net of tax) are:

- Expense variances of US$(33) million which include US$(27) million impact from the excess of actual acquisition expenses over the acquisition expense assumptions, US$6 million impact from the excess of actual maintenance expenses over the maintenance expense assumptions and US$(12) million impact mainly from non-recurring project and corporate expenses;

- Mortality and morbidity claims variances of US$149 million; and

- Persistency and other variances of US$49 million.

The overall effect of changes to operating assumptions during the year was US$(21) million. The operating assumption changes reflect changes in the assumptions in respect of expected future operating experience between the start and end of the period. This includes the impact on the EV of changes in the operating assumptions used in the statutory reserving bases for the Group.

The EV profit of US$2,800 million is the total of EV operating profit plus investment return variances, the effect of economic assumption changes 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 changes in the economic assumptions used in the statutory reserving bases for the Group. The negative investment return variances of US$297 million were largely caused by falls in equity markets.

The effect of changes in economic assumptions of US$(26) million includes the impact of changes in long-term investment return assumptions of US$(377) million offset by the impact of changes in risk discount rates of US$351 million, reflecting consistent changes in long-term investment return assumptions and risk discount rates. The risk discount rate for AIA Indonesia has further been reduced to reflect a reduction in the risk profile of business in Indonesia.

Other non-operating variances amounted to US$18 million and included:

- Tax adjustments resulting in a charge of US$63 million;

- Restructuring and other non-operating costs of US$40 million, plus the current year effect of US$(38) million for the Agency Incentive Plan which is a one-off initiative to improve agency activity and productivity prior to the IPO of the Group. The remaining balance of the Agency Incentive Plan, estimated to be not more than US$(142) million, will be recognized 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 an interim dividend of US$170 million. Other capital movements of US$(89) million were mainly due to the purchase of shares held by employee share-based trusts.

The US$(50) million effect of changes in exchange rates reflects the translation gains and losses in respect of exchange rate movements over the year.

3. Sensitivity Tests

The EV as at 30 November 2011 and the VONB for the twelve-month period 1 December 2010 to 30 November 2011 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5.

The sensitivities tested 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% (i.e. 110% of the central assumptions).

- Lapse and premium discontinuance rates decreased proportionally by 10% (i.e. 90% of the central assumptions).

- Mortality/morbidity rates increased proportionally by 10% (i.e. 110% of the central assumptions).

- Mortality/morbidity rates decreased proportionally by 10% (i.e. 90% of the central assumptions).

- Maintenance expenses 10% lower (i.e. 90% of the central assumptions).

- Expense inflation set to 0%.

The EV as at 30 November 2011 have been further tested for the following sensitivities:

- Prices of equity securities held increased proportionally by 10% (i.e. 110% of the prices at 30 November 2011).

- Prices of equity securities held decreased proportionally by 10% (i.e. 90% of the prices at 30 November 2011).

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 2011 and the values of debt instruments held at 30 November 2011 were changed to be consistent with the interest rate assumptions in the sensitivity tests, 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 2011 were changed to be consistent with the equity price assumptions in the sensitivity tests, while all of the other assumptions were unchanged.

For each of the remaining sensitivity tests, the statutory reserving bases at 30 November 2011 and the projected bonus rates on participating business were changed to be consistent with the sensitivity test assumptions, while all of the other assumptions remain unchanged.

The results of the above sensitivity tests are shown below in Table 3.1 for the EV and in Table 3.2 for the VONB.

