PRUDENTIAL PLC
Form 6-K
March 01, 2010

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**

**Pursuant to Rule 13a-16 or 15d-16 of**
**the Securities Exchange Act of 1934**

For the month of March, 2010

**PRUDENTIAL PUBLIC LIMITED COMPANY**

(Translation of registrant's name into English)

**LAURENCE POUNTNEY HILL,**
**LONDON, EC4R 0HH, ENGLAND**
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F X     Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Enclosures: Prudential plc: Acquisition of AIA Pt5

# APPENDIX VI: AIA GROUP UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 NOVEMBER 2009

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

## Consolidated Income Statement

| US$m | *Notes* | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|---|
| **Revenue** | | | | |
| *Turnover* | | | | |
| Premiums and fee income | | 9,573 | 10,674 | 10,433 |
| Premiums ceded to reinsurers | | (833) | (392) | (331) |
| Net premiums and fee income | | 8,740 | 10,282 | 10,102 |
| Investment return | *8* | 6,409 | (6,998) | 8,843 |
| Other operating revenue | *8* | 77 | 526 | 71 |
| **Total revenue** | | **15,226** | **3,810** | **19,016** |
| **Expenses** | | | | |
| Insurance and investment contract benefits | | 11,016 | 1,457 | 13,814 |
| Insurance and investment contract benefits ceded | | (653) | (248) | (251) |
| **Net insurance and investment contract benefits** | | 10,363 | 1,209 | 13,563 |
| Commission and other acquisition expenses | | 947 | 1,563 | 1,648 |
| Operating expenses | | 962 | 1,089 | 981 |
| Restructuring and separation costs | | - | 10 | 89 |
| Investment management expenses | | 92 | 103 | 89 |
| Finance costs | | 203 | 159 | 50 |
| Change in third party interests in consolidated investment funds | | 80 | (319) | 164 |

| | | | | |
|---|---|---|---|---|
| **Total expenses** | *9* | **12,647** | **3,814** | **16,584** |
| **Profit before share of loss from associates and joint ventures** | | **2,579** | **(4)** | **2,432** |
| Share of loss from associates and joint ventures | | - | (28) | (21) |
| **Profit/(loss) before tax** | | **2,579** | **(32)** | **2,411** |
| Income tax (expense)/credit attributable to policyholders' returns | | (70) | 90 | (137) |
| **Profit before tax attributable to shareholders' profits** | | **2,509** | **58** | **2,274** |
| Tax (expense)/credit | *10* | (651) | 445 | (654) |
| Less: tax attributable to policyholders' returns | | 70 | (90) | 137 |
| Tax (expense)/credit attributable to shareholders' profits | | (581) | 355 | (517) |
| **Net profit** | | **1,928** | **413** | **1,757** |
| *Net profit attributable to:* | | | | |
| Shareholders of AIA Group Limited | | **1,914** | **408** | **1,754** |
| Non-controlling interests | | 14 | 5 | 3 |
| **Earnings per share (US$)** | | | | |
| Basic and diluted | *12* | 0.16 | 0.03 | 0.15 |

# Consolidated Statement of Comprehensive Income

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| **Net profit** | **1,928** | **413** | **1,757** |
| Fair value gains/(losses) on available for sale financial assets (net of tax of: 2007: US$181m; 2008: US$(22)m; 2009 US$(139)m) | (1,233) | (4,801) | 2,915 |
| Fair value (gains)/losses on available for sale financial assets transferred to income on disposal and impairment (net of tax of: 2007: nil; 2008: US$10m; 2009: US$6m) | (1) | 222 | 223 |
| Foreign currency translation adjustments | 344 | (796) | 764 |
| Other comprehensive income | (890) | (5,375) | 3,902 |
| **Total comprehensive income** | **1,038** | **(4,962)** | **5,659** |
| *Total comprehensive income attributable to:* | | | |
| Shareholders of AIA Group Limited | 1,021 | (4,922) | 5,611 |
| Non-controlling interests | 17 | (40) | 48 |

# Consolidated Statement of Financial Position

| US$m | Notes | 1 December 2006 | 30 November 2007 | 30 November 2008 | 30 November 2009 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Intangible assets | *14* | 185 | 200 | 232 | 233 |
| Investments in associates and joint ventures | *15* | 267 | 63 | 47 | 53 |
| Property, plant and equipment | *16* | 309 | 352 | 332 | 326 |
| Investment property | *17, 18* | 95 | 190 | 217 | 244 |
| Reinsurance assets | *19* | 2,427 | 2,668 | 147 | 284 |
| Deferred acquisition and origination costs | *20* | 8,135 | 10,044 | 10,047 | 10,976 |
| **Financial investments:** | *21, 23* | | | | |
| Loans and receivables | | 5,006 | 5,665 | 4,002 | 4,648 |
| Available for sale | | | | | |
| Debt securities | | 27,688 | 30,955 | 29,934 | 37,722 |
| Equity securities - shares in AIG | | 3,048 | 2,520 | 87 | 62 |
| At fair value through profit or loss | | | | | |
| Debt securities | | 11,083 | 13,449 | 12,389 | 14,479 |
| Equity securities | | 10,755 | 17,619 | 8,660 | 16,116 |
| Derivative financial instruments | *22* | 294 | 422 | 252 | 453 |
| | | 57,874 | 70,630 | 55,324 | 73,480 |
| Other assets | *24* | 680 | 1,462 | 1,499 | 1,600 |
| Cash and cash equivalents | *25* | 1,035 | 2,583 | 4,164 | 3,405 |
| Assets of disposal groups held for sale | *11* | - | - | - | 58 |
| **Total assets** | | **71,007** | **88,192** | **72,009** | **90,659** |
| **Liabilities** | | | | | |
| Insurance contract liabilities | *26* | 46,960 | 57,161 | 52,158 | 63,255 |
| Investment contract liabilities | *27* | 3,482 | 6,505 | 4,898 | 7,780 |
| Borrowings | *29* | 812 | 1,461 | 661 | 688 |
| Obligations under securities lending and repurchase agreements | *30* | 3,742 | 5,395 | 2,718 | 284 |
| Derivative financial instruments | *22* | 30 | 47 | 138 | 71 |
| Provisions | *32* | 135 | 142 | 166 | 250 |
| Deferred tax liabilities | *10* | 1,343 | 1,427 | 547 | 1,087 |
| Current tax liabilities | | 221 | 269 | 218 | 185 |
| Other liabilities | *33* | 1,663 | 2,294 | 1,587 | 2,012 |
| Liabilities of disposal groups held for sale | *11* | - | - | - | 58 |
| **Total liabilities** | | **58,388** | **74,701** | **63,091** | **75,670** |
| **Equity** | | | | | |
| Issued share capital and shares yet to be issued | *34* | 12,000 | 12,000 | 12,000 | 12,044 |
| Share premium | *34* | 1,914 | 1,914 | 1,914 | 1,914 |
| Other reserves | | (13,376) | (13,215) | (12,480) | (12,080) |
| Retained earnings | | 7,810 | 9,431 | 9,494 | 11,223 |
| Fair value reserve | | 4,194 | 2,969 | (1,565) | 1,528 |
| Foreign currency translation reserve | | - | 341 | (455) | 309 |
| Amounts reflected in other comprehensive income | | 4,194 | 3,310 | (2,020) | 1,837 |

| | | | | | |
|---|---|---|---|---|---|
| *Total equity attributable to:* | | | | | |
| **Shareholders of AIA Group Limited** | | **12,542** | **13,440** | **8,908** | **14,938** |
| Non-controlling interests | *35* | 77 | 51 | 10 | 51 |
| **Total equity** | | **12,619** | **13,491** | **8,918** | **14,989** |
| **Total liabilities and equity** | | **71,007** | **88,192** | **72,009** | **90,659** |

# Consolidated Statement of Changes in Equity

| US$m | Notes | Issued share capital, shares yet to be issued and share premium | Other reserves | Retained earnings | Fair value reserve | Foreign currency translation reserve | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 December 2006** | | **13,914** | **(13,376)** | **7,810** | **4,194** | **-** | **77** | **12,619** |
| Net profit | | - | - | 1,914 | - | - | 14 | 1,928 |
| Other comprehensive income | | - | - | - | (1,237) | 344 | 3 | (890) |
| Capital contributions | | - | 164 | - | - | - | - | 164 |
| Dividends | *13* | - | - | (259) | - | - | (2) | (261) |
| Acquisition of non-controlling interest | | - | - | (34) | 12 | (3) | (41) | (66) |
| Share based compensation | | - | (3) | - | - | - | - | (3) |
| **Balance at 30 November 2007** | | **13,914** | **(13,215)** | **9,431** | **2,969** | **341** | **51** | **13,491** |
| Net profit | | - | - | 408 | - | - | 5 | 413 |
| Other comprehensive income | | - | - | - | (4,534) | (796) | (45) | (5,375) |
| Capital contributions | | - | 731 | - | - | - | - | 731 |
| Dividends | *13* | - | - | (345) | - | - | (1) | (346) |
| Share based compensation | | - | 4 | - | - | - | - | 4 |
| **Balance at 30 November 2008** | | **13,914** | **(12,480)** | **9,494** | **(1,565)** | **(455)** | **10** | **8,918** |
| Net profit | | - | - | 1,754 | - | - | 3 | 1,757 |
| Other comprehensive income | | - | - | - | 3,093 | 764 | 45 | 3,902 |
| | | 44 | 394 | - | - | - | - | 438 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Capital contributions | | | | | | | | |
| Dividends | *13* | - | - | (25) | - | - | - | (25) |
| Acquisition of subsidiary | | - | - | - | - | - | 44 | 44 |
| Disposal of subsidiary | | - | - | - | - | - | (51) | (51) |
| Share based compensation | | - | 6 | - | - | - | - | 6 |
| **Balance at 30 November 2009** | | **13,958** | **(12,080)** | **11,223** | **1,528** | **309** | **51** | **14,989** |

# Consolidated Statement of Cash Flows

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

| US$m | *Notes* | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| **Profit/(loss) before tax** | | **2,579** | **(32)** | **2,411** |
| Gain on reinsurance recapture | *5* | - | (447) | - |
| Financial instruments | *21* | (11,934) | 10,054 | (11,044) |
| Insurance and investment contract liabilities | *26* | 9,572 | (2,974) | 10,132 |
| Obligations under securities lending and repurchase agreements | *30* | 1,609 | (3,162) | (2,505) |
| Other non-cash operating items, including investment income | | (2,190) | (3,709) | (2,619) |
| Operating cash items: | | | | |
| Interest received | | 2,462 | 2,933 | 2,798 |
| Dividends received | | 185 | 201 | 147 |
| Interest paid | | (203) | (159) | (50) |
| Tax paid | | (446) | (418) | (371) |
| **Net cash (used in)/provided by operating activities** | | **1,634** | **2,287** | **(1,101)** |
| **Cash flows from investing activities** | | | | |
| Payments for investments in associates | *15* | (8) | (48) | (24) |
| Disposals of investments in associates | *15* | 217 | 17 | 1 |
| Acquisitions of subsidiaries, net of cash acquired | *4* | (207) | - | (28) |
| Disposal of a subsidiary, net of cash disposed | | - | - | (2) |
| Payments for investment property and property, plant and equipment | *16, 17* | (61) | (114) | (39) |
| Proceeds from sale of investment property and property, plant and equipment | | 9 | 15 | 8 |
| Payments for intangible assets | *14* | (22) | (38) | (37) |
| Proceeds from sale of intangible assets | | - | - | 23 |
| **Net cash used in investing activities** | | **(72)** | **(168)** | **(98)** |

| | | | | |
|---|---|---|---|---|
| **Cash flows from financing activities** | | | | |
| Dividends paid during the year | *13* | (261) | (346) | (25) |
| Proceeds from borrowings | *29* | 101 | 50 | 21 |
| Repayment of borrowings | *29* | - | (849) | (49) |
| Purchase of non-controlling interest | | (66) | - | - |
| Capital contributions | | 164 | 731 | 401 |
| **Net cash (used in)/provided by financing activities** | | **(62)** | **(414)** | **348** |
| Net (decrease)/increase in cash held | | 1,500 | 1,705 | (851) |
| Cash and cash equivalents at beginning of the financial year | | 1,035 | 2,583 | 4,164 |
| Effect of exchange rate changes on cash | | 48 | (124) | 92 |
| **Cash and cash equivalents at the end of the financial year** | *25* | **2,583** | **4,164** | **3,405** |

# Notes to the Consolidated Financial Statements and Significant Accounting Policies

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

## 1. Corporate information and group reorganisation

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

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

The AIA Group was formed following several steps in the reorganisation of the Asia Pacific life insurance operations of American International Group, Inc. ('AIG'). These included the reorganisation steps required under the purchase agreement dated 25 June 2009 between AIG, American International Reinsurance Company, Ltd ('AIRCO'), the Company's immediate parent company prior to the completion of the reorganisation and a fellow subsidiary of AIG, and the Federal Reserve Bank of New York (the 'FRBNY') ('the FRBNY Agreement') under which AIG agreed to contribute the equity of American International Assurance Company, Limited ('AIA') to a special purpose vehicle, AIA Aurora LLC, the details of which are set out in Note 44, Immediate and ultimate controlling party. The main steps in the reorganisation are summarised as follows:

·

on 19 February 2009, AIA entered into a series of agreements with AIRCO in respect of the transfer of American International Assurance Company (Bermuda) Limited ('AIA-B'), AIA Australia Limited (previously known as American International Assurance Company (Australia) Limited) and AIA Pension and Trustee Co. Ltd (including, as of the transaction date, all of their subsidiaries, joint ventures and associates, and other investments) to AIA. These transactions completed on 28 February 2009;

·

on 1 June 2009, American Life Insurance Company ('ALICO'), a fellow subsidiary of AIG, transferred its Taiwan branch together with the branch's life insurance and related business to AIA-B;

·

o

n 13 August 2009, AIA-B entered into an agreement with AIG in respect of the transfer of AIG Global Investment Corporation (Asia) Limited to AIG. This transaction completed on 25 November 2009;

·

on 24 August 2009, AIA entered into an agreement with AIG and ALICO in respect of the transfer of The Philippine American Life and General Insurance Company ('Philam') (including, as of the date of acquisition, all of its subsidiaries, joint ventures and associates, and other investments) to AIA. Philam's shares were transferred to AIA in exchange for a promissory note issued by AIA, with a principal amount of US$586m ('the AIA promissory note'). The AIA promissory note was transferred by AIG and ALICO to AIA's then immediate parent company, AIRCO, which contributed the AIA promissory note to AIA in exchange for shares in AIA, following which the AIA promissory note was extinguished. This transaction completed on 3 November 2009.

·

on 24 August 2009, AIA Group Limited was formed by AIA Aurora LLC pursuant to the terms of the FRBNY Agreement;

·

o

n 23 September 2009, TH Central Holdings Limited, a wholly-owned subsidiary of AIA, entered into an agreement with AIRCO to acquire certain ownership interests in fellow subsidiaries of AIG. These entities perform service functions and hold property in Thailand. These transactions completed on 15 October 2009.

·

on 27 November 2009, AIA Group Limited entered into an agreement with AIG and AIRCO, which completed on 30 November 2009, in respect of the transfer of AIA (including, as of the transaction date, all of its subsidiaries, joint ventures and associates, and other investments) to AIA Group Limited. AIRCO transferred AIA to AIA Group Limited in exchange for a promissory note issued by AIA Group Limited, with a principal amount of US$13,964m ('the AIG Group promissory note'). AIRCO transferred the AIA Group promissory note to AIA Aurora LLC, which contributed the note to AIA Group Limited in exchange for shares (comprising issued share capital of US$12,000m and share premium of US$1,914m) and a further US$50m promissory note from AIA Group Limited, upon receipt of which the first AIA Group promissory note was extinguished.

**1. Corporate information and group reorganisation (continued)**

The group reorganisation and business combinations arising from transfers of interests in entities that are under the common control of AIG throughout all periods presented in these consolidated financial statements, have been accounted for as if they had occurred at the beginning of the earliest period presented. The components of equity of the acquired entities are added to the same components within consolidated equity, except that any share capital of the acquired entities is recognised as part of other reserves.

Accordingly, the consolidated financial statements present the results of operations of the Group as if it had been in existence throughout the period from 1 December 2006 to date. All entities now comprising the Group, including joint ventures and associates, have adopted 30 November as their financial year end date for AIA Group reporting purposes.

**The components of the Group previously produced published financial statements on a variety of different bases, including Hong Kong Financial Reporting Standards ('HKFRS'), International Financial Reporting Standards ('IFRS') and Philippines Financial Reporting Standards ('PFRS'). For the purposes of the group reorganisation and business combinations arising from transfers of entities under common control, the Directors of the Company have prepared consolidated financial statements of the Group for the three years ended 30 November 2007, 2008 and 2009 ('the relevant periods') in accordance with IFRS, as issued by the International Accounting Standards Board, and HKFRS, as issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'), based on the previously published financial statements of the component entities for the relevant periods, after making such adjustments as are appropriate to comply with the Group's IFRS and HKFRS accounting policies.**

## 2. Significant accounting policies

### 2.1 Basis of preparation and statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS, HKFRS and the Hong Kong Companies Ordinance and the applicable disclosure provisions of the rules governing the listing of securities on the Hong Kong Stock Exchange ('the Listing Rules'). HKFRS is substantially consistent with IFRS and the accounting policy selections that the Group has made in preparing these consolidated financial statements are such that the Group is able to comply with both IFRS and HKFRS. References to IFRS, IAS and IFRIC in these consolidated financial statements should be read as referring to the equivalent HKFRS, HKAS and HKFRIC as the case may be. Accordingly, there are no differences of accounting practice between IFRS and HKFRS affecting these consolidated financial statements.
IFRS 1,
First Time Adoption of International Financial Reporting Standards
has been applied in preparing the consolidated financial statements. These consolidated financial statements are the first set of the Group's consolidated financial statements prepared in accordance with IFRS.
The consolidated financial statements have been prepared using the historical cost convention, as modified by the revaluation of available for sale financial assets, certain financial assets and liabilities designated at fair value through profit or loss and derivative financial instruments, all of which are carried at fair value.
The Group has applied all IFRS standards and interpretations effective for accounting periods starting on or after 1 December 2008 consistently from the date of transition to IFRS and HKFRS on 1 December 2006, unless otherwise stated.
The following new standards, amendments to standards and interpretations have been early adopted by the Group and applied consistently in preparing the consolidated financial statements:
·
Revised IAS 1,
Presentation of Financial Statements
;

·
IFRS 8,
Operating Segments
; and
·
Revised IAS 23R,
Borrowing Costs
.
The following new standards, amendments and interpretations which are not effective for the year ended 30 November 2009 have not been adopted in these financial statements:
·
IFRS 9,
Financial Instruments
;
·
Amendment to IFRS 7,
Financial Instruments: Disclosures;
·
Revised IFRS 3,
Business Combinations
;
·
Amendment to IAS 27,
Consolidated and Separate Financial Statements
; and
·
Amendments to IFRS 1,
First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters.
The following new interpretations have not been applied because they have no material impact for the Group:
·
IFRIC 9,
Reassessment of Embedded Derivatives
;
·
IFRIC 12,
Service Concession Arrangements
;
·
IFRIC 13,
Customer Loyalty Programmes
;
·
IFRIC 14,
IAS19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
;
·
IFRIC 15,
Agreements for the Construction of Real Estate
;

·
IFRIC 16,
Hedges of a Net Investment in a Foreign Operation
;
·
IFRIC 17,
Distributions of Non-cash Assets to Owners
;
·
IFRIC 18,
Transfers of Assets from Customers
; and
·
IFRIC 19,
Extinguishing Financial Liabilities with Equity Instruments
.
IFRIC 16 can only be applied by the Group prospectively and hence has no impact for the Group in the current period.