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 2011 (US$ millions)

Scenario	**EV**
Central value	27,239
200 bps increase in risk discount rates	24,151
200 bps decrease in risk discount rates	31,641
10% increase in equity prices	27,708
10% decrease in equity prices	26,773
50 bps increase in interest rates	27,385
50 bps decrease in interest rates	26,966
10% increase in lapse/discontinuance rates	26,969
10% decrease in lapse/discontinuance rates	27,556
10% increase in mortality/morbidity rates	25,387
10% decrease in mortality/morbidity rates	29,075
10% decrease in maintenance expenses	27,615
Expense inflation set to 0%	27,517

Table 3.2

Sensitivity of the VONB for the period 1 December 2010 to 30 November 2011 (US$ millions)

Scenario	VONB
Central value	932
200 bps increase in risk discount rates	667
200 bps decrease in risk discount rates	1,303
50 bps increase in interest rates	986
50 bps decrease in interest rates	862
10% increase in lapse rates	856
10% decrease in lapse rates	1,019
10% increase in mortality/morbidity rates	715
10% decrease in mortality/morbidity rates	1,151
10% decrease in maintenance expenses	983
Expense inflation set to 0%	960

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 Group, and American International Assurance Company (Bermuda) Limited (AIA-B), a subsidiary of AIA Co. Furthermore, AIA Co. has branches located in Brunei, China, Singapore and Thailand and AIA-B has branches located in Hong Kong, Korea, Macau, New Zealand and Taiwan.

The following is a full list of the entities and their mapping to "Business Units" for the purpose of this report.

- AIA Australia refers to AIA Australia Limited, a subsidiary of AIA Co.;
- AIA China refers to the Chinese branches of AIA Co.;
- AIA Hong Kong refers to the total of the following three entities:
  - the Hong Kong and Macau branches of AIA-B;
  - the Hong Kong and Macau business written by AIA Co.; and
  - AIA Pension & Trustee Company Limited, a subsidiary of AIA Co.
- AIA Indonesia refers to PT AIA Financial, a subsidiary of AIA-B;
- AIA Korea refers to the Korean branch of AIA-B;
- AIA New Zealand refers to the New Zealand branch of AIA-B;
- AIA Malaysia refers to American International Assurance Bhd., a subsidiary of AIA Co. and its 100 per cent owned subsidiary AIA Takaful International Bhd. and 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 the Singaporean and Brunei branches of AIA Co.;
- AIA Thailand refers to the Thailand branches of AIA Co.;

- AIA Taiwan refers to the Taiwanese branch of AIA-B; and

- AIA Vietnam refers to AIA (Vietnam) Life Insurance Company Limited, a subsidiary of AIA-B.

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

The summary of the EV of the Group by Business Unit in this report also includes a segment for "Corporate and Other" results. The results shown for this segment consist of the ANW for the 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 twelve months to 30 November 2011, "Other Markets" includes the present value of allowance for remittance taxes payable on distributable profits to Hong Kong.

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 less the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in a participating fund there is no associated cost of capital included in the VIF or VONB.

The VONB is the present value, measured at point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business. The VONB for the 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$4 million for the twelve-month period ending 30 November 2011 (US$2 million for the twelve-month period ending 30 November 2010).

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.

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 AIA shareholders from AIA Co. and AIA-B will depend on both the Hong Kong and the local regulatory reserving and capital requirements. At the end of November 2011, 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.

4.6 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
AIA China	100% of required minimum solvency margin
AIA Hong Kong	150% of required minimum solvency margin(1)
AIA Indonesia	120% of regulatory Risk-Based Capital requirement (standard basis)
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
AIA New Zealand	100% of the local regulatory requirement(2)
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(3)
AIA Vietnam	100% of required minimum solvency margin

Notes:

(1) The assumed level of required capital for AIA Hong Kong is also used for the branches of AIA Co. and AIA-B in the calculation of the consolidated EV Results.

(2) The local required capital assumption at 30 November 2011 was based on the Professional Standards of the New Zealand Society of Actuaries. The Reserve Bank of New Zealand has issued a new solvency standard effective 1 January 2012. AIA does not expect a material impact to the Group EV results from this change.

(3) This came into force on 1 September 2011. For consistency with VONB results reported previously in 2011, the VONB for AIA Thailand for the three-month period ending 30 November 2011 was calculated reflecting the required capital applicable to prior periods, i.e. 150% of the local required minimum solvency margin. This has no impact to the VONB results of the Group for the year ended 30 November 2011.