# 2. Significant accounting policies (continued)

# The following amendments to standards have no material impact for the Group:

·
Amendments to IAS 24,
Related Party Disclosure: Revised definition of Related Parties;
·
Amendments to IFRS 2,
Share Based Payments, Vesting Conditions and
Cancellations
;
·
Amendments to IFRS 5,
Non-Current Assets Held for Sale and Discontinued Operations
: Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations;
·
Amendments to IFRS 7,
Financial Instruments: Disclosures, Reclassifications of Financial Asset
s and IAS 39,
Financial Instruments
;
·
Amendments to IAS 32,
Financial Instruments: Presentation
and IAS 1,

Presentation of Financial Instruments, Puttable Financial Instruments and Obligations Arising on Liquidation
s;
·
Amendments to IAS 39,
Financial Instruments: Recognition and Measurement, Eligible Hedged Items
(see note 2.6.4);
·
Amendments to IAS 38,
Intangible Assets
: Additional consequential amendments arising from revised IFRS 3 and measuring the fair value of an intangible asset acquired in a business combination;
·
Amendments to IAS 7,
Statement of Cash Flows
: Classification of expenditure on unrecognised assets;
·
Amendments to IAS 17,
Leases
: Classification of leases of land and buildings; and
·
Amendments to IAS 36,
Impairment of Assets
: Unit of accounting for goodwill impairment test.

Items included in the consolidated financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in millions of US Dollars (US$m) unless otherwise stated, which is the Company's functional currency, and the presentation currency of the Group.

The significant accounting policies adopted in the preparation of the Group's consolidated financial statements are set out below. These policies have been applied consistently in all periods presented.

**2.2 Operating profit**

The long term nature of much of the Group's operations means that, for management's decision making and internal performance management purposes, the Group evaluates its results and its operating segments using a financial performance measure referred to as 'operating profit'. The Group defines operating profit before and after tax respectively as profit excluding the following non-operating items:
·
investment experience (which consists of realised gains and losses, foreign exchange gains and losses, impairments and unrealised gains and losses on investments held at fair value through profit or loss);
·
investment income related to investment-linked contracts (consisting of dividends, interest income and rent income);
·
investment management expenses related to investment-linked contracts;
·
corresponding changes in insurance and investment contract liabilities in respect of investment-linked and pension contracts and participating funds (see note 2.3) and changes in third party interests in consolidated investment funds resulting from the above; and
·
other significant items that management considers to be non-operating income and expenses.

The following amendments to standards have no materialimpact for the Group:

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

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

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

# 2. Significant accounting policies (continued)

### 2.3 Critical accounting policies and the use of estimates

#### Critical accounting policies

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

# Product classification

IFRS 4,

Insurance Contracts

, requires contracts written by insurers to be classified either as insurance contracts or investment contracts, depending on the level of insurance risk. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk.

Some insurance and investment contracts, referred to as participating business, have discretionary participation features, or DPF, which may entitle the customer to receive, as a supplement to guaranteed benefits, additional non-guaranteed benefits, such as policyholder dividends or bonuses. The Group applies the same accounting policies for the recognition and measurement of obligations arising from investment contracts with DPF as it does for insurance contracts.

Accordingly, the Group performs a product classification exercise covering its portfolio of contracts to determine the classification of contracts to these categories. Product classification requires the exercise of significant judgment to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Group to pay significant additional benefits to its customers. In the event the Group has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. For investment contracts that do not contain DPF, IAS 39,

Financial Instruments: Measurement and Recognition

, and, if the contract includes an investment management element, IAS 18,

Revenue Recognition

, are applied. IFRS 4 permits the continued use of previously applied accounting policies for insurance contracts and investment contracts with DPF, and this basis has been adopted by the Group in accounting for such contracts.

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

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

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

# 2.

# Significant accounting policies (continued)

Participating business, consisting of
contracts with DPF, is distinct from other insurance and investment contracts as the Group has discretion as to either the amount or the timing of the benefits declared. In some geographical markets, participating business is written in a participating fund which is distinct from the other assets of the operating unit or branch. The allocation of benefits from the assets held in such participating funds is subject to minimum policyholder participation mechanisms which are established by applicable regulations. The extent of such policyholder participation may change over time.
The Group accounts for insurance contract liabilities for participating business written in participating funds by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon applicable regulations. Establishing these liabilities requires the exercise of significant judgment. In addition, the assumption that all relevant performance is declared as a policyholder dividend may not be borne out in practice. The Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future

net premiums to be collected from policyholders.

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

# Deferred policy acquisition and origination costs

The costs of acquiring new insurance contracts, including commission, underwriting and other policy issue expenses which vary with and are primarily related to the production of new business or renewal of existing business, are deferred as an asset.

Deferred acquisition costs are assessed for recoverability in the year of policy issue to ensure that these costs are recoverable out of the estimated future margins to be earned on the policy. Deferred acquisition costs are assessed for recoverability at least annually thereafter.

Future investment income is also taken into account in assessing recoverability.

To the extent that acquisition costs are not considered to be recoverable at inception or thereafter, these costs are expensed in the consolidated income statement.

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

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

Deferred acquisition costs

for universal life and investment-linked contracts are amortised over the expected life of the contracts in a majority of cases based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract. Estimated gross profits include expected amounts for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited.

The interest rate used to compute the present value of estimates of expected gross profits is based on the Group's estimate of the investment performance of the assets held to match these liabilities.

Estimates of gross profits are revised regularly. Deviations of actual results from estimated experience are reflected in earnings. The

expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favourable investment performance, previously expensed acquisition costs are reversed, not exceeding the amount initially deferred.

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

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

# 2.

# Significant accounting policies (continued)

# Liability adequacy testing

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

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

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

Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions.

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

## Financial assets at fair value through profit or loss

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

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

## Available for sale financial assets

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

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

## Fair values of financial assets

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

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

# 2. Significant accounting policies (continued)

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

### Impairment of

### financial assets

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

**Use of estimates**

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

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

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

Further details of estimation uncertainty in respect of the valuation and impairment of financial instruments are given in Notes 23 and 31 respectively. Further details of the estimation of amounts for insurance and investment contract liabilities and deferred acquisition and origination costs are given in Notes 26, 27, 28 and 20 respectively.

# 2.4 Basis of consolidation

**Subsidiaries**

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

From 1 December 2006, the date of transition to IFRS, the Group is required to use the purchase method of accounting to account for the acquisition of subsidiaries, unless the acquisition forms part of the Group reorganisation of entities under common control (see Note 1). Under this method, the cost of an acquisition is measured as the fair value of consideration payable, shares issued or liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see 2.11 below). Any surplus of the acquirer's interest in the subsidiary's net assets over the cost of acquisition is credited to the consolidated income statement.

The consolidated financial statements of the Group include the assets, liabilities and results of the Company and subsidiaries in which AIA Group Limited has a controlling interest, using accounts drawn up to 30 November.

# 2. Significant accounting policies (continued)

**Investment funds**

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

**Non-controlling interests**

Non-controlling interests are presented within equity except when they arise through the minority's interest in puttable liabilities such as the unit holders' interest in consolidated investment funds, when they are recognised as a liability, reflecting the net assets of the consolidated entity.

Acquisitions and disposals of non-controlling interests, except when they arise through the minority's interest in puttable liabilities, are treated as transactions between equity holders. As a result, any difference between the acquisition cost or sale price of the non-controlling interest and the carrying value of the non-controlling interest is recognised as an increase or decrease in equity.

**Group reorganisations and business combinations**

Group reorganisations and business combinations arising from transfers of interests in entities that are under common control throughout all periods presented are accounted for as if they had occurred at the beginning of the earliest period presented in these consolidated financial statements. The assets and liabilities acquired are measured at the carrying amounts recognised previously in AIG's consolidated financial statements, converted, where appropriate, to the Group's IFRS accounting policies. The components of equity of the acquired entities are added to the same components within equity, except that any share capital of the acquired entities is recognised as part of other reserves.

**Associates and joint ventures**

Associates are entities over which the Group has significant influence, but which it does not control. Generally, it is presumed that the Group has significant influence if it has between 20% and 50% of voting rights. Joint ventures are entities whereby the Group and other parties undertake an economic activity which is subject to joint control arising from a contractual agreement.

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

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

# 2. Significant accounting policies (continued)

**The Company's investments**

In the Company statement of financial position, subsidiaries, associates and joint ventures are stated at cost, unless impaired. No such impairment has arisen during the reporting period. The Company's interests in investment funds such as mutual funds and unit trusts are designated at fair value through profit or loss.

## 2.5 Insurance and investment contracts

Consistent accounting policies for the measurement and recognition of insurance and investment contracts have been adopted throughout the Group to substantially all of its business with effect from the date of adoption of IFRS. As permitted by IFRS 4, the Group has revised its previous accounting policies prior to the adoption of IFRS for certain insurance and investment contracts in order to make the consolidated financial statements more relevant and no less reliable to the economic decision making needs of users than the accounting policies previously adopted, primarily through the adoption of a consistent accounting basis for the Group.

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

**Product classification**

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

Investment contracts are those contracts without significant insurance risk.

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

Certain contracts with DPF

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

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

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

The Group refers to such contracts as participating business.

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

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

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

2. Significant accounting policies (continued)

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

| **Policy type** | | **Description of benefits payable** | **Basis of accounting for:** | |
|---|---|---|---|---|
| | | | **Insurance contract liabilities** | **Investment contract liabilities** |
| Traditional participating life assurance with DPF | Participating funds | Participating products combine protection with a savings element. The basic sum assured, | Insurance contract liabilities make provision for the present value of guaranteed benefits less estimated future net premiums to | Not applicable, as IFRS 4 permits contracts with DPF to be |

| | | | | |
|---|---|---|---|---|
| | | 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<br>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 | 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 | accounted for as insurance contracts |
| | Other participating business | Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience | Insurance contract liabilities make provision for the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders | Not applicable, as IFRS 4 permits contracts with DPF to be accounted for as insurance contracts |
| Non-participating life assurance, annuities and other protection products | | Benefits payable are not at the discretion of the insurer | Insurance contract liabilities reflect the present value of future policy benefits to be paid less the present value of estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognised | Investment contract liabilities are measured at amortised cost |
| Universal life | | Benefits are based on an account balance, credited with interest at a rate set by the insurer, and a death benefit, which may be varied by the customer | Insurance contract liabilities reflect the accumulation value, representing premiums received and investment return credited, less deductions for front end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded | Not applicable as such contracts generally contain significant insurance risk |
| Investment-linked | | These may be primarily savings products or may combine savings with an | Insurance contract liabilities reflect the accumulation value, representing premiums received | Investment contract liabilities are measured at |

| | | | |
|---|---|---|---|
| | element of protection. | 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 | fair value (determined with reference to the accumulation value) |

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

# 2. Significant accounting policies (continued)

2.5.1 Insurance contracts and investment contracts with DPF

**Premiums**

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

Amounts collected as premiums from insurance contracts with investment features but with sufficient insurance risk to be considered insurance contracts, such as universal life, and certain investment-linked contracts, are accumulated as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration, and surrenders during the period. Premiums and policy fees on such contracts are reported as turnover and are determined as amounts received and receivable in the reporting period.

Upfront fees are recognised over the estimated life of the contracts to which they relate. Policy benefits and claims that are charged to expenses include benefit claims incurred in the period in excess of related policyholder contract deposits and interest credited to policyholder deposits.

**Unearned revenue liability**

Unearned revenue liability arising from insurance contracts representing upfront fees and other non-level charges is deferred and released to the consolidated income statement over the estimated life of the business.

**Deferred acquisition costs**

The costs of acquiring new business, including commissions, underwriting and other policy issue expenses, which vary with and are primarily related to the production of new business, are deferred. Deferred acquisition costs are subject to the testing of recoverability when issued and at least annually thereafter. Future investment income is taken into account in assessing recoverability.

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

Deferred acquisition costs for universal life and investment-linked contracts are amortised over the expected life of the contracts in the majority of cases based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly. The interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of

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

# 2. Significant accounting policies (continued)

**Deferred sales inducements**

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

·

the sales inducements are recognised as part of insurance contract liabilities;

·

they are explicitly identified in the contract on inception;

·

they are incremental to amounts credited on similar contracts without sales inducements; and

·

they are higher than the expected ongoing crediting rates for periods after the inducement.

**Unbundling**

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

·

t

he deposit component (including any embedded surrender option) can be measured separately (i.e. without taking into account the insurance component); and

·

the Group's accounting policies do not otherwise require the recognition of all obligations and rights arising from the deposit component.

**Bifurcation**

To the extent that certain

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

**Benefits and claims**

Insurance contract benefits reflect the cost of all maturities, surrenders, withdrawals and claims arising during the year, including claims handling costs, as well as policyholder dividends accrued in anticipation of dividend declarations.
Accident and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for recoveries, and any adjustments to claims outstanding from previous years.
Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, and are included in operating expenses.

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

These represent the estimated future policyholder benefit liability for life insurance policies.
Future policy benefits for life insurance policies are calculated using a net level premium valuation method which represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. The method uses best estimate assumptions set at the policy inception date, adjusted for a provision for the risk of adverse deviation for mortality, morbidity, expected investment yields, dividends (for other participating business), surrenders and expenses, which remain locked in thereafter, unless a deficiency arises on liability adequacy testing (see below).
Interest rate assumptions can vary by country, year of issuance and product. Mortality assumptions are based on actual experience by geographic area and are modified to allow for variations in policy form. Surrender assumptions are based on actual experience by geographic area and are modified to allow for variations in policy form.
For contracts with an explicit account balance, such as universal life and investment-linked contracts, insurance contract liabilities are equal to the accumulation value, which represents premiums received and investment returns credited to the policy less deductions for mortality and morbidity costs and expense charges.
Settlement options are accounted for as an integral component of the underlying insurance or investment contract unless they provide annuitisation benefits, in which case an additional liability is established to the extent that the present value of expected annuitisation payments at the expected annuitisation date exceeds the expected account balance at that date. Where settlement options have been issued with guaranteed rates less than market interest rates, the insurance or investment contract liability does not reflect any provision for subsequent declines in market interest rates unless a deficiency is identified through liability adequacy testing.

# 2. Significant accounting policies (continued)

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

**Liability adequacy testing**

The adequacy of liabilities is assessed by portfolio of contracts, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. Liability adequacy testing is performed for each geographic market.
For traditional life insurance contracts, insurance contract liabilities reduced by deferred acquisition costs and value of business acquired on acquired insurance contracts, are compared to the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortised balance of deferred acquisition cost and value of business acquired on acquired insurance contracts are written down to the extent of the deficiency. If, after writing down the unamortised balance for the specific portfolio of contracts to nil, a deficiency still exists, the net liability is increased by the amount of the remaining deficiency.
For universal life and investment contracts, deferred acquisition costs, net of unearned revenue liabilities, are compared to estimated gross profits. If a deficiency exists, deferred acquisition costs are written down.

**Financial guarantees**

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

2.5.2 Investment contracts

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

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

# 2. Significant accounting policies (continued)

**Investment contract fee revenue**

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

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

**Deferred origination costs**

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

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

**Investment contract liabilities**

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

The majority of the Group's contracts classified as investment contracts are investment-linked contracts. These represent investment portfolios maintained to meet specific investment objectives of policyholders who generally bear the credit and market risks on those investments. The liabilities are carried at fair value determined with reference to the accumulation value (current unit value) with changes recognised in income. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against customers' account balances are included in revenue, and accounted for as described under Investment contract fee revenue above.

Non investment-linked investment contract liabilities are carried at amortised cost, being the fair value of consideration received at the date of initial recognition, less the net effect of principal payments such as transaction costs and front end fees, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity value, and less any write down for surrender payments. The effective interest rate equates the discounted cash payments to the initial amount. At each reporting date, the unearned revenue liability is determined as the value of the future best estimate cash flows discounted at the effective interest rate. Any adjustment is immediately recognised as income or expense in the consolidated income statement.

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

# 2. Significant accounting policies (continued)

2.5.3 Insurance and investment contracts

**Reinsurance**

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

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

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

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

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

**Value of business acquired ('VOBA')**

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

**Shadow accounting**

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

**Other assessments and levies**

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

# 2. Significant accounting policies (continued)

## 2.6 Financial instruments

2.6.1 Classification of and designation of financial instruments

**Financial instruments at fair value through profit or loss**

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

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

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

- financial assets held to back investment-linked contracts and participating funds;
- other financial assets managed on a fair value basis; consisting of the Group's equity portfolio (other than its holding of shares of AIG which are now managed on a fair value basis) and investments held by the Group's fully consolidated investment funds; and
- compound instruments containing an embedded derivative, where the embedded derivative would otherwise require bifurcation.

Dividend income from equity instruments designated at fair value through profit or loss is recognised in investment income in the consolidated income statement, generally when the security becomes ex-dividend. Interest income is recognised on an accrued basis. For all financial assets designated at fair value through profit or loss, changes in fair value are recognised in investment experience.

**Transaction costs in respect of financial instruments at fair value through profit or loss are expensed as they are incurred.**

**Available for sale financial assets**

Financial assets, other than those at fair value through profit or loss, and loans and receivables, are classified as available for sale.

The available for sale category is used where the relevant investments backing insurance and investment contract liabilities and shareholders' equity are not managed on a fair value basis. These principally consist of the Group's debt securities (other than those backing participating funds and investment-linked contracts) and the Group's holding of shares in AIG. Available for sale financial assets are initially

recognised at fair value plus attributable transaction costs. For available for sale debt securities, the difference between their cost and par value is amortised. Available for sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available for sale is recognised in investment income in the consolidated income statement using the effective interest method.
Unrealised gains and losses on securities classified as available for sale are analysed between differences resulting from foreign currency translation, and other fair value changes. Foreign currency translation differences on monetary available for sale investments, such as debt securities, are recognised in the consolidated income statement as investment experience. For impairments of available for sale financial assets reference is made to the section 'Impairment of other financial assets'.
Changes in the fair value of securities classified as available for sale, except for impairment losses and relevant foreign exchange gains and losses, are recorded in a separate fair value reserve within equity.

**Realised gains and losses on financial assets**

Realised gains and losses on available for sale financial assets are determined as the difference between the sale proceeds and amortised cost. Cost is determined by specific identification.

**Recognition of financial instruments**

Purchases and sales of financial instruments are recognised on the trade date, which is the date at which the Group commits to purchase or sell the assets.

# 2. Significant accounting policies (continued)

**Derecognition and offset of financial assets**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which the Group is exposed to changes in the fair value of the asset.
Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**Loans and receivables**

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

**Term deposits**

Deposits include time deposits with financial institutions which do not meet the definition of cash and cash equivalents as their maturity at acquisition exceeds three months. Certain of these balances are subject to regulatory or other restriction as disclosed in Note 21 Loans and Receivables. Deposits are stated at face value.

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short term highly liquid investments with maturities at acquisition of three months or less, which are held for cash management purposes. Cash and cash equivalents also include cash received as collateral for securities lending as well as cash and cash equivalents held for the benefit of policyholders in connection with investment-linked products. Cash and cash equivalents are stated at face value.

2.6.2. Fair values of non-derivative financial assets

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

Financial instruments carried at fair value are measured using a fair value hierarchy described in Note 23.