5. Assumptions

5.1 INTRODUCTION

This section summarises the assumptions used by the Group to determine the EV as at 30 November 2011 and the VONB for the twelve months to 30 November 2011 and highlights certain differences in assumptions between the EV as at 30 November 2010 and the EV as at 30 November 2011.

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.

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 2011. 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 AIA Hong Kong risk discount rate. 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 2011	At 30 Nov 2010	**At 30 Nov 2011**	At 30 Nov 2010	**At 30 Nov 2011**	At 30 Nov 2010
AIA Australia	**8.25**	8.75	**4.37**	5.65	**7.65**	8.15
AIA China	**10.00**	10.00	**3.74**	3.74	**9.74**	9.74
AIA Hong Kong(1)	**7.75**	8.00	**2.93**	3.53	**8.23**	8.48
AIA Indonesia (Rupiah denominated business)	**13.50**	15.00	**7.00**	7.90	**11.75**	12.86
AIA Korea	**10.25**	10.50	**4.57**	4.82	**7.91**	8.16
AIA Malaysia	**9.00**	9.00	**4.45**	4.45	**8.34**	8.34
AIA New Zealand	**8.50**	9.00	**4.49**	6.13	**n/a(2)**	n/a(2)
Philam Life (Peso denominated business)	**13.00**	13.00	**6.00**	6.00	**11.16**	11.16
AIA Singapore – Brunei business	**7.50**	7.75	**2.43**	2.93	**7.75**	8.00
AIA Singapore – Singapore business	**7.50**	7.75	**2.43**	2.93	**7.75**	8.00
AIA Taiwan	**8.00**	8.00	**1.73**	1.73	**6.87**	6.87
AIA Thailand	**9.50**	9.50	**3.87**	3.87	**10.16**	10.16
AIA Vietnam	**16.00**	16.00	**10.20**	10.20	**n/a(2)**	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.

5.3 PERSISTENCY

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

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

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

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

5.4 EXPENSES

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

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

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

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

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

Maintenance expenses

For Business Units in a development phase, expense assumptions were based on assumed long-term levels of unit costs. Therefore, the estimated future maintenance expenses are in excess of the projected future expense allowances (based on long-term expected unit costs) for these Business Units. The Group has made a deduction of US$2 million in the VIF as at 30 November 2011 for the after-tax net present value of the expected future maintenance expense overruns. The maintenance expense overrun has been calculated by projecting the future maintenance expense allowances generated each year, allowing for expected future new business volumes, and comparing these to the estimated future maintenance expenses.

Acquisition expenses

For Business Units that are in a development phase, the VONB has been determined using expected future acquisition expense assumptions set equal to expected long-term levels rather than actual acquisition expenses during the valuation period. Any excess or shortfall of actual acquisition expenses (including commissions) over the unit cost assumptions has not been adjusted from the VONB figures presented in this report.

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

The Group's after-tax excess of the actual acquisition expenses above the acquisition expenses reflected in the VONB attributable to shareholders for the twelve-month period ending 30 November 2011 was US$27 million, a decrease of US$78 million, or 74 per cent, from US$105 million in the same period in 2010.

Group Office expenses

Group Office expense assumptions have been set, after excluding non-recurring expenses, based on actual acquisition and maintenance expenses in the twelve-month period to 30 November 2011. The Group Office acquisition expenses have been deducted from the VONB. The present value of the projected future Group Office maintenance expenses has been included in the Group EV. The maintenance expense assumptions in the VONB also allow for the allocation of Group Office expenses.

5.5 EXPENSE INFLATION

The assumed expense inflation rates are based on expectations of long-term consumer price and salary inflation. The expense inflation assumptions are shown in Table 5.2 below.

Table 5.2

Expense inflation assumptions by Business Unit (%)

Business Unit	**At 30 November 2011**	At 30 November 2010
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**	2.0
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.

5.9 POLICYHOLDER DIVIDENDS, PROFIT SHARING AND INTEREST CREDITING

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

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

5.10 TAXATION

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

The local corporate tax rates used by each Business Unit are set out in Table 5.3 below.