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

# 2. Significant accounting policies (continued)

2.6.3. Impairment of financial assets

**General**

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

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

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- 

the disappearance of an active market for that financial asset because of financial difficulties; or

·

observable data, including market prices, indicating that there is a potential decrease in the estimated future cash flows since the initial recognition of those assets, including:

-

adverse changes in the payment status of issuers

-

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

The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

**Available for sale financial instruments**

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

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

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

# 2. Significant accounting policies (continued)

**Loans and receivables**

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

2.6.4. Derivative financial instruments

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

**Derivative instruments for economic hedging**

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

**Embedded derivatives**

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

### 2.7 Segment reporting

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

### 2.8 Foreign currency translation

Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the year as this approximates to the exchange rates prevailing at the transaction date. Their statements of financial position are translated at year or period end exchange rates. Exchange differences arising from the translation of the net investment in foreign operations, are taken to the currency translation reserve within equity. On disposal of a foreign operation such exchange differences are transferred out of this reserve and are recognised in the consolidated income statement as part of the gain or loss on sale. As permitted by IFRS 1, the cumulative translation differences were deemed to be nil at the transition date to IFRS.

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

# 2. Significant accounting policies (continued)

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

### 2.9 Property, plant and equipment

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

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

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

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

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

The Government of the Hong Kong Special Administrative Region owns all the land in Hong Kong and permits its use under leasehold agreements. Where the cost of such leasehold is known, or can be reliably determined at the inception of the lease, the Group records its interest in leasehold land and land use rights separately as operating leases. These leases are recorded at original cost and amortised over the term of the lease (see 2.19).

### 2.10 Investment properties

Property held for long term rental that is not occupied by the Group is classified as investment property, and is carried at cost less accumulated depreciation and any accumulated impairment losses.

Investment property comprises freehold land and buildings. Buildings located on land held on an operating lease are classified as investment property if held for long term rental and not occupied by the Group. Where the cost of the land is known, or can be reliably determined at the inception of the lease, the Group records its interest in leasehold land and land use rights separately as operating leases (see 2.19). These leases are recorded at original cost and amortised over the term of the lease.

Buildings that are held as investment properties are amortised on a straight line basis over their estimated useful lives of 20-40 years.

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

# 2. Significant accounting policies (continued)

### 2.11 Goodwill and other intangible assets

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of acquisition.

Goodwill on acquisitions prior to 1 December 2006 (the date of transition to IFRS) is carried at book value (original cost less cumulative amortisation) on that date, less any impairment subsequently incurred. Goodwill arising on the Group's investment in subsidiaries since that date is shown as a separate asset, whilst that on associates and joint ventures is included within the carrying value of those investments.

*Other intangible assets*

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

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

The amortisation charge for the year is included in the consolidated income statement under 'Other operating expenses'.

**2.12 Impairment of non-financial assets**

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

**2.13 Securities lending including repurchase agreements**

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

**Assets sold under repurchase agreements (repos)**

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

**Assets purchased under agreements to resell (reverse repos)**

The Group enters into purchases of assets under agreements to resell (reverse repos). Reverse repos are initially recorded at the cost of the loan or collateral advanced within the caption 'Loans and Receivables' in the consolidated statement of financial position. In the event of failure by the counterparty to repay the loan the Group has the right to the underlying assets.

# 2. Significant accounting policies (continued)

**Collateral**

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of securities lending transactions, and repo and reverse repo transactions, in order to reduce the credit risk of these transactions. The amount and type of collateral depends on an assessment of the credit risk of the counterparty. Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset in the consolidated statement of financial position with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the consolidated statement of financial position unless the Group either sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability. To further minimise credit risk, the financial condition of counterparties is monitored on a regular basis.

Collateral pledged in the form of cash which is legally segregated from the group is derecognised from the consolidated statement of financial position and a corresponding receivable established for its return. Non-cash collateral pledged is not derecognised (except in the event of default) and therefore continues to be recognised in the consolidated statement of financial position within the appropriate financial instrument classification.

## 2.14 Borrowings

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

## 2.15 Income taxes

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

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

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

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

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

Deferred tax related to fair value re-measurement of available for sale investments and other amounts taken directly to equity, is recognised initially within the applicable component of equity. It is subsequently recognised in the consolidated income statement, together with the gain or loss arising on the underlying item.

In addition to paying tax on shareholders' profits, certain of the Group's life insurance businesses pay tax on policyholders' investment returns ('policyholder tax') at policyholder tax rates. Policyholder tax is accounted for as an income tax and is included in the total tax expense and disclosed separately.

# 2. Significant accounting policies (continued)

## 2.16 Revenue

**Investment return**

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

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

**Other fee and commission income**

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

## 2.17 Employee benefits

**Annual leave and long service leave**

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

**Post retirement benefit obligations**

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

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

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

- 10% of the projected benefit obligations at that date; or
- 10% of the fair value of any plan assets at that date.

Any recognised actuarial net gain or loss exceeding the greater of these two values is generally recognised in the consolidated income statement over the expected average remaining service periods of the employees participating in the plans. On adoption of IFRS on 1 December 2006 cumulative actuarial gains and losses were deemed to be nil as permitted by IFRS 1.

## 2. Significant accounting policies (continued)

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

**Share based compensation and cash incentive plans**

The Group has various share based compensation and cash incentive plans sponsored by AIG.

The Group accounts for options and awards under equity settled share based compensation plans, which were granted after 7 November 2002, until such time as they are fully vested, using the fair value based method of accounting (the 'fair value method').

Under AIG's equity settled share based compensation plans, the fair value of the employee services received in exchange for the grant of shares and/or options is recognised as an expense in profit or loss over the vesting period, with a corresponding amount recorded in equity. Any amounts recharged from AIG clearly related to equity settled share based payment arrangements are offset against the amount recorded in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and/or options granted. Non-market vesting conditions (for example, profitability and premium income growth targets) are included in assumptions about the number of shares and/or options that are expected to be issued or become exercisable. At each period end, the Group revises its estimates of the number of shares and/or options that are expected to be issued or become exercisable. It recognises the impact of the revision to original estimates, if any, in profit or loss with a corresponding adjustment to equity. However, no subsequent adjustment to total equity is made after the vesting date.

Where awards of share based payment arrangements vest in stages, each vesting tranche is recognised as a separate award, and therefore the fair value of each tranche is recognised over the applicable vesting period.

As the fair value of the options which AIG uses for its employee schemes cannot be compared to options available in the market, the Group estimates the fair value using a binomial lattice model. This model requires inputs such as share price, exercise price, implied volatility, risk free interest rate, expected dividend rate and the expected life of the option.

Where modification or cancellation of an equity settled share based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met.

### 2.18 Provisions and contingencies

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

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

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

### 2.19 Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the Group as a lessor, are classified as operating leases. Assets subject to such leases are included in property, plant and equipment, and are depreciated to their residual values over their estimated useful lives. Rentals from such leases are credited to the consolidated income statement on a straight line basis over the period of the relevant lease. Payments made by the Group as lessee under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight line basis over the period of the relevant lease. The Group classifies amounts paid to acquire leasehold land as an operating lease prepayment.

## 2. Significant accounting policies (continued)

There are no freehold land interests in Hong Kong. Accordingly, all land in Hong Kong is considered to be held under operating leases. The Group classifies the amounts paid to acquire leasehold land as operating lease prepayments. Such amounts are included within 'Other Assets'. Amortisation is calculated to write off the cost of the land on a straight line basis over the terms of the lease, which are generally between 19 and 886 years.

### 2.20 Share capital

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

**Share issue costs**

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

**Dividends**

Dividends on ordinary shares are recognised when they have been approved by shareholders.

### 2.21 Disposal groups classified as held for sale

Disposal groups are classified as held for sale if their carrying amounts will be principally recovered through a sale transaction rather than through continuing use. This requires that the disposal group must be available for immediate sale in its present condition and its sale must be highly probable. The appropriate level of management must be committed to a plan to sell the disposal group and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Any subsequent increase in the fair value less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been previously recognised.

**2.22 Presentation of the consolidated statement of financial position**

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

**2.23 Earnings per share**

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Earnings per share has also been calculated on the operating profit before adjusting items, after tax, attributable to ordinary shareholders, as the Directors believe this figure provides a better indication of operating performance.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as share options granted to employees.

Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

**2.24 Fiduciary activities**

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from these consolidated financial statements where the Group has no contractual rights to the assets and acts in a fiduciary capacity such as nominee, trustee or agent.

# 2. Significant accounting policies (continued)

**2.25 Consolidated cash flow statement**

The consolidated cash flow statement presents movements in cash and cash equivalents as shown in the consolidated statement of financial position.

Purchases and sales of financial investments are included in operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims. Purchases and sales of investment property are included within investing cash flows.

**2.26 Related party transactions**

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

**2.27 IFRS 1 - Adoption of IFRS**

The Group is required to determine its IFRS accounting policies and apply them retrospectively to establish its opening consolidated statement of financial position under IFRS. However, IFRS 1 (revised),

First-Time Adoption of International Financial Reporting Standards

allows a number of exceptions and exemptions on adoption of IFRS for the first time. The date of adoption to IFRS for the Group is 1 December 2006. The Group has not previously published consolidated financial statements because the parent company of the Group was only established on 29 August 2009 and the group it heads has not previously published consolidated financial statements and therefore there are no previously published consolidated financial statements on which the effect of the impact of transition to IFRS can be disclosed.

The Group has taken advantage of the following exceptions and exemptions as permitted by IFRS 1:

**Cumulative translation differences**

Cumulative translation differences of foreign operations have not been restated on an IFRS basis and are deemed to be nil at the date of adoption.

**Share based payment plans**

The provisions of IFRS 2,

Share Based Payments

, have not been applied to options and awards granted on or before 7 November 2002 which had not vested by 1 December 2006.

**Employee post retirement benefits**

As permitted by IFRS 1, the Group has elected to recognise all cumulative actuarial gains and losses as at 1 December 2006, notwithstanding that the Group has elected to use the corridor approach for later actuarial gains and losses. This election has been applied consistently to all plans.

**Designation of previously recognised financial instruments**

The Group has designated the following previously recognised financial instruments at fair value through profit or loss on the date of adoption of IFRS:

·

investments held to back investment-linked contracts and participating funds;

·

assets that are actively managed on a fair value basis, such as the majority of the Group's equity portfolio and financial instruments held by consolidated investment funds; and

·

compound instruments containing an embedded derivative that would otherwise require to be bifurcat
ed.

## 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 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
| Hong Kong | 7.80 | 7.79 | 7.75 |
| Thailand | 34.69 | 33.21 | 34.47 |
| Singapore | 1.52 | 1.42 | 1.46 |
| Malaysia | 3.46 | 3.31 | 3.53 |
| China | 7.65 | 6.99 | 6.83 |

| | | | |
|---|---|---|---|
| Korea | 929.37 | 1,047.12 | 1,287.00 |

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

| | US dollar exchange rates | | |
|---|---|---|---|
| | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
| Hong Kong | 7.79 | 7.75 | 7.75 |
| Thailand | 33.85 | 35.52 | 33.24 |
| Singapore | 1.45 | 1.51 | 1.38 |
| Malaysia | 3.36 | 3.62 | 3.39 |
| China | 7.39 | 6.83 | 6.83 |
| Korea | 920.81 | 1,468.43 | 1,162.79 |

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

## 4. Changes in group composition

This note provides details of the acquisitions and disposals of subsidiaries that the Group has made during the reporting period, together with details of businesses held for sale. Principal subsidiary companies are listed in Note 43.

*Acquisitions*

On 27 November 2009, the Group acquired 51% of the share capital of Ayala Life Assurance Incorporated (subsequently renamed BPI-Philam Life Assurance Corporation ('BPLAC')), a company carrying on life insurance business in the Philippines, and entered a distribution agreement with Bank of the Philippine Islands ('BPI') to distribute BPLAC's products, for consideration of US$39m of which US$10m is deferred and expected to be settled in 2010. This amount is subject to a purchase price adjustment based on the final adjusted net worth as at the date of acquisition. The Group has initially estimated this purchase price adjustment to be US$7m which is expected to be settled during 2010.

The profit after tax contributed by BPLAC for the year ended 30 November 2009 is insignificant as a consequence of the transaction completing at the end of the Group's financial year. Revenue and profit as though the acquisition had occurred on 1 December 2008 are not material to the AIA Group.

Details of the fair value of the assets and liabilities acquired and the goodwill arising, which have been provisionally determined in view of the time available, are as follows:

| US$m | Fair value | Carrying amount |
|---|---|---|
| **BPLAC** | | |
| Intangible assets | 15 | - |
| Deferred acquisition costs (value of business acquired) | 31 | - |
| Property, plant and equipment | 8 | 9 |
| Investment property | 13 | 13 |
| Loans and receivables | 67 | 65 |
| Investment securities | 246 | 246 |
| Other assets | 5 | 5 |
| Cash and cash equivalents | 2 | 2 |
| Insurance and investment contract liabilities | (281) | (281) |
| Deferred tax assets / (liabilities) | (17) | 3 |
| Other liabilities | (6) | (6) |
| **Total net assets acquired** | **83** | **56** |
| Less: non-controlling interests acquired | (44) | |
| **Net assets acquired** | **39** | |

| | |
|---|---|
| Fair value of purchase consideration | 46 |
| Acquisition costs | 1 |
| **Total purchase consideration** | **47** |
| **Goodwill arising on acquisition** | **8** |
| Fair value of purchase consideration | 47 |
| Less: deferred consideration and purchase price adjustment | (17) |
| Less: cash and cash equivalents in acquired subsidiary | (2) |
| **Net cash outflow** | **28** |

4.

Changes in group composition (continued)

*Acquisitions (continued)*

On 30 November 2007, the Group acquired a further 50% of the share capital of Grand Design Development Limited ("Grand Design") for cash consideration of US$233m. Grand Design is a holding company with a 90% interest in the share capital of Bayshore Development Group Limited ("Bayshore"), which owns a property in Hong Kong. Prior to the acquisition of this interest, the Group held a 50% interest in Grand Design. After such acquisition, the Group held a 100% interest in Grand Design. Prior to 30 November 2007, the Group had accounted for its interest in the share capital and shareholder loans of Grand Design as an associate. As a consequence of the acquisition of the further 50% interest in Grand Design, the Group consolidated Grand Design and Bayshore.

Also on 30 November 2007, Bayshore obtained banking refinancing of US$539m, which enabled Bayshore to repay certain shareholder loans, including accrued interest. The Group received US$204m for its share of these shareholder loans, which exceeded the Group's carrying value of Grand Design of US$191m. As this refinancing occurred concurrent with the Group's acquisition of the further 50% of the share capital of Grand Design, the Group did not recognise a gain on this repayment, considering it to be a reduction in the purchase consideration payable for the further 50% interest in Grand Design. During 2008, a final purchase price adjustment of US$1m was received by the Group.

Details of the fair value of the assets and liabilities acquired and the goodwill arising are as follows:

| US$m | Fair value | Carrying amount |
|---|---|---|
| **Grand Design** | | |
| Property, plant and equipment | 19 | 17 |
| Investment property | 89 | 78 |
| Loans and receivables | 3 | 7 |
| Other assets | 639 | 383 |
| Cash and cash equivalents | 26 | 26 |
| Borrowings | (544) | (544) |
| Deferred tax liabilities | (2) | - |
| Other liabilities | (11) | (11) |
| **Net assets acquired** | **219** | **(44)** |
| Repayment of shareholders' loans | 14 | |
| **Fair value of purchase consideration** | **233** | |
| Less: cash and cash equivalents in acquired subsidiaries | (26) | |
| **Net cash outflow** | **207** | |

During 2008, the Group acquired a further 50% of the share capital of AIG Consulting Services Company Limited. The fair value of the net assets acquired and purchase consideration are considered immaterial. Prior to the acquisition of this interest, the Group held a 50% interest in AIG Consulting Services Company Limited. After such acquisition, the Group held a 100% interest in AIG Consulting Services Company Limited.

*Disposal*

In October 2009, the Group sold its 60% interest in PT Asuransi AIA Indonesia for US$65m. The loss on sale was US$29m before tax. The Group continues to operate in Indonesia through its wholly owned subsidiary PT AIA Financial.

## 5. Operating profit

Operating profit may be reconciled to net profit as follows:

| US$m | *Note* | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|---|
| **Operating profit** | 7 | **1,742** | **1,943** | **1,835** |
| Non-operating investment return: | | | | |
| Investment experience | | 3,640 | (10,222) | 5,716 |
| Investment income related to investment-linked contracts | | 63 | 80 | 68 |
| Investment management expenses related to investment-linked contracts | | (9) | (10) | (16) |
| Corresponding changes in insurance and investment contract liabilities for investment-linked contracts | | (2,469) | 5,919 | (4,166) |
| Corresponding changes in insurance contract liabilities for participating funds | | (308) | 1,502 | (773) |
| Corresponding changes in third party interests in consolidated investment funds | | (80) | 319 | (164) |
| **Non-operating investment return** | | **837** | **(2,412)** | **665** |
| Other non-operating items: | | | | |
| Gain on recapture of reinsurance from former parent company | | - | 447 | - |
| Restructuring and separation costs | | - | (10) | (89) |
| **Non-operating items** | | **837** | **(1,975)** | **576** |
| **Profit/(loss) before tax** | | **2,579** | **(32)** | **2,411** |
| Tax on operating profit | | (461) | (348) | (392) |
| Tax on non-operating investment return | | (190) | 518 | (262) |
| Other non-operating tax items: | | | | |
| Release of withholding tax provision | | - | 275 | - |
| Tax (expense)/credit | | (651) | 445 | (654) |
| **Net profit** | | **1,928** | **413** | **1,757** |
| **Operating profit** | | **1,742** | **1,943** | **1,835** |
| Tax on operating profit | | (461) | (348) | (392) |
| **Operating profit after tax** | | **1,281** | **1,595** | **1,443** |
| *Operating profit after tax attributable to:* | | | | |

| | | | |
|---|---|---|---|
| **Shareholders of AIA Group Limited** | **1,270** | **1,588** | **1,438** |
| Non-controlling interests | 11 | 7 | 5 |

In 2009, non-operating items consist of restructuring and separation costs of US$89m.
Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Separation costs are those significant and identifiable costs related to the Group's separation from AIG.
During 2008, the Group paid US$190m to its then immediate parent, AIRCO, in full and final settlement of the recapture of a portfolio of reinsured risks and the transfer of a related portfolio of financial assets. The fair value of financial assets received exceeded the insurance and investment contract liabilities, deferred acquisition and origination costs, and this fee, resulting in a gain on recapture of US$447m. Other items in 2008 considered to be non-operating in nature consist of restructuring and separation costs of US$10m and the release of a provision for withholding tax, as
a tax treaty was clarified during 2008 which resulted in the release of tax liabilities for withholding tax on profits to be remitted to Hong Kong in the amount of US$275m.

6. Total weighted premium income

For management decision making and internal performance management purposes, the Group measures business volumes using a performance measure referred to as total weighted premium income (TWPI).
Total weighted premium income consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the Group's accounting policies.
Management considers that total weighted premium income provides an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not intended to be indicative of premium and fee income recorded in the consolidated income statement.