Table 5.3

Local corporate tax rates by Business Unit (%)

Business Unit	Applicable Taxation Rate
AIA Australia	30.0
AIA China	25.0
AIA Hong Kong – Hong Kong business	16.5
AIA Hong Kong – Macau business	12.0
AIA Indonesia	25.0
AIA Korea	24.2 until 31 March 2012; 22.0 thereafter
AIA Malaysia	25.0
AIA New Zealand	28.0
Philam Life	30.0
AIA Singapore – Brunei business	22.0
AIA Singapore – Singapore business	17.0
AIA Taiwan	17.0
AIA Thailand	30.0
AIA Vietnam	25.0

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

The EV of the Group as at 30 November 2011 is calculated after deducting any remittance taxes payable on both the distribution of the ANW and VIF.

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

5.11 STATUTORY VALUATION BASES

The projection of regulatory liabilities at future points in time assumes the continuation of the reserving methodologies used to value policyholder liabilities as at the valuation date except that the VONB for AIA Thailand for the three-month period ending 30 November 2011 has been calculated using reserving methodologies consistent with previous periods rather than the regulatory Risk-Based Capital basis that came into force on 1 September 2011. This exception has no impact to the VONB results of the Group for the year ended 30 November 2011.

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 2010 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

The corporate tax rates for Thailand and Korea have changed after 30 November 2011. For Thailand, the corporate income tax rate will reduce to 23% for assessment year 2012 and 20% for assessment year 2013 and 2014 and return to 30% for assessment year 2015 and onwards. For Korea, the corporate income tax rate was previously reduced to 22% for the assessment years beginning April 2012. After the tax law change, the corporate income tax rate on the portion of assessable profits exceeding 20 billion Korean won will increase from 22% to 24.2% for the assessment years beginning April 2012.

On 1 January 2012, AIA Co. completed the transfer of its insurance business in Singapore from a branch to its wholly-owned subsidiary, AIA Singapore Private Limited (AIA Singapore). AIA does not expect a material impact to the Group EV Results from this change.

On 24 February 2012, the Directors of the Company proposed a final dividend of 22 Hong Kong cents per share.

INFORMATION FOR SHAREHOLDERS

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 30 November 2011, including the accounting principles and practices adopted by the Group.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 30 November 2011, the Company complied with all the applicable code provisions set out in the Corporate Governance Code save as disclosed below:

(i) Code Provision A.2.1 of the Corporate Governance Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. From 29 October 2010 (being the date of listing of the Company) to 31 December 2010, Mr. Mark Edward Tucker assumed the dual roles of Group Executive Chairman and Group Chief Executive Officer. On 1 January 2011, Mr. Edmund Sze Wing Tse assumed the role of Non-executive Chairman and Mr. Tucker relinquished the role of Group Executive Chairman and became Group Chief Executive and President. Accordingly, since 1 January 2011, the Company has been in compliance with Code Provision A.2.1.

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

The Company has also adopted its own Directors' and Chief Executives' Dealing Policy on terms no less exacting than those set out in the Model Code in respect of dealings by the Directors in the securities of the Company. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and the Directors' and Chief Executives' Dealing Policy throughout the year ended 30 November 2011.

PURCHASE, SALE AND REDEMPTION OF THE SECURITIES OF THE COMPANY

Save for the purchase of 30,540,802 shares of the Company under the RSU Scheme and ESPP, neither the Company nor any of its subsidiaries, purchased, sold or redeemed any of the Company's listed securities during the financial year ended 30 November 2011. 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 37 to the financial statements for details.

SUBSEQUENT EVENTS

Details of significant events after the year ended 30 November 2011 are set out in note 42 to the financial statements.

PUBLICATION OF CERTAIN FINANCIAL AND OTHER DATA PURSUANT TO LOCAL REGULATORY REQUIREMENTS AND AIG FINANCIAL INFORMATION

The Company or its subsidiaries or their respective branches are subject to local regulatory oversight in each of the countries or jurisdictions in which they operate. In a number of these jurisdictions, local insurance and other regulations require the publication of certain financial and other data primarily for policyholders' information and prudential supervisory purposes. The Local Statutory Data is often produced pursuant to regulations that are not designed with the protection or requirements of public shareholders as a primary objective. The Local Statutory Data that we expect to be published in 2012 includes the following:

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

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

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

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

FINAL DIVIDEND

The Board has recommended a final dividend of 22 Hong Kong cents per share (2010: nil) in respect of the year ended 30 November 2011. If approved, the proposed final dividend together with the interim dividend will represent a total dividend of 33 Hong Kong cents per share (2010: nil) in respect of the year ended 30 November 2011.

Subject to shareholders' approval at the AGM, the final dividend will be payable on Friday, 25 May 2012 to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 11 May 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 3 May 2012 to Tuesday, 8 May 2012, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Wednesday, 2 May 2012.

In order to qualify for the proposed final dividend to be approved at the AGM, all properly completed transfer forms, accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Friday, 11 May 2012.

ANNUAL GENERAL MEETING

The 2012 Annual General Meeting will be held at 11:00 a.m. Hong Kong time on Tuesday, 8 May 2012 at The Grand Ballroom, Kowloon Shangri-la, Hong Kong, 64 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The notice of the AGM will be published on the website of the Hong Kong Stock Exchange and the Company's website.

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 Tuesday, 8 May 2012.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. These forward looking statements are, by their nature, subject to significant risks and uncertainties. These forward looking statements include, without limitation, statements relating to our business prospects, future developments, trends and conditions in the industry and geographical markets in which we operate, our strategies, plans, objectives and goals, our ability to control costs, statements relating to prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

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

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

Hong Kong, 24 February 2012

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

Non-executive Chairman and Non-executive Director:
Mr. Edmund Sze Wing Tse

Executive Director, Group Chief Executive and President:
Mr. Mark Edward Tucker

Independent Non-executive Directors:
Sir Chung-Kong Chow, Mr. Rafael Si-Yan Hui, Dr. Qin Xiao and Mr. John Barrie Harrison

Non-executive Directors:
Mr. Jack Chak-Kwong So, Mr. Jeffrey Joy Hurd and Mr. Jay Steven Wintrob

GLOSSARY

Accident and health (A&H) insurance products	Accident and health insurance products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover. A&H insurance products are sold both as standalone policies and as riders that can be attached to our individual life insurance policies.
Acquisition cost (of a financial instrument)	The amount of cash or cash equivalents paid or the fair value of other consideration provided, in order to acquire an asset at the date of its acquisition.
Active agent	An agent who sells at least one life insurance policy per month.
Active market	A market in which all the following conditions exist: • 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. 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.
Adjusted net worth (ANW)	ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of AIA, plus the IFRS equity value (excluding the value of intangible assets) of other activities, such as general insurance business. It excludes any amounts not attributable to the shareholders of AIA. 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.
AGM	2012 Annual General Meeting of the Company to be held at 11:00 a.m. Hong Kong time on Tuesday, 8 May 2012.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA-B	American International Assurance Company (Bermuda) Limited, a subsidiary of AIA Co.
AIA Co.	American International Assurance Company, Limited, a subsidiary of the Company.
AIG	American International Group, Inc.
AIG Financial Information	Certain financial information contained in various reports filed by AIG with the U.S. Securities and Exchange Commission, which is prepared on a basis different from which the Company uses to prepare its financial information.
ALM Committee	Asset-Liability Management Committee.

Amortised cost	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.
Annualised new 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 and personal lines and motor insurance.
Annuity	A savings product where the accumulated amount can be paid out to the customer in a variety of income streams.
Asset-liability management (ALM)	ALM is the management of the relative risk profiles of assets and liabilities.
Available for sale financial investments	Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value recorded in other comprehensive income.
Bancassurance	The distribution of insurance products through banks or other financial institutions.
Bancatakaful	The distribution of Takaful 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.
CER Committee	Catastrophic and Emerging Risk Committee.
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 contained 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 less the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in a participating fund, there is no associated cost of capital included in the VIF or VONB.
CRC	Credit Risk Committee.