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| **Total weighted premium income by geography** | | | |
| Hong Kong | 2,845 | 2,916 | 2,861 |
| Thailand | 2,164 | 2,351 | 2,373 |
| Singapore | 1,514 | 1,641 | 1,524 |
| Malaysia | 667 | 727 | 707 |
| China | 806 | 934 | 1,018 |
| Korea | 2,178 | 2,268 | 1,759 |
| Other Markets | 1,184 | 1,366 | 1,390 |
| **Total** | **11,358** | **12,203** | **11,632** |
| | | | |
| **First year premiums by geography** | | | |
| Hong Kong | 482 | 414 | 357 |
| Thailand | 301 | 326 | 337 |
| Singapore | 115 | 139 | 111 |
| Malaysia | 78 | 91 | 93 |
| China | 161 | 160 | 166 |
| Korea | 683 | 664 | 322 |
| Other Markets | 296 | 325 | 358 |

| | | | |
|---|---|---|---|
| **Total** | **2,116** | **2,119** | **1,744** |
| | | | |
| **Single premiums by geography** | | | |
| Hong Kong | 893 | 475 | 175 |
| Thailand | 99 | 158 | 121 |
| Singapore | 1,187 | 952 | 400 |
| Malaysia | 107 | 93 | 32 |
| China | 380 | 193 | 166 |
| Korea | 740 | 457 | 77 |
| Other Markets | 273 | 247 | 119 |
| **Total** | **3,679** | **2,575** | **1,090** |

# 6. Total weighted premium income (continued)

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| **Renewal premiums by geography** | | | |
| Hong Kong | 2,274 | 2,455 | 2,487 |
| Thailand | 1,853 | 2,009 | 2,024 |
| Singapore | 1,280 | 1,407 | 1,373 |
| Malaysia | 578 | 627 | 611 |
| China | 607 | 755 | 835 |
| Korea | 1,421 | 1,559 | 1,429 |
| Other Markets | 861 | 1,015 | 1,020 |
| **Total** | **8,874** | **9,827** | **9,779** |

## 7.

## Segment information

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

Because each reportable segment other than the Corporate and Other segment focuses on serving the life insurance needs of its local market there are limited transactions between reportable segments.

The key performance indicators reported in respect of each segment are:

- total weighted premium income;
- investment income (excluding investment income in respect of investment-linked contracts);
- operating expenses;
- operating profit; (see Note 5);
- expense ratio; measured as operating expenses divided by total weight premium income;
- operating margin; measured as operating profit (see above) expressed as a percentage of total weighted premium income; and
- operating return on allocated segment equity, measured as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a simple average of opening and closing allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests, fair value and foreign currency translation reserves, and adjusted for subordinated intercompany debt).

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

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

·

# 7. Segment information (continued)

| | Key markets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| US$m | Hong Kong | Thailand | Singapore | Malaysia | China | Korea | Other Markets | Corporate and Other | Total |
| **Year ended 30 November 2009** | | | | | | | | | |
| **Total weighted premium income** | **2,861** | **2,373** | **1,524** | **707** | **1,018** | **1,759** | **1,390** | **-** | **11,632** |
| Net premiums, fee income and other operating revenue (net of reinsurance ceded) | 2,232 | 2,374 | 1,506 | 656 | 999 | 1,367 | 1,055 | (16) | 10,173 |
| Investment income[1] | 779 | 640 | 609 | 223 | 201 | 217 | 400 | (10) | 3,059 |
| **Total revenue** | **3,011** | **3,014** | **2,115** | **879** | **1,200** | **1,584** | **1,455** | **(26)** | **13,232** |
| Net insurance and investment contract benefits[2] | 1,700 | 2,107 | 1,495 | 597 | 872 | 1,027 | 843 | (17) | 8,624 |
| Commission and other acquisition expenses | 398 | 391 | 160 | 70 | 55 | 371 | 204 | (1) | 1,648 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Operating expenses | 163 | 135 | 91 | 58 | 181 | 101 | 170 | 82 | 981 |
| Investment management expenses and finance costs[3] | 52 | 23 | 13 | 5 | 3 | 4 | 25 | (2) | 123 |
| **Total expenses** | **2,313** | **2,656** | **1,759** | **730** | **1,111** | **1,503** | **1,242** | **62** | **11,376** |
| Share of profit/(loss) from associates and joint ventures | - | - | - | 1 | - | - | (22) | - | (21) |
| **Operating profit/(loss)** | **698** | **358** | **356** | **150** | **89** | **81** | **191** | **(88)** | **1,835** |
| Tax on operating profit | (43) | (111) | (92) | (44) | (21) | (16) | (47) | (18) | (392) |
| **Operating profit/(loss) after tax** | **655** | **247** | **264** | **106** | **68** | **65** | **144** | **(106)** | **1,443** |
| *Operating profit/(loss) after tax attributable to:* | | | | | | | | | |
| **Shareholders of AIA Group Limited** | **653** | **251** | **264** | **106** | **68** | **65** | **137** | **(106)** | **1,438** |
| Non-controlling interests | 2 | (4) | - | - | - | - | 7 | - | 5 |
| **Key operating ratios:** | | | | | | | | | |
| Expense ratio | 5.7% | 5.7% | 6.0% | 8.2% | 17.8% | 5.7% | 12.2% | - | 8.4% |
| Operating margin | 24.4% | 15.1% | 23.4% | 21.2% | 8.7% | 4.6% | 13.7% | - | 15.8% |
| Operating return on allocated equity | 16.9% | 9.4% | 21.1% | 22.5% | 11.2% | 5.3% | 10.9% | - | 12.0% |
| Operating profit includes: | | | | | | | | | |
| Finance costs | 43 | 2 | 6 | 2 | - | - | 3 | (6) | 50 |
| Depreciation and amortisation | 4 | 8 | 8 | 8 | 13 | 10 | 9 | 6 | 66 |
| Strategic initiative expenses | 10 | 6 | 14 | 2 | 3 | - | 9 | 18 | 62 |

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

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

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

# 7. Segment information (continued)

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

| | Key markets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| US$m | Hong Kong | Thailand | Singapore | Malaysia | China | Korea | Other Markets | Corporate and Other | Total |
| **30 November 2009** | | | | | | | | | |
| **Operating profit/(loss)** | **698** | **358** | **356** | **150** | **89** | **81** | **191** | **(88)** | **1,835** |
| Non-operating items | (32) | 563 | 139 | 35 | 30 | (80) | (40) | (39) | 576 |
| **Profit/(loss) before tax** | **666** | **921** | **495** | **185** | **119** | **1** | **151** | **(127)** | **2,411** |
| Tax on operating profit | (43) | (111) | (92) | (44) | (21) | (16) | (47) | (18) | (392) |
| Tax on non-operating items | - | (168) | (75) | (20) | (8) | 15 | (3) | (3) | (262) |
| Tax (expense)/credit | (43) | (279) | (167) | (64) | (29) | (1) | (50) | (21) | (654) |
| **Net profit/(loss)** | **623** | **642** | **328** | **121** | **90** | **-** | **101** | **(148)** | **1,757** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *Net profit/(loss) attributable to:* | | | | | | | | | |
| **Shareholders of AIA Group Limited** | **621** | **646** | **328** | **121** | **90** | **-** | **94** | **(146)** | **1,754** |
| Non-controlling interests | 2 | (4) | - | - | - | - | 7 | (2) | 3 |

Allocated equity may be analysed as follows:

| | Key markets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| US$m | Hong Kong | Thailand | Singapore | Malaysia | China | Korea | Other Markets | Corporate and Other | Total |
| **30 November 2009** | | | | | | | | | |
| Assets before investments in associates and joint ventures | 23,761 | 16,530 | 20,690 | 6,337 | 6,510 | 7,498 | 7,829 | 1,451 | 90,606 |
| Investments in associates and joint ventures | - | 2 | 7 | 4 | - | - | 40 | - | 53 |
| **Total assets** | 23,761 | 16,532 | 20,697 | 6,341 | 6,510 | 7,498 | 7,869 | 1,451 | 90,659 |
| **Total liabilities[4]** | 19,023 | 12,955 | 18,914 | 5,787 | 5,828 | 6,378 | 6,090 | 695 | 75,670 |
| **Total equity** | **4,738** | **3,577** | **1,783** | **554** | **682** | **1,120** | **1,779** | **756** | **14,989** |
| Non-controlling interests | 2 | - | - | - | - | - | 48 | 1 | 51 |
| Amounts reflected in other comprehensive income: | | | | | | | | | |
| Fair value reserve | 572 | 463 | 108 | 24 | (32) | 49 | 375 | (31) | 1,528 |
| Foreign currency translation reserve | - | 195 | 149 | 26 | 54 | (156) | 40 | 1 | 309 |
| **Allocated equity** | **4,164** | **2,919** | **1,526** | **504** | **660** | **1,227** | **1,316** | **785** | **13,101** |
| Net capital in/(out) flows | (30) | (175) | 220 | (54) | 16 | 11 | 18 | 413 | 419 |

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

# 7. Segment information (continued)

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

| US$m | **Segment information** | Investment experience | Investment income related to investment-linked contracts | Investment management expenses related to investment-linked contracts | Related changes in insurance and investment contract benefits: Investment-linked contracts | Related changes in insurance and investment contract benefits: Participating funds | Third interes consolic investr f |
|---|---|---|---|---|---|---|---|
| **30 November 2009** | | | | | | | |
| **Total revenue** | **13,232** | **5,716** | **68** | **-** | **-** | **-** | |
| Of which: | | | | | | | |
| Net premiums, fee income | 10,173 | - | - | - | - | - | |

| | | | | | | |
|---|---|---|---|---|---|---|
| and other operating revenue | | | | | | |
| Investment return | 3,059 | 5,716 | 68 | - | - | - |
| **Total expenses** | **11,376** | **-** | **-** | **16** | **4,166** | **773** |
| Of which: Net insurance and investment contract benefits | 8,624 | - | - | - | 4,166 | 773 |
| Restructuring and separation costs | - | - | - | - | - | - |
| Investment management expenses and finance costs | 123 | | | 16 | | |
| Change in third party interests in consolidated investment funds | - | - | - | - | - | - |
| Share of loss of associates and joint ventures | (21) | - | - | - | - | - |
| **Operating profit** | **1,835** | **5,716** | **68** | **(16)** | **(4,166)** | **(773)** |

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

# 7. Segment information (continued)

| | Key markets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| US$m | Hong Kong | Thailand | Singapore | Malaysia | China | Korea | Other Markets | Corporate and Other | Total |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Year ended 30 November 2008** | | | | | | | | | |
| **Total weighted premium income** | **2,916** | **2,351** | **1,641** | **727** | **934** | **2,268** | **1,366** | **-** | **12,203** |
| Net premiums, fee income and other operating revenue (net of reinsurance ceded) | 2,023 | 2,403 | 1,658 | 706 | 847 | 1,698 | 1,032 | (6) | 10,361 |
| Investment income[1] | 767 | 657 | 616 | 230 | 184 | 248 | 397 | 45 | 3,144 |
| **Total revenue** | **2,790** | **3,060** | **2,274** | **936** | **1,031** | **1,946** | **1,429** | **39** | **13,505** |
| Net insurance and investment contract benefits[2] | 1,540 | 2,101 | 1,551 | 663 | 692 | 1,222 | 860 | 1 | 8,630 |
| Commission and other acquisition expenses | 336 | 381 | 238 | 80 | 76 | 307 | 148 | (3) | 1,563 |
| Operating expenses | 183 | 132 | 129 | 64 | 172 | 132 | 173 | 104 | 1,089 |
| Investment management expenses and finance costs[3] | 141 | 23 | 24 | 5 | 6 | 4 | 31 | 18 | 252 |
| **Total expenses** | **2,200** | **2,637** | **1,942** | **812** | **946** | **1,665** | **1,212** | **120** | **11,534** |
| Share of profit/(loss) from associates and joint ventures | - | 1 | 1 | (1) | - | - | (29) | - | (28) |
| **Operating profit/(loss)** | **590** | **424** | **333** | **123** | **85** | **281** | **188** | **(81)** | **1,943** |
| Tax on operating profit/(loss) | (21) | (121) | (100) | (11) | 3 | (63) | (29) | (6) | (348) |
| **Operating profit/(loss) after tax** | **569** | **303** | **233** | **112** | **88** | **218** | **159** | **(87)** | **1,595** |
| *Operating profit/(loss) after tax attributable to:* | | | | | | | | | |
| **Shareholders of AIA Group Limited** | **568** | **303** | **233** | **112** | **88** | **218** | **153** | **(87)** | **1,588** |
| Non-controlling interests | 1 | - | - | - | - | - | 6 | - | 7 |
| **Key operating ratios:** | | | | | | | | | |
| Expense ratio | 6.3% | 5.6% | 7.9% | 8.8% | 18.4% | 5.8% | 12.7% | - | 8.9% |
| Operating margin | 20.2% | 18.0% | 20.3% | 16.9% | 9.1% | 12.4% | 13.8% | - | 15.9% |
| Operating return on allocated equity | 18.3% | 11.7% | 22.7% | 27.5% | 16.8% | 20.2% | 13.7% | - | 15.1% |
| Operating profit includes: | | | | | | | | | |
| Finance costs | 122 | 2 | 21 | 1 | 1 | - | 2 | 10 | 159 |
| Depreciation and amortisation | 1 | 13 | 9 | 7 | 14 | 9 | 6 | 5 | 64 |
| Strategic initiative expenses | 4 | 2 | 9 | 1 | - | - | 1 | 8 | 25 |

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

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

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

# 7. Segment information (continued)

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

| | Key markets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| US$m | Hong Kong | Thailand | Singapore | Malaysia | China | Korea | Other Markets | Corporate and Other | Total |
| **30 November 2008** | | | | | | | | | |
| **Operating profit/(loss)** | **590** | **424** | **333** | **123** | **85** | **281** | **188** | **(81)** | **1,943** |
| Non-operating items | (326) | (738) | (479) | (74) | (50) | (83) | (102) | (123) | (1,975) |
| **Profit/(loss) before tax** | **264** | **(314)** | **(146)** | **49** | **35** | **198** | **86** | **(204)** | **(32)** |
| Tax on operating profit | (21) | (121) | (100) | (11) | 3 | (63) | (29) | (6) | (348) |
| Tax on non-operating items | - | 221 | 193 | 48 | 15 | 29 | 9 | 3 | 518 |
| Other non-operating tax items | - | - | - | - | - | - | - | 275 | 275 |
| Tax (expense)/credit | (21) | 100 | 93 | 37 | 18 | (34) | (20) | 272 | 445 |
| **Net profit/(loss)** | **243** | **(214)** | **(53)** | **86** | **53** | **164** | **66** | **68** | **413** |
| *Net profit/(loss) attributable to:* | | | | | | | | | |
| **Shareholders of AIA Group Limited** | **243** | **(214)** | **(53)** | **86** | **53** | **164** | **62** | **67** | **408** |
| Non-controlling interests | - | - | - | - | - | - | 4 | 1 | 5 |

Allocated equity may be analysed as follows:

| | Key markets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| US$m | Hong Kong | Thailand | Singapore | Malaysia | China | Korea | Other Markets | Corporate and Other | Total |
| **30 November 2008** | | | | | | | | | |
| Assets before investments in associates and joint ventures | 19,252 | 13,938 | 15,883 | 5,534 | 5,636 | 5,055 | 5,656 | 1,008 | 71,962 |
| Investments in associates and joint ventures | - | 2 | 7 | 2 | - | - | 36 | - | 47 |
| **Total assets** | 19,252 | 13,940 | 15,890 | 5,536 | 5,636 | 5,055 | 5,692 | 1,008 | 72,009 |
| **Total liabilities**[4] | 17,416 | 11,030 | 15,003 | 5,075 | 4,953 | 4,424 | 4,716 | 474 | 63,091 |
| **Total equity** | **1,836** | **2,910** | **887** | **461** | **683** | **631** | **976** | **534** | **8,918** |
| Non-controlling interests | - | - | - | - | - | - | 10 | - | 10 |
| Amounts reflected in other comprehensive income: | | | | | | | | | |
| Fair value reserve | (1,737) | 457 | (112) | 27 | 76 | (175) | (118) | 17 | (1,565) |
| Foreign currency translation reserve | - | 5 | 21 | (3) | 53 | (410) | (120) | (1) | (455) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Allocated equity** | **3,573** | **2,448** | **978** | **437** | **554** | **1,216** | **1,204** | **518** | **10,928** |
| Net capital in/(out) flows | 684 | (74) | (45) | (28) | 7 | 105 | 118 | (377) | 390 |

Note: (4) Corporate and Other and Other Markets adjusted for subordinated intercompany debt provided to Other Markets of US$68m

7. Segment information (continued)

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

| US$m | **Segment information** | Investment experience | Investment income related to investment-linked contracts | Investment management expenses related to investment-linked contracts | Related changes in insurance and investment contract benefits: Investment-linked contracts | Related changes in insurance and investment contract benefits: Participating funds | Third p interes consolid investr f |
|---|---|---|---|---|---|---|---|
| **30 November 2008** | | | | | | | |
| Total rev enue | **13,505** | **(10,222)** | **80** | **-** | - | - | |
| Of which: | | | | | | | |
| Net premiums, fee income and other operating revenue | 10,361 | - | - | - | - | - | |
| I nvestment return | 3,144 | (10,222) | 80 | - | - | - | |
| Total expenses | **11,534** | **-** | **-** | **10** | **(5,919)** | **(1,502)** | **(** |
| Of which: | | | | | | | |
| Net insurance and investment contract benefits | 8,630 | - | - | - | (5,919) | (1,502) | |
| Restructuring and separation costs | - | | | | | | |
| Investment management expenses and finance | 252 | | | 10 | | | |

7. Segment information (continued)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| costs | | | | | | | |
| Change in third party interests in consolidated investment funds | - | - | - | - | - | - | ( |
| Share of loss of associates and joint ventures | (28) | - | - | - | - | - | |
| **Operating profit** | **1,943** | **(10,222)** | **80** | **(10)** | **5,919** | **1,502** | |

Other non-operating items in 2008 consist of a gain of US$447m arising on the recapture of a reinsurance treaty and restructuring costs of US$10m (see Note 5).