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 policies. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed to the consolidated income statement on a systematic basis over the life of the policy. 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.
Discontinued operations	A component of an entity that either has been disposed of or is classified as held for sale and: • represents a separate major line of business or geographical area of operations; • is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or • is a subsidiary acquired exclusively with a view to resale.
Discretionary participation features (DPF)	A contractual right to receive, as a supplement to guaranteed benefits, additional benefits 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.
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.
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.
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 Corporate and Other segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions.
Group RMC	Group Risk Management Committee.

Held for sale	A non-current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use. On the date that a non-current asset meets the criteria as held for sale, it is measured at the lower of its carrying amount and fair value less costs to sell.
High-net-worth 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 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: • International Financial Reporting Standards; • International Accounting Standards; and • Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).
Inactive agent	An agent who sells less than one life insurance policy per month.
Insurance contract	A contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if specified uncertain future events adversely affect the policyholder.
Insurance risk	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.
Investment contract	An investment contract is an insurance policy that, whilst structured and regulated as a contract of insurance, does not meet the accounting definition of an insurance contract because it does not transfer significant insurance risk.

Investment experience	Realised and unrealised investment gains and losses recognised in the consolidated income statement.
Investment income	Investment income comprises interest income, dividends and rental income.
Investment property	Property (land and/or a building or part of a building) held to earn rentals or for capital appreciation or both rather than for use by AIA.
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.
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.
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.
Local Statutory Data	Certain financial and other data required to be published under local insurance and other regulations, primarily for policyholders' information and prudential supervisory purposes.
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.
Martassurance	A distribution channel that allows customer to access AIA's insurance products in retail stores.
Million Dollar Round Table (MDRT)	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules in respect of dealings by the Directors in the securities of the Company.

Monetary items	Units of currency held and asset and liabilities to be received or paid in a fixed or determinable number of units of currency.
Net book value	The net value of an asset. Equal to its original cost (its book value) minus depreciation and amortisation.
Net funds to Group	In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Corporate and Other segment and capital inflows consist of capital injections into reportable segments by the Corporate and Other segment. For the 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.
Net Promoter Score (NPS)	NPS is a customer loyalty and advocacy metric based on a single question "Would you recommend our company to a friend or colleague?" Promoters are defined as those who score the question a 9 or 10 on a scale of 0-10 (highest). Detractors are those who score the question 0-6. The company's net promoter score is calculated by taking the percentage of customers who are promoters and subtracting the percentage who are detractors.
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.
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.
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: • 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.
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.
ORM Committee	Operational Risk Management 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.
PRM Committee	Product Risk Management Committee.
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	Related parties, as disclosed in note 39 to the financial statements may be related to AIA for any of the following reasons: • they are directly or indirectly controlled by an AIA entity; • an AIA entity has significant influence of 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.
Risk appetite	Risk appetite is the level of risk that companies are willing to take in the process of achieving 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 of the Group’s financial investments to third parties securities on a short-term basis. The loaned securities continue to be recognised within the appropriate financial investment classifications in the Group’s consolidated statement of financial position.
Shadow accounting	Investment experience (realised and unrealised investment gains and losses) has a direct effect on the measurement of insurance contract liabilities and related deferred acquisition costs and intangible assets, such as VOBA (see below). Shadow accounting permits adjustments to insurance contract liabilities and the related assets to be reflected in other comprehensive income to match the extent to which unrealised investment gains and losses are recognised in other comprehensive income.
Shariah-compliant	Matters that are in adherence to the Islamic principles.
Singapore	The Republic of Singapore; in the context of our reportable segment, Singapore includes Brunei.
Single premiums	Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.
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.
Tactical asset allocation (TAA)	TAA is the mechanism that allows investment managers to generate alpha over SAA by tilting the asset class exposures in anticipation of (or in reaction to) short-term market deviations from their long-term expected fair values. It is typically a defined range above/below the SAA targets.
Takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Total weighted premium income (TWPI)	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.

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 and cash and cash equivalents held at Group Office. These liquid assets are available to invest in building the Group's business operations.