**7. Segment information (continued)**

| US$m | Key markets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong | Thailand | Singapore | Malaysia | China | Korea | Other Markets | Corporate and Other | Total |
| **Year ended 30 November 2007** | | | | | | | | | |
| **Total weighted premium income** | **2,845** | **2,164** | **1,514** | **667** | **806** | **2,178** | **1,184** | **-** | **11,358** |
| Net premiums, fee income and other operating revenue (net of reinsurance ceded) | 1,401 | 2,206 | 1,464 | 610 | 723 | 1,506 | 912 | (5) | 8,817 |
| Investment income[1] | 607 | 557 | 538 | 200 | 147 | 233 | 352 | 72 | 2,706 |
| **Total revenue** | **2,008** | **2,763** | **2,002** | **810** | **870** | **1,739** | **1,264** | **67** | **11,523** |
| Net insurance and investment contract benefits[2] | 1,124 | 1,928 | 1,434 | 554 | 551 | 1,165 | 829 | 1 | 7,586 |
| Commission and other acquisition expenses | 198 | 293 | 76 | 75 | 68 | 165 | 70 | 2 | 947 |
| Operating expenses | 133 | 114 | 95 | 52 | 127 | 136 | 157 | 148 | 962 |
| Investment management expenses and finance costs[3] | 153 | 26 | 49 | 6 | 2 | 4 | 30 | 16 | 286 |
| **Total expenses** | **1,608** | **2,361** | **1,654** | **687** | **748** | **1,470** | **1,086** | **167** | **9,781** |
| Share of profit/(loss) from associates and joint ventures | 8 | (1) | - | - | - | - | (8) | 1 | - |
| **Operating profit/(loss)** | **408** | **401** | **348** | **123** | **122** | **269** | **170** | **(99)** | **1,742** |
| Tax on operating profit | (40) | (126) | (68) | (38) | (11) | (77) | (54) | (47) | (461) |
| **Operating profit/(loss) after tax** | **368** | **275** | **280** | **85** | **111** | **192** | **116** | **(146)** | **1,281** |
| *Operating profit/(loss) after tax attributable to:* | | | | | | | | | |
| | **368** | **275** | **280** | **85** | **111** | **192** | **105** | **(146)** | **1,270** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Shareholders of AIA Group Limited** | | | | | | | | | |
| Non-controlling interests | - | - | - | - | - | - | 11 | - | 11 |
| **Key operating ratios:** | | | | | | | | | |
| Expense ratio | 4.7% | 5.3% | 6.3% | 7.8% | 15.8% | 6.2% | 13.3% | - | 8.5% |
| Operating margin | 14.3% | 18.5% | 23.0% | 18.4% | 15.1% | 12.4% | 14.4% | - | 15.3% |
| Operating return on allocated equity | 15.5% | 11.0% | 25.9% | 24.3% | 26.9% | 23.8% | 11.1% | - | 13.7% |
| Operating profit includes: | | | | | | | | | |
| Finance costs | 141 | - | 42 | 2 | 1 | - | - | 17 | 203 |
| Depreciation and amortisation | 6 | 8 | 8 | 4 | 7 | 8 | 6 | 5 | 52 |
| Strategic initiative expenses | - | - | - | - | - | - | - | - | - |

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

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

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

**7. Segment information (continued)**

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

| | Key markets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| US$m | Hong Kong | Thailand | Singapore | Malaysia | China | Korea | Other Markets | Corporate and Other | Total |
| **30 November 2007** | | | | | | | | | |
| **Operating profit/(loss)** | **408** | **401** | **348** | **123** | **122** | **269** | **170** | **(99)** | **1,742** |
| Non-operating items | 203 | 341 | 68 | 55 | 63 | 36 | 42 | 29 | 837 |
| **Profit/(loss) before tax** | **611** | **742** | **416** | **178** | **185** | **305** | **212** | **(70)** | **2,579** |
| Tax on operating profit | (40) | (126) | (68) | (38) | (11) | (77) | (54) | (47) | (461) |
| Tax on non-operating items | - | (103) | (36) | (28) | (12) | (11) | (1) | 1 | (190) |
| Tax (expense)/credit | (40) | (229) | (104) | (66) | (23) | (88) | (55) | (46) | (651) |
| **Net profit/(loss)** | **571** | **513** | **312** | **112** | **162** | **217** | **157** | **(116)** | **1,928** |
| *Net profit/(loss) attributable to:* | | | | | | | | | |
| **Shareholders of AIA Group Limited** | **571** | **513** | **312** | **112** | **162** | **217** | **143** | **(116)** | **1,914** |
| Non-controlling interests | - | - | - | - | - | - | 14 | - | 14 |

Allocated equity may be analysed as follows:

| | Key markets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| US$m | Hong Kong | Thailand | Singapore | Malaysia | China | Korea | Other Markets | Corporate and Other | Total |
| **30 November 2007** | | | | | | | | | |
| Assets before investments in associates and joint ventures | 23,623 | 13,730 | 20,535 | 5,790 | 4,544 | 7,763 | 6,815 | 5,329 | 88,129 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Investments in associates and joint ventures | - | 4 | 17 | - | - | - | 23 | 19 | 63 |
| **Total assets** | 23,623 | 13,734 | 20,552 | 5,790 | 4,544 | 7,763 | 6,838 | 5,348 | 88,192 |
| **Total liabilities** | 20,873 | 10,715 | 19,331 | 5,365 | 4,142 | 6,893 | 5,135 | 2,247 | 74,701 |
| **Total equity** | **2,750** | **3,019** | **1,221** | **425** | **402** | **870** | **1,703** | **3,101** | **13,491** |
| Non-controlling interests | - | - | - | - | - | - | 51 | - | 51 |
| Amounts reflected in other comprehensive income: | | | | | | | | | |
| Fair value reserve | 104 | 141 | 70 | 17 | (108) | (85) | 558 | 2,272 | 2,969 |
| Foreign currency translation reserve | - | 142 | 75 | 29 | 16 | 8 | 70 | 1 | 341 |
| **Allocated equity** | **2,646** | **2,736** | **1,076** | **379** | **494** | **947** | **1,024** | **828** | **10,130** |
| Net capital in/(out) flows | (7) | (61) | (319) | (51) | - | 60 | (1) | 285 | (94) |

**7. Segment information (continued)**

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

| US$m | **Segment information** | Investment experience | Investment income related to investment-linked contracts | Investment management expenses related to investment-linked contracts | Related changes in insurance and investment contract benefits | | Third p interes consolic investr f |
|---|---|---|---|---|---|---|---|
| | | | | | Investment-linked contracts | Participating funds | |
| **30 November 2007** | | | | | | | |
| **Total revenue** | **11,523** | **3,640** | **63** | - | - | - | |
| Of which: | | | | | | | |
| Net premiums, fee income and other operating revenue | 8,817 | - | - | - | - | - | |
| I nvestment return | 2,706 | 3,640 | 63 | - | - | - | |
| Total expenses | **9,781** | **-** | **-** | **9** | **2,469** | **308** | |
| Of which: | | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net insurance and investment contract benefits | 7,586 | - | - | - | 2,469 | 308 |
| Investment management expenses and finance costs | 286 | | | 9 | | |
| Change in third party interests in consolidated investment funds | - | - | - | - | - | - |
| **Operating profit** | **1,742** | **3,640** | **63** | **(9)** | **(2,469)** | **(308)** |

## 8. Revenue

**Investment return**

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Interest income | 2,560 | 2,958 | 2,913 |
| Dividend income | 184 | 203 | 147 |
| Rental income | 25 | 63 | 67 |
| **Investment income** | **2,769** | **3,224** | **3,127** |
| **Available for sale** | | | |
| Net realised gains/(losses) from debt securities | 1 | (90) | (162) |
| Impairment of debt securities | - | (142) | (67) |
| **Net gains/(losses) of available for sale financial assets reflected in the consolidated income statement** | **1** | **(232)** | **(229)** |
| **At fair value through profit or loss** | | | |
| Net (losses)/gains of debt securities | (227) | (1,117) | 635 |
| Net gains/(losses) of equity securities | 4,030 | (8,968) | 5,506 |
| Net fair value movement on derivatives | 100 | (247) | 273 |
| **Net gains/(losses) in respect of financial assets at fair value through profit or loss** | **3,903** | **(10,332)** | **6,414** |
| Net foreign exchange (losses)/gains | (262) | 300 | (426) |
| Other realised (losses)/gains | (2) | 42 | (43) |
| **Investment experience** | **3,640** | **(10,222)** | **5,716** |
| **Investment return** | **6,409** | **(6,998)** | **8,843** |

Other realised (losses)/gains for the year ended 30 November 2009 includes US$9m of impairment loss relating to the disposal group held for sale (see Note 11 for further information) and US$29m loss before tax relating to the disposal of PT Asuransi AIA Indonesia.

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

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Foreign exchange (loss)/gain | (225) | 227 | (140) |

**8. Revenue (continued)**

**Other operating revenue**

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Gain on recapture of reinsurance from former parent company (see Note 5) | - | 447 | - |
| Other revenue | 77 | 79 | 71 |
| **Total** | **77** | **526** | **71** |

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

## 9. Expenses

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Insurance contract benefits | 4,555 | 5,402 | 5,375 |
| Change in insurance contract liabilities | 5,233 | (1,898) | 6,275 |
| Investment contract benefits | 1,228 | (2,047) | 2,164 |
| **Insurance and investment contract benefits** | **11,016** | **1,457** | **13,814** |
| Insurance and investment contract benefits ceded | (653) | (248) | (251) |
| **Insurance and investment contract benefits, net of ceded reinsurance** | **10,363** | **1,209** | **13,563** |
| Commissions and other acquisition expenses incurred | 2,282 | 2,269 | 1,855 |
| Deferral and amortisation of acquisition costs | (1,335) | (706) | (207) |
| **Commission and other acquisition expenses** | **947** | **1,563** | **1,648** |
| Employee benefit expenses | 585 | 639 | 610 |
| Depreciation | 45 | 61 | 57 |
| Amortisation | 7 | 3 | 9 |
| Operating lease rentals | 81 | 94 | 90 |
| Other operating expenses | 244 | 292 | 215 |
| **Operating expenses** | **962** | **1,089** | **981** |
| Restructuring costs | - | 8 | 11 |

Investment return 

| | | | |
|---|---|---|---|
| Separation costs | - | 2 | 78 |
| **Restructuring and separation costs** | **-** | **10** | **89** |
| Investment management expenses | 92 | 103 | 89 |
| Finance costs | 203 | 159 | 50 |
| Change in third party interests in consolidated investment funds | 80 | (319) | 164 |
| **Total** | **12,647** | **3,814** | **16,584** |

Other operating expenses include auditors' remuneration of US$8m (2007: US$8m; 2008: US$8m). Operating expenses include strategic initiative expenses of US$62m (2007: US$nil; 2008: US$25m). Strategic initiative expenses consist of expenses for enhancing distribution capability and operational efficiency and are approved by the Group's Strategic Initiative Office.

**9. Expenses (continued)**

Investment management expenses may be analysed as:

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Investment management expenses including fees paid to related parties | 88 | 101 | 87 |
| Depreciation on investment property | 4 | 2 | 2 |
| **Total** | **92** | **103** | **89** |

Finance costs may be analysed as:

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Securities lending and repurchase agreements (see Note 30 for details) | 193 | 134 | 44 |
| Bank and other loans | 1 | 18 | 5 |
| Related party borrowings (see Note 41) | 9 | 7 | 1 |
| **Total** | **203** | **159** | **50** |

Interest expense includes US$5m (2007: US$10m; 2008: US$25m) on bank loans, overdrafts and related party loans wholly repayable within five years.

Employee benefit expenses consist of:

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Wages and salaries | 464 | 497 | 477 |
| Share based compensation | 11 | 19 | 8 |
| Pension costs - defined contribution plans | 20 | 27 | 30 |
| Pension costs - defined benefit plans | 12 | 12 | 14 |
| Other employee benefit expenses | 78 | 84 | 81 |
| **Total** | **585** | **639** | **610** |

## 10. Income tax

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| **Tax (credited)/charged in the consolidated income statement** | | | |
| Current income tax - Hong Kong Profits Tax | 39 | 37 | 34 |
| Current income tax - overseas | 425 | 364 | 287 |
| Deferred income tax on temporary differences | 187 | (846) | 333 |
| **Total** | **651** | **(445)** | **654** |

The provision for Hong Kong Profits Tax is calculated at 16.5%, starting from the year of assessment 2008/09. In previous periods, the Profits Tax rate in Hong Kong was 17.5%. Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions of which the most significant jurisdictions are outlined below. The tax benefit or expense attributable to Singapore, Malaysia, Australia and New Zealand life insurance policyholder returns is included in the tax charge or credit and is analysed separately in the consolidated income statement in order to permit comparison of the underlying effective rate of tax attributable to shareholders from year to year. The tax attributable to policyholders' returns included above is US$137m charge (2007: US$70m charge; 2008: US$90m credit).

| | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Thailand | 30% | 30% | 30% |
| Singapore | 18% | 18% | 17% |
| Korea | 27.50% | 24.20% | 24.2% |
| Malaysia | 27% | 26% | 25% |
| China | 25%/33% | 25% | 25% |
| Hong Kong | 17.50% | 16.50% | 16.50% |
| Other | 20% - 35% | 20% - 35% | 20% - 30% |

The table above reflects the principal rate of corporate income taxes, as at the end of each year. The rate changes reflect changes to the enacted or substantively enacted corporate tax rates throughout the period in each jurisdiction.

The most significant matters affecting the tax charge for the year ended 30 November 2008 are the release of a provision for withholding tax of US$275m following clarification of a tax treaty with Hong Kong (see Note 5 and below), a tax credit of US$41m relating to a change of tax law in Malaysia and a reduction in Korea's corporate tax rate which will fall to 22% from 2012.

Hong Kong, where the Group is headquartered, currently has a number of tax treaties providing double tax relief in respect of countries in which the Group operates. The overall benefit of these treaties reduces the tax balances recorded in the consolidated statement of financial position as at 30 November 2009 by US$358m (2008: US$290m).

In the analysis that follows, the terms 'life insurance tax' and 'life surplus' have the following meaning:

·

life insurance tax refers to the permanent differences which arise where the tax regime specific to the life insurance business does not adopt net income as the basis for calculating taxable profit, for example Hong

Kong, where life business taxable profit is derived from life premiums; and
·
life surplus relates to the temporary difference which arises where the taxable profits are based on actual distributions from the long term fund. This primarily relates to Singapore and Malaysia.

**10. Income tax (continued)**

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| **Income tax reconciliation** | | | |
| **Profit/(loss) before income tax** | **2,579** | **(32)** | **2,411** |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 610 | 5 | 549 |
| Reduction in tax payable from: | | | |
| Release of provision for withholding tax | - | (275) | - |
| Life insurance tax | - | (108) | - |
| Exempt investment income | (17) | (33) | (38) |
| Changes in tax rate and law | (24) | (44) | - |
| Release of provisions for uncertain tax positions | - | (10) | - |
| Amounts over provided in prior years | (10) | (3) | (4) |
| Unrecognised deferred tax assets | - | - | - |
| Other | - | (4) | - |
| | **(51)** | **(477)** | **(42)** |
| Increase in tax payable from: | | | |
| Life insurance tax | 19 | - | 70 |
| Withholding taxes | 37 | - | 12 |
| Disallowed expenses | 3 | 20 | 43 |
| Unrecognised deferred tax assets | 13 | 7 | 4 |
| Provisions for uncertain tax positions | 3 | - | 3 |
| Other | 17 | - | 15 |
| | 92 | 27 | 147 |
| **Total income tax expense/(credit)** | **651** | **(445)** | **654** |

**Deferred tax**

| | | | |
|---|---|---|---|
| Temporary differences not recognised in the consolidated statement of financial position are: | | | |
| Tax losses | 144 | 148 | 148 |
| Insurance contract liabilities | 117 | 89 | 52 |
| **Total** | **261** | **237** | **200** |

**There are no current tax assets recoverable in more than one year. All jurisdictions are either in a net deferred tax liability position or there is no recognition of deferred tax assets.**

The Group has unused income tax losses carried forward in China, Indonesia, Vietnam and the Philippines. The losses in China, Vietnam and Indonesia expire if they remain unused five years after being incurred. Losses in the Philippines expire three years after being incurred. All of the tax losses currently carried forward are due to expire by the end of 2014.

**10. Income tax (continued)**

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

| US$m | Net deferred tax asset/(liability) at 1 December | (Charged)/ credited to the income statement | (Charged)/credited to other comprehensive income Fair value reserve | Foreign exchange | Net deferred tax asset/(liability) at 30 November |
|---|---|---|---|---|---|
| **30 November 2009** | | | | | |
| Revaluation of financial instruments | **(415)** | (721) | (133) | (161) | **(1,430)** |
| Deferred acquisition costs | **(1,244)** | (187) | - | (42) | **(1,473)** |
| Insurance and investment contract liabilities | **1,387** | 711 | - | 157 | **2,255** |
| Withholding taxes | **(48)** | (12) | - | (3) | **(63)** |
| Provision for expenses | **7** | (11) | - | (2) | **(6)** |
| Losses available for offset against future taxable income | **4** | - | - | - | **4** |
| Life surplus | **(255)** | (118) | - | (26) | **(399)** |
| Other | **17** | 5 | - | 3 | **25** |
| **Total** | **(547)** | (333) | (133) [1] | (74) | **(1,087)** |
| **30 November 2008** | | | | | |
| Revaluation of financial instruments | **(1,226)** | 755 | (12) | 68 | **(415)** |
| Deferred acquisition costs | **(1,620)** | 345 | - | 31 | **(1,244)** |
| Insurance and investment contract liabilities | **2,142** | (693) | - | (62) | **1,387** |
| Withholding taxes | **(304)** | 261 | - | (5) | **(48)** |
| Provision for expenses | **59** | (48) | - | (4) | **7** |
| Losses available for offset against future taxable income | **6** | (2) | - | - | **4** |

There are no current tax assets recoverable in more than one year. Alljurisdictions are either in a net deferred tax l

| | | | | | |
|---|---|---|---|---|---|
| Life surplus | **(431)** | 161 | - | 15 | **(255)** |
| Other | **(53)** | 67 | - | 3 | **17** |
| **Total** | **(1,427)** | 846 | (12) [1] | 46 | **(547)** |
| **30 November 2007** | | | | | |
| Revaluation of financial instruments | **(1,379)** | (20) | 181 | (8) | **(1,226)** |
| Deferred acquisition costs | **(1,484)** | (98) | - | (38) | **(1,620)** |
| Insurance and investment contract liabilities | **1,683** | 331 | - | 128 | **2,142** |
| Withholding taxes | **(256)** | (34) | - | (14) | **(304)** |
| Provision for expenses | **150** | (66) | - | (25) | **59** |
| Losses available for offset against future taxable income | **67** | (44) | - | (17) | **6** |
| Life surplus | **(36)** | (285) | - | (110) | **(431)** |
| Other | **(88)** | 29 | - | 6 | **(53)** |
| **Total** | **(1,343)** | (187) | 181[1] | (78) | **(1,427)** |

*Note: (1) Of the fair value reserve deferred tax charge of US$133m for 2009, US$139m (2008: US$(22)m, 2007: US$181m) relates to fair value gains and losses on available for sale financial assets and US$6m (2008: US$10m, 2007: US$nil) relates to fair value gains and losses on available for sale financial assets transferred to income on disposal and impairment*

## 11. Disposal groups held for sale

On 28 August 2009, AIA-B agreed to sell AIA (Bermuda) Services Inc. and transfer a block of life insurance policies through a business transfer to ALICO for an aggregate consideration of US$1.
As a result, the assets and liabilities have been presented as held for sale at 30 November 2009. Refer to Note
8
for additional information.
The following table shows the assets and liabilities of the disposal group classified as held for sale.

| US$m | 30 November 2009 |
|---|---|
| Available for sale - debt securities | 50 |
| Other assets | 5 |
| Cash and cash equivalents | 3 |
| **Total assets** | **58** |
| Insurance contract liabilities | 57 |
| Other liabilities | 1 |
| **Total liabilities** | **58** |

The movement in deferred tax liabilities in the period may be analysed as setout below:

## 12. Earnings per share

**Basic**

Basic earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares in issue during the year.

| | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Net profit attributable to shareholders of AIA Group Limited (US$m) | 1,914 | 408 | 1,754 |
| Weighted average number of ordinary shares in issue (million) | 12,000 | 12,000 | 12,000 |
| **Basic earnings per share (cents per share)** | **16** | **3** | **15** |

**Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's only potentially dilutive instruments during the years presented are the shares yet to be issued at 30 November 2009 as described in note 34.

| | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Net profit attributable to shareholders of AIA Group Limited (US$m) | 1,914 | 408 | 1,754 |
| Weighted average number of ordinary shares for diluted earnings per share (million) | 12,000 | 12,000 | 12,000 |
| **Diluted earnings per share (cents per share)** | **16** | **3** | **15** |

**Operating profit per share**

Operating profit (see Note 5) per share is calculated by dividing the operating profit after tax attributable to owners of the company by the weighted average number of ordinary shares in issue during the year. The Group's only potentially dilutive instruments during the years presented are the shares yet to be issued at 30 November 2009 as described in note 34.

| | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Basic and fully diluted (cents per share) | 11 | 13 | 12 |

## 13. Dividends

| | Year ended 30 November 2007 US$m | Year ended 30 November 2008 US$m | Year ended 30 November 2009 US$m |
|---|---|---|---|
| | **261** | **346** | **25** |

**Ordinary dividends declared and charged to equity in the period**

Dividends declared and charged to equity reflect dividends declared by the subsidiaries of the Group to their former parent companies.

## 14. Intangible assets

| US$m | Goodwill | Computer software | Distribution and other rights | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 December 2006 | 144 | 81 | 5 | 230 |
| Additions | - | 22 | - | 22 |
| Foreign exchange movements | 1 | - | - | 1 |
| At 30 November 2007 | 145 | 103 | 5 | 253 |
| Additions | - | 20 | 18 | 38 |
| Disposals | - | (8) | - | (8) |
| Foreign exchange movements | (1) | (5) | - | (6) |
| At 30 November 2008 | 144 | 110 | 23 | 277 |
| Additions | 8 | 23 | 5 | 36 |
| Acquisition of a subsidiary | - | - | 15 | 15 |
| Disposals | - | (4) | (18) | (22) |
| Disposal of a subsidiary | (23) | (1) | - | (24) |
| Foreign exchange movements | - | 8 | (1) | 7 |
| **At 30 November 2009** | **129** | **136** | **24** | **289** |
| | | | | |
| **Accumulated amortisation** | | | | |
| At 1 December 2006 | (6) | (39) | - | (45) |
| Amortisation charge for the year | - | (7) | - | (7) |
| Foreign exchange movements | - | (1) | - | (1) |
| At 30 November 2007 | (6) | (47) | - | (53) |
| Amortisation charge for the year | - | (3) | - | (3) |
| Disposals | - | 8 | - | 8 |
| Foreign exchange rate movements | - | 3 | - | 3 |
| At 30 November 2008 | (6) | (39) | - | (45) |
| Amortisation charge for the year | - | (8) | (1) | (9) |
| Disposal of a subsidiary | - | 1 | - | 1 |
| Foreign exchange rate movements | - | (3) | - | (3) |
| **At 30 November 2009** | **(6)** | **(49)** | **(1)** | **(56)** |
| | | | | |
| **Net book value** | | | | |
| At 30 November 2007 | 139 | 56 | 5 | **200** |
| At 30 November 2008 | 138 | 71 | 23 | **232** |
| At 30 November 2009 | 123 | 87 | 23 | **233** |

## 14. Intangible assets (continued)

Of the above, US$224m (2007: US$191m; 2008: US$210m) is expected to be recovered more than 12 months after the end of the reporting period.

Goodwill arises primarily in respect of the Group's insurance businesses. Impairment testing is performed by comparing the carrying value of goodwill with the present value of expected future cash flows plus a multiple of the present value of the new business generated.

## 15.

## Investments in associates and joint ventures

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| **Group** | | | |
| At 1 December | 267 | 63 | 47 |
| Cash distributions (see Note 4 for details) | (190) | - | - |
| Additions | 8 | 48 | 24 |
| Disposals | (27) | (17) | (1) |
| Share of net (loss)/profit | - | (28) | (21) |
| Foreign exchange movements | 5 | (19) | 4 |
| **At 30 November** | **63** | **47** | **53** |

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

| | | | | *Percentage interest held* | | |
|---|---|---|---|---|---|---|
| | Country of incorporation | Type of shares held | Principal activity | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
| AIG Card (Thailand) Company Limited | Thailand | Ordinary | Credit card business | 39% | 39% | - |
| AIG Consulting Services Company Limited | China | Ordinary | Consultancy service | 50% | - | - |
| AIG Credit Card Co. (HK) Limited | Hong Kong | Ordinary | Credit card business | 50% | - | - |
| Beacon Property Ventures, Inc | Philippines | Ordinary | Property management | 40% | 40% | 40% |
| Chelshire Investments Private Limited | Singapore | Ordinary | Property management | 50% | 50% | 50% |
| Chelville Investments Private Limited | Singapore | Ordinary | Property management | 50% | 50% | 50% |
| Deeptro Private Limited | Singapore | Ordinary | Property management | 50% | 50% | 50% |
| Grange Development Private Limited | Singapore | Ordinary | Property development | 23.25% | - | - |
| ICCP Holdings Inc | Philippines | Ordinary | Investment holding | 20% | 20% | 20% |
| Manila Exposition Complex, Inc | Philippines | Ordinary | Hotel | 10% | 10% | 10% |

| | | | | | | |
|---|---|---|---|---|---|---|
| NaiLert Park Hotel Co. Limited | Thailand | Ordinary | Property management | 20% | 20% | 20% |
| Panareno Sendrian Berhad | Malaysia | Ordinary and preference | Property management | 35% | 35% | 35% |
| Philam Realty | Philippines | Ordinary | Property management | 40% | 40% | 40% |
| Science Park of the Philippines | Philippines | Ordinary | Property management | 17% | 17% | 17% |
| Tata AIG Life Insurance Company Limited | India | Ordinary | Insurance | 26% | 26% | 26% |
| Winfame Investments Private Limited | Singapore | Ordinary | Property management | 50% | 50% | 50% |
| Winwave Investments Private Limited | Singapore | Ordinary | Property management | 50% | 50% | 50% |

In 2008, AIG Consulting Services Company Limited in China became a subsidiary. All associates and joint ventures are unlisted.

**15.**

## Investments in associates and joint ventures (continued)

**Aggregated financial information of associates and joint ventures**

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Share of income | 142 | 65 | 146 |
| Share of expenses | (142) | (93) | (167) |
| **Share of profit/(loss)** | **-** | **(28)** | **(21)** |
| Share of current assets | 265 | 221 | 425 |
| Share of long term assets | 161 | 195 | 186 |
| Share of current liabilities | (239) | (73) | (30) |
| Share of long term liabilities | (124) | (296) | (528) |
| **Share of net assets** | **63** | **47** | **53** |

**Investments in associates and joint ventures are held for their long term contribution to the Group's performance and so all amounts are expected to be realised more than 12 months after the end of the reporting period.**

**16.**

## Property, plant and equipment

| US$m | Property held for use | Fixtures and fittings | Computer hardware | Total |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 December 2006 | 339 | 194 | 133 | 666 |
| Additions | 3 | 27 | 28 | 58 |
| Disposals | - | (7) | (7) | (14) |
| Transfers from investment property | 19 | - | - | 19 |
| Foreign exchange movements | 24 | - | (1) | 23 |
| At 30 November 2007 | 385 | 214 | 153 | 752 |
| Additions | 4 | 45 | 18 | 67 |
| Disposals | (10) | (8) | (6) | (24) |
| Transfers from investment property | 4 | - | - | 4 |
| Foreign exchange movements | (19) | (19) | (12) | (50) |
| At 30 November 2008 | 364 | 232 | 153 | 749 |
| Additions | 2 | 15 | 20 | 37 |
| Disposals | - | (19) | (16) | (35) |
| Transfers to investment property | (10) | - | - | (10) |
| Acquisition of a subsidiary | 7 | - | 1 | 8 |
| Disposal of a subsidiary | (1) | (3) | (1) | (5) |
| Foreign exchange movements | 23 | 15 | 9 | 47 |
| **At 30 November 2009** | **385** | **240** | **166** | **791** |
| | | | | |
| **Accumulated depreciation** | | | | |
| At 1 December 2006 | (118) | (135) | (104) | (357) |
| Depreciation charge | (11) | (18) | (16) | (45) |
| Disposals | - | 4 | 4 | 8 |
| Foreign exchange movements | (7) | - | 1 | (6) |
| At 30 November 2007 | (136) | (149) | (115) | (400) |
| Depreciation charge | (13) | (26) | (22) | (61) |
| Disposals | 5 | 4 | 5 | 14 |
| Transfers from investment property | (1) | - | - | (1) |
| Foreign exchange movements | 8 | 12 | 11 | 31 |
| At 30 November 2008 | (137) | (159) | (121) | (417) |
| Depreciation charge | (11) | (23) | (23) | (57) |
| Disposals | - | 14 | 15 | 29 |
| Transfers to investment property | 1 | - | - | 1 |
| Disposal of a subsidiary | - | 3 | 1 | 4 |
| Foreign exchange movements | (9) | (9) | (7) | (25) |
| **At 30 November 2009** | **(156)** | **(174)** | **(135)** | **(465)** |
| | | | | |
| **Net book value** | | | | |
| At 30 November 2007 | 249 | 65 | 38 | **352** |
| At 30 November 2008 | 227 | 73 | 32 | **332** |
| At 30 November 2009 | 229 | 66 | 31 | **326** |

The Group holds freehold land in the form of property, plant and equipment outside Hong Kong of US$73m (2007: US$71m; 2008: US$68m).

The Group holds property, plant and equipment for its long term use and, accordingly, the annual depreciation charge approximates to the amount expected to be recovered through consumption within 12 months after the end of the reporting period.

## 17.

## Investment property

| US$m | Investment Property |
|---|---|
| **Cost** | |
| At 1 December 2006 | 136 |
| Additions | 111 |
| Transfers to property, plant and equipment | (19) |
| Foreign exchange movements | 13 |
| At 30 November 2007 | 241 |
| Additions | 47 |
| Disposals | (10) |
| Transfers to property, plant and equipment | (4) |
| Foreign exchange movements | (11) |
| At 30 November 2008 | 263 |
| Additions | 2 |
| Disposals | (2) |
| Transfers from property, plant and equipment | 10 |
| Acquisition of a subsidiary | 13 |
| Foreign exchange movements | 8 |
| **At 30 November 2009** | **294** |
| | |
| **Accumulated depreciation** | |
| At 1 December 2006 | (41) |
| Charge for the year | (4) |
| Foreign exchange movements | (6) |
| At 30 November 2007 | (51) |
| Charge for the year | (2) |
| Disposals | 4 |
| Transfers to property, plant and equipment | 1 |
| Foreign exchange movements | 2 |
| At 30 November 2008 | (46) |
| Charge for the year | (2) |
| Transfers from property, plant and equipment | (1) |
| Foreign exchange movements | (1) |
| **At 30 November 2009** | **(50)** |
| | |
| **Net book value** | |
| At 30 November 2007 | **190** |
| At 30 November 2008 | **217** |
| At 30 November 2009 | **244** |

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

**17. Investment property (continued)**

The Group leases out its investment property under operating leases. The leases typically run for an initial period of two to twelve years, with an option to renew the lease based on future negotiations. Lease payments are usually negotiated every two years to reflect market rentals. None of the leases include contingent rentals. Rental income generated from investment properties amounted to US$68m (2007: US$25m; 2008: US$63m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US$12m (2007: US$22m; 2008: US$25m).

The Group owns investment property in the form of freehold land outside Hong Kong of US$50m (2007: US$10m; 2008: US$47m). The Group does not hold freehold land in Hong Kong.

The future minimum operating lease rental income under non-cancellable operating leases that the Group expects to receive in future periods may be analysed as follows:

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| **Leases of investment property** | | | |
| Expiring no later than one year | 42 | 47 | 56 |
| Expiring later than one year and no less than five years | 100 | 95 | 104 |
| Expiring after five years or more | 23 | 21 | 12 |
| **Total** | **165** | **163** | **172** |

## 18. Fair value of investment property and property held for use

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Carrying value[1] | | | |
| Investment properties | 190 | 217 | 244 |
| Property held for use (classified as property, plant and equipment) | 249 | 227 | 229 |
| Leasehold land (classified as prepayments in other assets) | 693 | 686 | 690 |
| **Total** | **1,132** | **1,130** | **1,163** |
| Fair value[1] | | | |
| Investment properties (including land) | 1,445 | 1,407 | 1,593 |
| Properties held for use (including land) | 827 | 748 | 870 |
| **Total** | **2,272** | **2,155** | **2,463** |

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

## 19. Reinsurance assets

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Amounts recoverable from reinsurers | 87 | 19 | 29 |
| Ceded insurance and investment contract liabilities | 2,581 | 128 | 255 |
| **Total** | **2,668** | **147** | **284** |

## 20. Deferred acquisition and origination costs

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| **Carrying amount** | | | |
| Deferred acquisition costs on insurance contracts | 9,188 | 9,082 | 10,123 |
| Deferred origination costs on investment contracts | 856 | 965 | 853 |
| **Total** | **10,044** | **10,047** | **10,976** |

| | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| **Movements in the period** | | | |
| **At 1 December** | 8,135 | 10,044 | 10,047 |
| Deferral and amortisation of acquisition costs | 1,249 | 695 | 308 |
| Foreign exchange movements | 336 | (1,150) | 827 |
| Recapture of reinsurance treaty (see Note 5) | - | 505 | - |
| Impact of assumption changes | 86 | 11 | (101) |
| Acquisition of a subsidiary | - | - | 31 |
| Disposal of a subsidiary | - | - | (70) |
| Other movements | 238 | (58) | (66) |
| **At 30 November** | **10,044** | **10,047** | **10,976** |

Deferred acquisition and origination costs are expected to be recoverable over the mean term of the Group's insurance and investment contracts, and liability adequacy testing is performed at least annually to confirm their recoverability. Accordingly, the annual amortisation charge, which varies with investment performance for certain universal life and investment-linked products, approximates to the amount which is expected to be realised within 12 months of the end of the reporting period.

## 21. Financial investments

The following tables analyse the AIA Group's financial investments by type and nature. The AIA Group manages its financial investments in two distinct categories: Investment-linked Investments and Policyholder and Shareholder Investments. The investment risk in respect of Investment-linked Investments is generally wholly borne by our customers, and does not directly affect the profit for the year before tax. Furthermore, investment-linked contract holders are responsible for allocation of their policy values amongst investment options offered by the Group. Although profit for the year before tax is not affected by Investment-linked Investments, the investment return from such financial investments is included in the AIA Group's profit for the year before tax, as the AIA Group has elected the fair value option for all Investment-linked Investments with corresponding change in insurance and investment contract liabilities for investment-linked contracts. Policyholder and Shareholder Investments include all financial investments other than Investment-linked Investments. The investment risk in respect of Policyholder and Shareholder Investments is partially or wholly borne by the Group.

Policyholder and Shareholder Investments are further categorised as Participating Funds and Other Policyholder and Shareholder. The Group has elected to separately analyse financial investments held by Participating Funds within Policyholder and Shareholder Investments as they are subject to local regulations that generally prescribe a minimum proportion of policyholder participation in declared dividends. The Group has elected the fair value option for debt and equity securities of Participating Funds. The Group's accounting policy is to record an insurance liability for the proportion of net assets of the Participating Fund that would be allocated to policyholders assuming all performance would be declared as a dividend based upon local regulations as at the date of the statement of financial position. As a result the Group's net profit for the year before tax is impacted by the proportion of investment return that would be allocated to shareholders as described in the previous sentence.

Other Policyholder and Shareholder Investments are distinct from Investment-linked Investments and Participating Funds as there is no direct contractual or regulatory requirement governing the amount, if any, for allocation to policyholders. The Group has elected to apply the fair value option for equity securities in this category and the available for sale classification in respect of the majority of debt securities in this category. The investment risk from investments in this category directly impacts the Group's financial statements. Although a proportion of investment return may be allocated to policyholders through policyholder dividends, the Group's accounting policy for insurance and investment contract liabilities utilises a net level premium methodology that includes best estimates as at the date of issue for non-guaranteed participation. To the extent investment return from these investments either is not allocated to participating contracts or varies from the best estimates, it will impact the Group's profit before tax.

In the following tables, "FVTPL" indicates financial investments designated at fair value through profit or loss and "AFS" indicates financial investments classified as available for sale.

*Debt securities*

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

| *External ratings* | | *Internal ratings* | *Reported as* |
|---|---|---|---|
| *Standard and Poor's* | *Moody's* | | |
| *AAA* | *Aaa* | *+1/-1* | *AAA* |
| *AA+ to AA-* | *Aa1 to Aa3* | *+2/-2* | *AA* |
| *A+ to A-* | *A1 to A3* | *+3/-3* | *A* |
| *BBB+ to BBB-* | *Baa1 to Baa3* | *+4/-4* | *BBB* |
| *BB+ and below* | *Ba1 and below* | *+5 and below* | *Below investment grade* |

**21. Financial investments (continued)**

Debt securities by type comprise the following:

| | | *Policyholder and shareholder* | | | | | |
|---|---|---|---|---|---|---|---|
| | | *Participating funds* | *Other policyholder and shareholder* | | | | |
| *US$'m* | *Rating* | *FVTPL* | *FVTPL* | *AFS* | ***Sub-total*** | *Investment-linked FVTPL* | ***Total*** |
| ***30 November 2009*** | | | | | | | |
| ***Government bonds - issued in local currency*** | | | | | | | |
| *Singapore* | *AAA* | *1,496* | *-* | *759* | *2,255* | *70* | *2,325* |
| *Thailand* | *A* | *-* | *-* | *7,374* | *7,374* | *-* | *7,374* |
| *Philippines* | *BB* | *-* | *-* | *1,309* | *1,309* | *22* | *1,331* |
| *Malaysia* | *A* | *953* | *-* | *196* | *1,149* | *1* | *1,150* |
| *China* | *A* | *271* | *-* | *836* | *1,107* | *3* | *1,110* |
| *Indonesia* | *BB* | *-* | *-* | *494* | *494* | *115* | *609* |
| *Korea* | *A* | *-* | *-* | *1,539* | *1,539* | *4* | *1,543* |
| Other (1) | | *1* | *4* | *312* | *317* | *-* | *317* |
| ***Sub-total*** | | ***2,721*** | ***4*** | ***12,819*** | ***15,544*** | ***215*** | ***15,759*** |
| ***Government bonds -foreign currency*** | | | | | | | |
| *Mexico* | *BBB* | *9* | *15* | *135* | *159* | *2* | *161* |
| *South Africa* | *BBB* | *-* | *2* | *164* | *166* | *2* | *168* |
| *Philippines* | *BB* | *2* | *10* | *749* | *761* | *46* | *807* |
| *Malaysia* | *A* | *11* | *-* | *77* | *88* | *1* | *89* |
| *Indonesia* | *BB* | *48* | *10* | *210* | *268* | *-* | *268* |
| *Korea* | *A* | *16* | *1* | *205* | *222* | *2* | *224* |
| *China* | *A* | *-* | *-* | *46* | *46* | *2* | *48* |
| *Other(1)* | | *53* | *92* | *291* | *436* | *10* | *446* |
| ***Sub-total*** | | ***139*** | ***130*** | ***1,877*** | ***2,146*** | ***65*** | ***2,211*** |
| ***Government agency bonds[2]*** | | | | | | | |
| *AAA* | | *542* | *-* | *694* | *1,236* | *64* | *1,300* |
| *AA* | | *1* | *-* | *194* | *195* | *64* | *259* |
| *A* | | *611* | *-* | *2,797* | *3,408* | *116* | *3,524* |
| *BBB* | | *873* | *-* | *1,583* | *2,456* | *4* | *2,460* |
| *Below investment grade* | | *-* | *-* | *346* | *346* | *-* | *346* |
| *Not rated* | | *-* | *-* | *-* | *-* | *8* | *8* |
| ***Sub-total*** | | ***2,027*** | ***-*** | ***5,614*** | ***7,641*** | ***256*** | ***7,897*** |

*Note: (1) Of the total government bonds listed as 'Other' at 30 November 2009, 85% is rated as investment grade and a further 14% is rated BB- and above. The balance is rated below BB- or unrated*

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

**21. Financial investments (continued)**

| | | Policyholder and shareholder | | | | | |
|---|---|---|---|---|---|---|---|
| | | Participating funds | Other policyholder and shareholder | | | Investment-linked | |
| *US$'m* | *Rating* | *FVTPL* | *FVTPL* | *AFS* | ***Sub-total*** | *FVTPL* | ***Total*** |
| ***30 November 2009*** | | | | | | | |
| ***Corporate bonds*** | | | | | | | |
| *AAA* | | *237* | *-* | *296* | *533* | *34* | *567* |
| *AA* | | *1,397* | *79* | *1,757* | *3,233* | *253* | *3,486* |
| *A* | | *2,960* | *188* | *8,149* | *11,297* | *454* | *11,751* |
| *BBB* | | *1,656* | *348* | *5,726* | *7,730* | *198* | *7,928* |
| *Below investment grade* | | *198* | *32* | *876* | *1,106* | *41* | *1,147* |
| *Not rated* | | *127* | *70* | *51* | *248* | *190* | *438* |
| ***Sub-total*** | | ***6,575*** | ***717*** | ***16,855*** | ***24,147*** | ***1,170*** | ***25,317*** |
| ***Structured securities*** | | | | | | | |
| *AAA* | | *7* | *22* | *-* | *29* | *-* | *29* |
| *AA* | | *-* | *-* | *-* | *-* | *-* | *-* |
| *A* | | *39* | *-* | *424* | *463* | *-* | *463* |
| *BBB* | | *247* | *20* | *90* | *357* | *5* | *362* |
| *Below investment grade* | | *51* | *51* | *41* | *143* | *15* | *158* |
| *Not rated* | | *3* | *-* | *2* | *5* | *-* | *5* |
| ***Sub-total*** | | ***347*** | ***93*** | ***557*** | ***997*** | ***20*** | ***1,017*** |
| ***Total*** | | ***11,809*** | ***944*** | ***37,722*** | ***50,475*** | ***1,726*** | ***52,201*** |

*Note: (3) Structured securities include CDOs, mortgage backed securities and other asset backed securities*

**21. Financial investments (continued)**

| | | Policyholder and shareholder | | | | | |
|---|---|---|---|---|---|---|---|
| | | Participating funds | Other policyholder and shareholder | | | Investment-linked | |
| *US$'m* | *Rating* | *FVTPL* | *FVTPL* | *AFS* | ***Sub-total*** | *FVTPL* | ***Total*** |
| ***30 November 2008*** | | | | | | | |
| ***Government bonds - issued in local currency*** | | | | | | | |
| *Singapore* | *AAA* | *1,166* | *-* | *547* | *1,713* | *69* | *1,782* |
| *Thailand* | *A* | *-* | *-* | *6,377* | *6,377* | *-* | *6,377* |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| *Philippines* | *BB* | *-* | *-* | *862* | *862* | *12* | *874* |
| *Malaysia* | *A* | *1,192* | *-* | *290* | *1,482* | *3* | *1,485* |
| *China* | *A* | *244* | *-* | *723* | *967* | *70* | *1,037* |
| *Indonesia* | *BB* | *-* | *-* | *315* | *315* | *59* | *374* |
| *Korea* | *A* | *-* | *-* | *857* | *857* | *6* | *863* |
| Other [1] | | *11* | *2* | *231* | *244* | *-* | *244* |
| ***Sub-total*** | | ***2,613*** | ***2*** | ***10,202*** | ***12,817*** | ***219*** | ***13,036*** |
| ***Government bonds -foreign currency*** | | | | | | | |
| *Mexico* | *BBB* | *15* | *11* | *141* | *167* | *3* | *170* |
| *South Africa* | *BBB* | *-* | *1* | *115* | *116* | *2* | *118* |
| *Philippines* | *BB* | *1* | *12* | *452* | *465* | *18* | *483* |
| *Malaysia* | *A* | *80* | *-* | *186* | *266* | *2* | *268* |
| *Indonesia* | *BB* | *39* | *7* | *206* | *252* | *5* | *257* |
| *Korea* | *A* | *-* | *-* | *67* | *67* | *2* | *69* |
| *China* | *A* | *10* | *-* | *49* | *59* | *2* | *61* |
| Other [1] | | *49* | *95* | *310* | *454* | *8* | *462* |
| ***Sub-total*** | | ***194*** | ***126*** | ***1,526*** | ***1,846*** | ***42*** | ***1,888*** |
| ***Government agency bonds[2]*** | | | | | | | |
| *AAA* | | *654* | *-* | *536* | *1,190* | *15* | *1,205* |
| *AA* | | *17* | *-* | *378* | *395* | *65* | *460* |
| *A* | | *610* | *-* | *2,459* | *3,069* | *100* | *3,169* |
| *BBB* | | *509* | *-* | *1,868* | *2,377* | *6* | *2,383* |
| *Below investment grade* | | *1* | *2* | *261* | *264* | *1* | *265* |
| *Not rated* | | *-* | *-* | *-* | *-* | *33* | *33* |
| ***Sub-total*** | | ***1,791*** | ***2*** | ***5,502*** | ***7,295*** | ***220*** | ***7,515*** |
| ***Corporate bonds*** | | | | | | | |
| *AAA* | | *47* | *-* | *178* | *225* | *78* | *303* |
| *AA* | | *1,630* | *55* | *1,586* | *3,271* | *298* | *3,569* |
| *A* | | *2,113* | *150* | *5,718* | *7,981* | *292* | *8,273* |
| *BBB* | | *1,227* | *132* | *4,038* | *5,397* | *211* | *5,608* |
| *Below investment grade* | | *199* | *250* | *548* | *997* | *45* | *1,042* |
| *Not rated* | | *19* | *65* | *1* | *85* | *47* | *132* |
| ***Sub-total*** | | ***5,235*** | ***652*** | ***12,069*** | ***17,956*** | ***971*** | ***18,927*** |

*Note: (1) Of the total government bonds listed as 'Other' at 30 November 2008, 83% is rated as investment grade and a further 16% is rated BB- and above. The balance is rated below BB- or unrated*

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

## 21. Financial investments (continued)

| | | |
|---|---|---|
| *Policyholder and shareholder* | | |
| *Participating funds* | *Other policyholder and* | *Investment-linked* |

| *US$m* | *FVTPL* | *FVTPL* | *shareholder AFS* | **Sub-total** | *FVTPL* | **Total** |
|---|---|---|---|---|---|---|
| ***30 November 2008*** | | | | | | |
| ***Structured securities*** | | | | | | |
| *AAA* | *15* | *30* | *434* | *479* | *-* | *479* |
| *AA* | *35* | *37* | *-* | *72* | *-* | *72* |
| *A* | *22* | *2* | *54* | *78* | *-* | *78* |
| *BBB* | *141* | *-* | *77* | *218* | *1* | *219* |
| *Below investment grade* | *24* | *1* | *70* | *95* | *14* | *109* |
| ***Sub-total*** | ***237*** | ***70*** | ***635*** | ***942*** | ***15*** | ***957*** |
| ***Total*** | ***10,070*** | ***852*** | ***29,934*** | ***40,856*** | ***1,467*** | ***42,323*** |

*Note: (3) Structured securities include CDOs, mortgage backed securities and other asset backed securities*

**21. Financial investments (continued)**

| | | *Policyholder and shareholder* | | | | | |
|---|---|---|---|---|---|---|---|
| *US$'m* | *Rating* | *Participating funds FVTPL* | *FVTPL* | *Other policyholder and shareholder AFS* | **Sub-total** | *Investment-linked FVTPL* | **Total** |
| ***30 November 2007*** | | | | | | | |
| ***Government bonds - issued in local currency*** | | | | | | | |
| *Singapore* | *AAA* | *1,374* | *-* | *472* | *1,846* | *51* | *1,897* |
| *Thailand* | *A* | *-* | *-* | *5,826* | *5,826* | *-* | *5,826* |
| *Philippines* | *BB* | *-* | *-* | *1,200* | *1,200* | *30* | *1,230* |
| *Malaysia* | *A* | *1,154* | *-* | *220* | *1,374* | *1* | *1,375* |
| *China* | *A* | *220* | *-* | *675* | *895* | *30* | *925* |
| *Indonesia* | *BB* | *-* | *-* | *514* | *514* | *86* | *600* |
| *Korea* | *A* | *-* | *-* | *1,399* | *1,399* | *16* | *1,415* |
| Other[1] | | *36* | *33* | *244* | *313* | *-* | *313* |
| ***Sub-total*** | | ***2,784*** | ***33*** | ***10,550*** | ***13,367*** | ***214*** | ***13,581*** |
| ***Government bonds -foreign currency*** | | | | | | | |
| *Mexico* | *BBB* | *1* | *15* | *152* | *168* | *-* | *168* |
| *South Africa* | *BBB* | *-* | *2* | *101* | *103* | *1* | *104* |
| *Philippines* | *BB* | *4* | *22* | *606* | *632* | *39* | *671* |
| *Malaysia* | *A* | *115* | *-* | *192* | *307* | *1* | *308* |
| *Indonesia* | *BB* | *63* | *9* | *288* | *360* | *17* | *377* |
| *Korea* | *A* | *101* | *-* | *264* | *365* | *1* | *366* |
| *China* | *A* | *9* | *-* | *44* | *53* | *1* | *54* |
| Other[1] | | *86* | *173* | *197* | *456* | *12* | *468* |
| ***Sub-total*** | | ***379*** | ***221*** | ***1,844*** | ***2,444*** | ***72*** | ***2,516*** |

| | | | | | | |
|---|---|---|---|---|---|---|
| ***Government agency bonds*[2]** | | | | | | |
| *AAA* | *898* | *-* | *438* | *1,336* | *31* | *1,367* |
| *AA* | *45* | *-* | *245* | *290* | *35* | *325* |
| *A* | *437* | *-* | *2,728* | *3,165* | *63* | *3,228* |
| *BBB* | *533* | *-* | *1,351* | *1,884* | *16* | *1,900* |
| *Below investment grade* | *7* | *2* | *76* | *85* | *3* | *88* |
| *Not rated* | *-* | *-* | *102* | *102* | *16* | *118* |
| ***Sub-total*** | ***1,920*** | ***2*** | ***4,940*** | ***6,862*** | ***164*** | ***7,026*** |
| | | | | | | |
| ***Corporate bonds*** | | | | | | |
| *AAA* | *72* | *-* | *229* | *301* | *59* | *360* |
| *AA* | *1,773* | *66* | *1,657* | *3,496* | *281* | *3,777* |
| *A* | *2,034* | *175* | *5,887* | *8,096* | *292* | *8,388* |
| *BBB* | *1,091* | *108* | *3,865* | *5,064* | *200* | *5,264* |
| *Below investment grade* | *319* | *227* | *625* | *1,171* | *151* | *1,322* |
| *Not rated* | *-* | *53* | *29* | *82* | *37* | *119* |
| ***Sub-total*** | ***5,289*** | ***629*** | ***12,292*** | ***18,210*** | ***1,020*** | ***19,230*** |

*Note: (1) Of the total government bonds listed as 'Other' at 30 November 2007 70% is rated as investment grade and a further 21% is rated BB- and above. The balance is rated below BB- or unrated*

*Note: (2) Government agency bonds comprise bonds issued by government sponsiored institutions such as state owned enterprises, provincial and municipal authorities and supranational financial institutions, such as the Asian Development Bank*

**21. Financial investments (continued)**

| | *Policyholder and shareholder* | | | | | |
|---|---|---|---|---|---|---|
| | *Participating funds* | *Other policyholder and shareholder* | | | *Investment-linked* | |
| *US$m* | *FVTPL* | *FVTPL* | *AFS* | ***Sub-total*** | *FVTPL* | ***Total*** |
| ***30 November 2007*** | | | | | | |
| ***Structured securities*** | | | | | | |
| *AAA* | *32* | *79* | *887* | *998* | *-* | *998* |
| *AA* | *115* | *120* | *33* | *268* | *-* | *268* |
| *A* | *122* | *41* | *277* | *440* | *-* | *440* |
| *BBB* | *133* | *-* | *87* | *220* | *3* | *223* |
| *Below investment grade* | *22* | *14* | *35* | *71* | *15* | *86* |
| *Not rated* | *17* | *9* | *10* | *36* | *-* | *36* |
| ***Sub-total*** | ***441*** | ***263*** | ***1,329*** | ***2,033*** | ***18*** | ***2,051*** |
| ***Total*** | ***10,813*** | ***1,148*** | ***30,955*** | ***42,916*** | ***1,488*** | ***44,404*** |

*Note: (3) Structured securities include CDOs, mortgage backed securities and other asset backed securities*

**21. Financial investments (continued)**

*Equity securities*

Equity securities by type comprise the following:

| | Policyholder and shareholder | | | | | |
|---|---|---|---|---|---|---|
| | Participating funds | Other policyholder and shareholder | | | Investment-linked | |
| *US$m* | *FVTPL* | *FVTPL* | *AFS* | ***Subtotal*** | *FVTPL* | ***Total*** |
| ***30 November 2009*** | | | | | | |
| *Ordinary shares* | *1,685* | *2,008* | *-* | *3,693* | *2,738* | ***6,431*** |
| *Securities held by consolidated mutual funds managed by AIG* | *167* | *494* | *-* | *661* | *1,333* | ***1,994*** |
| *Interests in investment funds* | | | | | | |
| *AIG managed* | *116* | *132* | *-* | *248* | *1,232* | ***1,480*** |
| *Non-AIG managed* | *241* | *193* | *-* | *434* | *5,777* | ***6,211*** |
| | *357* | *325* | *-* | *682* | *7,009* | ***7,691*** |
| *Shares in AIG* | *-* | *-* | *62* | *62* | *-* | ***62*** |
| ***Total*** | ***2,209*** | ***2,827*** | ***62*** | ***5,098*** | ***11,080*** | ***16,178*** |

| | Policyholder and shareholder | | | | | |
|---|---|---|---|---|---|---|
| | Participating funds | Other policyholder and shareholder | | | Investment-linked | |
| *US$m* | *FVTPL* | *FVTPL* | *AFS* | ***Subtotal*** | *FVTPL* | ***Total*** |
| ***30 November 2008*** | | | | | | |
| *Ordinary shares* | *705* | *1,000* | *-* | *1,705* | *1,211* | ***2,916*** |
| *Securities held by consolidated mutual funds managed by AIG* | *109* | *619* | *-* | *728* | *805* | ***1,533*** |
| *Interests in investment funds* | | | | | | |
| *AIG managed* | *158* | *197* | *-* | *355* | *851* | ***1,206*** |
| *Non-AIG managed* | *151* | *39* | *-* | *190* | *2,815* | ***3,005*** |
| | *309* | *236* | *-* | *545* | *3,666* | ***4,211*** |
| *Shares in AIG* | *-* | *-* | *87* | *87* | *-* | ***87*** |
| ***Total*** | ***1,123*** | ***1,855*** | ***87*** | ***3,065*** | ***5,682*** | ***8,747*** |

| | Policyholder and shareholder | | | | | |
|---|---|---|---|---|---|---|
| | Participating funds | Other policyholder and shareholder | | | Investment-linked | |
| *US$m* | *FVTPL* | *FVTPL* | *AFS* | ***Subtotal*** | *FVTPL* | ***Total*** |

***30 November 2007***

| | | | | | | |
|---|---|---|---|---|---|---|
| *Ordinary shares* | *1,629* | *2,817* | *-* | *4,446* | *2,268* | ***6,714*** |
| *Securities held by consolidated mutual funds managed by AIG* | *107* | *1,047* | *-* | *1,154* | *1,558* | ***2,712*** |
| *Interests in investment funds* | | | | | | |
| *AIG managed* | *364* | *352* | *-* | *716* | *1,380* | ***2,096*** |
| *Non-AIG managed* | *221* | *42* | *-* | *263* | *5,834* | ***6,097*** |
| | *585* | *394* | *-* | *979* | *7,214* | ***8,193*** |
| *Shares in AIG* | *-* | *-* | *2,520* | *2,520* | *-* | ***2,520*** |
| ***Total*** | ***2,321*** | ***4,258*** | ***2,520*** | ***9,099*** | ***11,040*** | ***20,139*** |

## 21. Financial investments (continued)

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| **Debt securities** | | | |
| Listed | | | |
| Hong Kong | 377 | 421 | 394 |
| Overseas | 25,344 | 20,010 | 30,663 |
| | 25,721 | 20,431 | 31,057 |
| Unlisted | 18,683 | 21,892 | 21,144 |
| **Total** | **44,404** | **42,323** | **52,201** |
| **Equity securities** | | | |
| Listed | | | |
| Hong Kong | 238 | 47 | 399 |
| Overseas | 12,675 | 3,093 | 6,606 |
| | 12,913 | 3,140 | 7,005 |
| Unlisted | 7,226 | 5,607 | 9,173 |
| **Total** | **20,139** | **8,747** | **16,178** |

## 21. Financial investments (continued)

**Loans and receivables**

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Policy loans | 1,327 | 1,437 | 1,644 |
| Mortgage loans on residential real estate | 609 | 587 | 527 |
| Mortgage loans on commercial real estate | 112 | 105 | 48 |
| Intercompany loans to fellow subsidiaries of AIG (see Note 41) | 1,589 | 29 | 87 |
| Other loans | 182 | 242 | 446 |

Loans and receivables

| | | | |
|---|---|---|---|
| Allowance for loan losses | (15) | (7) | (12) |
| **Loans** | **3,804** | **2,393** | **2,740** |
| Due from insurance and investment contract holders | 471 | 536 | 546 |
| Due from agents, brokers and intermediaries | 9 | 13 | 39 |
| Insurance receivables | 480 | 549 | 585 |
| Related party receivables | 95 | 33 | 1 |
| Receivables from sales of investments | 329 | 86 | 34 |
| Other receivables | 362 | 285 | 396 |
| **Receivables** | **1,266** | **953** | **1,016** |
| Term deposits | 595 | 656 | 892 |
| **Total[1]** | **5,665** | **4,002** | **4,648** |

*Note: (1) Of total loans and receivables, US$33m of term deposits (2007: US$38m; 2008: US$48m), and US$75m of other loans (2007: US$60m; 2008: US$62m) are held to back investment-linked contracts. The balance of loans and receivables consists of policyholder and shareholder. Of this, US$942m relates to participating funds (2007: US$1,136m; 2008: US$986m).*

Certain term deposits with financial institutions are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within the term deposits classification is US$104m (2007: US$128m; 2008: US$141m).

All insurance receivables are expected to be recovered within less than one year. Accordingly, no ageing analysis has been provided.

Receivables include receivables from reverse repurchase agreements under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. At 30 November 2009 the carrying value of such receivables is US$69m (2007: US$67m; 2008: US$54m).

## 22. Derivative financial instruments

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

| US$m | | Fair value | |
|---|---|---|---|
| | Notional Amount | Assets (1)(2) | Liabilities (1) |
| **30 November 2009** | | | |
| Foreign exchange contracts: | | | |
| Forwards | 222 | 1 | - |
| Cross currency swaps | 8,390 | 439 | (69) |
| **Total foreign exchange contracts** | **8,612** | **440** | **(69)** |
| **Interest rate contracts** | | | |
| Interest rate swaps | 1,092 | 13 | - |
| **Other** | | | |
| Commodity index swaps | 20 | - | (2) |
| **Total** | **9,724** | **453** | **(71)** |
| | | | |
| **30 November 2008** | | | |
| Foreign exchange contracts: | | | |
| Forwards | 333 | - | (4) |

| | | | |
|---|---|---|---|
| Cross currency swaps | 7,423 | 228 | (131) |
| **Total foreign exchange contracts** | **7,756** | **228** | **(135)** |
| **Interest rate contracts** | | | |
| Interest rate swaps | 1,086 | 24 | - |
| **Other** | | | |
| Commodity index swaps | 20 | - | (3) |
| **Total** | **8,862** | **252** | **(138)** |
| | | | |
| **30 November 2007** | | | |
| Foreign exchange contracts: | | | |
| Forwards | 17 | - | - |
| Cross currency swaps | 6,492 | 415 | (37) |
| **Total foreign exchange contracts** | **6,509** | **415** | **(37)** |
| **Interest rate contracts** | | | |
| Interest rate swaps | 978 | 4 | (10) |
| **Other** | | | |
| Commodity index swaps | 2 | 3 | - |
| **Total** | **7,489** | **422** | **(47)** |

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

*(2) Of derivative assets, US$240m are held to back participating funds (2007: US$247m; 2008: US$87m). The balance of derivative assets relate to other policyholder and shareholder amounts.*

*(3) The notional amount of derivative financial instruments with related parties amounted to US$58m (2007: US$43m; 2008: US$58m)*

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

**22. Derivative financial instruments (continued)**

The Group only holds over the counter ('OTC') derivatives. OTC derivative contracts are individually negotiated between contracting parties and include forwards and swaps. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments.

Derivative assets and derivative liabilities are recognised in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Group's derivative risk management policies are outlined in Note 37. The Group does not employ hedge accounting, although most of its derivative holdings may have the effect of an economic hedge of other exposures.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions.

The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

**Foreign exchange contracts**

Forward exchange contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Currency swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gain and loss on both types of swap contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

**Interest rate swaps**

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments.

## 23. Fair value of financial instruments

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

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

| | | *Fair value* | | | | |
|---|---|---|---|---|---|---|
| US$m | *Notes* | Fair value through profit or loss | Available for sale | Cost/ amortised cost | Total carrying value | Total fair value |
| 30 November 2009 | | | | | | |
| Financial investments: | *21* | | | | | |
| Loans and receivables | | - | - | 4,648 | 4,648 | 4,688 |
| Debt securities | | 14,479 | 37,722 | - | 52,201 | 52,201 |
| Equity securities | | 16,116 | 62 | - | 16,178 | 16,178 |
| Derivative financial instruments | *22* | 453 | - | - | 453 | 453 |
| Reinsurance receivables | *19* | - | - | 29 | 29 | 29 |
| Cash and cash equivalents | *25* | - | - | 3,405 | 3,405 | 3,405 |
| **Financial assets** | | **31,048** | **37,784** | **8,082** | **76,914** | **76,954** |

| | *Notes* | Fair value through profit or loss | Cost/ amortised cost | Total carrying value | Total fair value |
|---|---|---|---|---|---|
| Financial liabilities: | | | | | |
| Investment contract liabilities | *27* | 6,669 | 1,111 | 7,780 | 7,780 |
| Borrowings | *29* | - | 688 | 688 | 688 |
| Obligations under securities lending and repurchase agreements | *30* | - | 284 | 284 | 284 |
| Derivative financial instruments | *22* | 71 | - | 71 | 71 |
| Other liabilities and current tax liabilities[1] | | - | 1,800 | 1,800 | 1,800 |
| **Financial liabilities** | | **6,740** | **3,883** | **10,623** | **10,623** |

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

Foreign exchange contracts

23.
Fair value of financial instruments (continued)

| US$m | Notes | *Fair value* Fair value through profit or loss | Available for sale | Cost/ amortised cost | Total carrying value | Total fair value |
|---|---|---|---|---|---|---|
| **30 November 2008** | | | | | | |
| Financial investments | *21* | | | | | |
| Loans and receivables | | - | - | 4,002 | 4,002 | 3,990 |
| Debt securities | | 12,389 | 29,934 | - | 42,323 | 42,323 |
| Equity securities | | 8,660 | 87 | - | 8,747 | 8,747 |
| Derivative financial instruments | *22* | 252 | - | - | 252 | 252 |
| Reinsurance receivables | *19* | - | - | 19 | 19 | 19 |
| Cash and cash equivalents | *25* | - | - | 4,164 | 4,164 | 4,164 |
| **Financial assets** | | **21,301** | **30,021** | **8,185** | **59,507** | **59,495** |

| | Notes | Fair value through profit or loss | Cost/ amortised cost | Total carrying value | Total fair value |
|---|---|---|---|---|---|
| Financial liabilities | | | | | |
| Investment contract liabilities | *27* | 4,226 | 672 | 4,898 | 4,898 |
| Borrowings | *29* | - | 661 | 661 | 661 |
| Obligations under securities lending and repurchase agreements | *30* | - | 2,718 | 2,718 | 2,718 |
| Derivative financial instruments | *22* | 138 | - | 138 | 138 |
| Other liabilities and current tax liabilities[1] | | - | 1,407 | 1,407 | 1,407 |
| **Financial liabilities** | | **4,364** | **5,458** | **9,822** | **9,822** |

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

**23. Fair value of financial instruments (continued)**

| US$m | Notes | *Fair value* Fair value through profit or loss | Available for sale | Cost/ amortised cost | Total carrying value | Total fair value |
|---|---|---|---|---|---|---|
| 30 November 2007 | | | | | | |
| Financial investments | *21* | | | | | |
| Loans and receivables | | - | - | 5,665 | 5,665 | 5,686 |
| Debt securities | | 13,449 | 30,955 | - | 44,404 | 44,404 |
| Equity securities | | 17,619 | 2,520 | - | 20,139 | 20,139 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Derivative financial instruments | *22* | 422 | - | - | 422 | 422 |
| Reinsurance receivables | *19* | - | - | 87 | 87 | 87 |
| Cash and cash equivalents | *25* | - | - | 2,583 | 2,583 | 2,583 |
| **Financial assets** | | **31,490** | **33,475** | **8,335** | **73,300** | **73,321** |

| | *Notes* | Fair value through profit or loss | Cost/ amortised cost | Total carrying value | Total fair value |
|---|---|---|---|---|---|
| Financial liabilities | | | | | |
| Investment contract liabilities | *27* | 5,926 | 579 | 6,505 | 6,505 |
| Borrowings | *29* | - | 1,461 | 1,461 | 1,461 |
| Obligations under securities lending and repurchase agreements | *30* | - | 5,395 | 5,395 | 5,395 |
| Derivative financial instruments | *22* | 47 | - | 47 | 47 |
| Other liabilities and current tax liabilities[1] | | - | 1,843 | 1,843 | 1,843 |
| **Financial liabilities** | | **5,973** | **9,278** | **15,251** | **15,251** |

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

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

Foreign currency exposure, including the net notional amount of foreign currency derivative positions, is shown in Note 37 for the Group's key foreign exchange exposures.

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

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

**Fair value measurements on a recurring basis**

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

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

**23. Fair value of financial instruments (continued)**

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

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

## Financial assets and liabilities

#### Loans and receivables

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

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

#### Debt securities and equity securities

The fair values of equity securities are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment.

For holdings in hedge funds and limited partnerships, fair values are determined based on the net asset values provided by the general partner or manager of each investment, the accounts of which are generally audited on an annual basis. The transaction price is used as the best estimate of fair value at inception.

#### Derivative financial instruments

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

#### Cash and cash equivalents

The carrying amount of cash approximates its fair value.

#### Reinsurance receivables

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

**Fair value of securities lending invested collateral and securities lending payables**

Securities lending collateral is recorded at fair value. The contract values of securities lending payables approximate fair value as these obligations are short term in nature.

**23. Fair value of financial instruments (continued)**

**Other assets**

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

**Investment contract liabilities**

For investment contract liabilities the fair values have been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts where the investment risk is borne by the policyholder the fair value generally approximates to the fair value of the underlying assets. Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured and classified according to the Group practice for insurance contract liabilities and hence are disclosed within Note 26. These are not measured at fair value as there is currently no agreed definition of fair value for investment and insurance contracts with DPF under IFRS. In the absence of any agreed methodology it is not possible to provide a range of estimates within which fair value is likely to fall. The IASB is expecting to address this issue in Phase II of its insurance contracts project.

**Borrowings**

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

**Other liabilities**

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

## Fair value hierarchy

Beginning on 1 December 2007, assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three 'levels' based on the observability of inputs available in the market place used to measure their fair values as discussed below:

·

Level 1

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

·

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

**23. Fair value of financial instruments (continued)**

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

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

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

| US$m | Fair value hierarchy | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **30 November 2009** | | | | |
| **Financial assets** | | | | |
| Available for sale | | | | |
| Debt securities | 21 | 37,533 | 168 | 37,722 |
| Equity securities - shares in ultimate parent | 62 | - | - | 62 |
| At fair value through profit or loss | | | | |
| Debt securities | | | | |
| Participating funds | - | 11,605 | 204 | 11,809 |
| Investment-linked | - | 1,726 | - | 1,726 |
| Other policyholder and shareholder | 1 | 665 | 278 | 944 |
| Equity securities | | | | |
| Participating funds | 2,088 | 15 | 106 | 2,209 |
| Investment-linked | 10,384 | 696 | - | 11,080 |
| Other policyholder and shareholder | 2,607 | 91 | 129 | 2,827 |
| Derivative financial assets | - | 453 | - | 453 |
| **Total** | **15,163** | **52,784** | **885** | **68,832** |
| *Total %* | *22.0* | *76.7* | *1.3* | *100.0* |
| | | | | |
| **Financial liabilities** | | | | |
| Investment contract liabilities | - | - | 6,669 | 6,669 |

| | | | | |
|---|---|---|---|---|
| Derivative financial instruments | - | 69 | 2 | 71 |
| **Total** | **-** | **69** | **6,671** | **6,740** |
| *Total %* | *-* | *1.0* | *99.0* | *100.0* |

**23. Fair value of financial instruments (continued)**

| US$m | Fair value hierarchy | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **30 November 2008** | | | | |
| **Financial assets** | | | | |
| Available for sale | | | | |
| Debt securities | - | 29,665 | 269 | 29,934 |
| Equity securities - shares in ultimate parent | 87 | - | - | 87 |
| At fair value through profit or loss | | | | |
| Debt securities | | | | |
| Participating funds | - | 9,835 | 235 | 10,070 |
| Investment-linked | - | 1,467 | - | 1,467 |
| Other policyholder and shareholder | - | 682 | 170 | 852 |
| Equity securities | | | | |
| Participating funds | 895 | 97 | 131 | 1,123 |
| Investment-linked | 5,158 | 506 | 18 | 5,682 |
| Other policyholder and shareholder | 1,541 | 165 | 149 | 1,855 |
| Derivative financial assets | - | 238 | 14 | 252 |
| **Total** | **7,681** | **42,655** | **986** | **51,322** |
| *Total %* | *15.0* | *83.1* | *1.9* | *100.0* |
| | | | | |
| **Financial liabilities** | | | | |
| Investment contract liabilities | - | - | 4,226 | 4,226 |
| Derivative financial instruments | - | 132 | 6 | 138 |
| **Total** | **-** | **132** | **4,232** | **4,364** |
| *Total %* | *-* | *3.0* | *97.0* | *100.0* |

The tables below set out a summary of changes in the Group's Level 3 financial assets and liabilities for the years ended 30 November 2008 and 2009. The tables reflect gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 30 November 2008 and 2009 respectively. The tables do not present gains or losses for instruments that were sold or transferred out of Level 3 prior to 1 December 2007.

**Level 3 financial assets and liabilities**

| US$m | Debt securities | Equity securities | Derivative financial assets | Derivative financial liabilities | Investment contracts |
|---|---|---|---|---|---|
| **At 1 December 2008** | **674** | **298** | **14** | **(6)** | **(4,226)** |
| Realised gains/(losses) | (134) | (33) | (4) | (2) | - |
| Net movement on investment contract liabilities | - | - | - | - | (2,443) |
| Unrealised gains/(losses) relating to instruments still held at the reporting | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| date | | | | | |
| Reported in the consolidated income statement | 73 | (23) | - | - | - |
| Reported in the consolidated statement of comprehensive income | 245 | - | - | - | - |
| Purchases, issues and settlements | (84) | 5 | - | - | - |
| Transfers in to/(out of) Level 3 | (124) | (12) | (10) | 6 | - |
| **At 30 November 2009** | **650** | **235** | **-** | **(2)** | **(6,669)** |

**23. Fair value of financial instruments (continued)**

**Level 3 financial assets and liabilities**

| US$m | Debt securities | Equity securities | Derivative financial assets | Derivative financial liabilities | Investment contracts |
|---|---|---|---|---|---|
| **At 1 December 2007** | **1,364** | **131** | **4** | **(12)** | **(5,926)** |
| Realised gains/(losses) | (61) | (7) | 5 | 14 | - |
| Net movement on investment contract liabilities | - | - | - | - | 1,700 |
| Unrealised gains/l(losses) relating to instruments held at the reporting date | | | | | |
| Reported in the consolidated income statement | (319) | (21) | - | - | - |
| Reported in the consolidated statement of comprehensive income | (174) | - | - | - | - |
| Purchases, issues and settlements | 121 | 149 | (1) | - | - |
| Transfers in to/(out of) Level 3 | (257) | 46 | 6 | (8) | - |
| **At 30 November 2008** | **674** | **298** | **14** | **(6)** | **(4,226)** |

Realised gains and losses arising from the disposal of the Group's Level 3 financial assets and liabilities are presented in the consolidated income statement.

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. Details of the movement in investment contract liabilities are provided in Note 27.

There are no differences between the fair values on initial recognition and the amounts determined using valuation techniques since the models adopted are calibrated using initial transaction prices.

Certain private equity investments are measured at cost because there is no quoted market price in an active market. The balance of such investments is US$nil (2007: US$1m; 2008: nil).

## 24. Other assets

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Prepayments | | | |
| Operating leases of leasehold land | 693 | 686 | 690 |
| Other | 44 | 44 | 51 |
| Accrued investment income | 725 | 766 | 854 |
| Pension scheme assets | | | |
| Defined benefit pension scheme surpluses (Note 38) | - | 3 | 5 |
| **Total** | **1,462** | **1,499** | **1,600** |

Included in 'Other Assets' are the following amounts which relate to the Group's interest in leasehold land and land use rights which are accounted for as prepayments of operating leases.

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| **Land held in Hong Kong** | | | |
| Long-term leases (>50 years) | 641 | 636 | 635 |
| Medium-term leases (10 - 50 years) | - | - | - |
| Short-term leases (<10 years) | - | - | - |
| **Land held outside Hong Kong** | | | |
| Freehold | - | - | - |
| Long-term leases (>50 years) | 50 | 48 | 53 |
| Medium-term leases (10 - 50 years) | 2 | 2 | 2 |
| Short-term leases (<10 years) | - | - | - |
| **Total** | **693** | **686** | **690** |

All amounts other than prepayments in respect of operating leases of leasehold land are expected to be recovered within 12 months after the end of the reporting period. Prepayments in respect of operating leases of land are expected to be recovered over the period of the leases shown above.

## 25. Cash and cash equivalents

### Cash and deposits

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Cash | 586 | 802 | 1,217 |
| Cash equivalents | 1,997 | 3,362 | 2,188 |
| **Total[1]** | **2,583** | **4,164** | **3,405** |

*Note: (1) Of cash and cash equivalents, US$764m are held to back investment-linked contracts (2007: US$614m; 2008:US$1,116m). The balance of cash and cash equivalents consists of other policyholder and shareholder*

Cash comprises cash at bank and cash in hand. Cash equivalents comprise bank deposits with maturities at acquisition of three months or less and money market funds. Accordingly, all such amounts are expected to be realised within 12 months after the reporting period.

## 26. Insurance contract liabilities

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| **At 1 December** | **46,960** | **57,161** | **52,158** |
| Valuation premiums | 8,758 | 9,676 | 8,522 |
| Liabilities released for death or other termination and related expenses | (4,161) | (6,180) | (4,639) |
| Fees deducted from account balances | (229) | (320) | (542) |
| Accretion of interest | 1,871 | 1,948 | 2,080 |
| Foreign exchange movements | 2,171 | (4,165) | 4,005 |
| Change in asset values attributable to policyholders | 1,264 | (3,762) | 2,082 |
| Transfer to liabilities of the disposal group classified as held for sale | - | - | (57) |
| Acquisition of subsidiary | - | - | 281 |
| Disposal of subsidiary | - | - | (657) |
| Other movements | 527 | (2,200) | 22 |
| **At 30 November** | **57,161** | **52,158** | **63,255** |

Insurance contract liabilities include amounts relating to investment-linked contracts of US$7,031m (2007
:
US$7,118m; 2008: US$3,952m).

# 26. Insurance contract liabilities (continued)

**Business description**

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

| **Type of contract** | | **Material terms and conditions** | **Nature of benefits and compensation for claims** | **Factors affecting contract cash flows** | **Key reportable segments** |
|---|---|---|---|---|---|
| Traditional participating life assurance with DPF | Participating funds | Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends, the aggregate amount of which is determined by the performance of a | Minimum guaranteed benefits may be enhanced based on investment experience and other considerations | · Investment performance<br>· Expenses<br>· Mortality<br>· | Singapore, China, Malaysia |

| | | | | | |
|---|---|---|---|---|---|
| | | 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 | | Surrenders | |
| | 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<br>· Expenses<br>· Mortality<br>· 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<br>· Morbidity<br>· Lapses<br>· Expenses | All[1] |
| Accident and health | | These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover | Benefits, defined in the insurance contract are determined by the contract and are not affected investment performance or the performance of the contract as a whole | · Mortality<br>· Morbidity<br>· Lapses<br>· Expenses | All[1] |
| Investment-linked | | Investment-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitised funds | Benefits are based on the value of the unitised funds and death benefits | · Investment performance<br>· Lapses<br>· Expenses<br>· 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 | Benefits are based on the account balance and death benefit | · Investment performance<br>· | All[1] |

| | | | |
|---|---|---|---|
| | set by the insurer, and a death benefit which may be varied by the customer | | Crediting rates<br>·<br>Lapses<br>·<br>Expenses<br>·<br>Mortality |

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

# 26. Insurance contract liabilities (continued)

## Methodology and assumptions

The most significant items to which profit for the period and shareholders' equity are sensitive are market, insurance and lapse risks which are shown in the table below. Indirect exposure indicates that there is a second order impact. For example, whilst the profit for the period attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders (for example, in respect of investment-linked contracts), there is a second order effect through the investment management fees which the Group earns by managing such investments. The distinction between direct and indirect exposure is not intended to indicate the relative sensitivity to each of these items. Where the direct exposure is shown as being 'net neutral' this is because the exposure to market and credit risk is offset by a corresponding movement in insurance contract liabilities.

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| | | 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 | ·<br>Net neutral except for the insurer's share of participating investment performance<br>· | ·<br>Net neutral except for the insurer's share of participating investment performance<br>· | ·<br>Investment performance subject to smoothing through dividend declarations | ·<br>Impact of persistency on future dividends<br>·<br>Mortality |

| | | | | | |
|---|---|---|---|---|---|
| | Other participating business | Guarantees<br>·<br>Net neutral except for the insurer's share of participating investment performance | Guarantees<br>·<br>Net neutral except for the insurer's share of participating investment performance | ·<br>Investment performance | ·<br>Impact of persistency on future dividends<br>·<br>Mortality |
| ·<br>Guarantees | ·<br>Guarantees | | | | |
| Traditional non-participating life assurance | | ·<br>Investment performance<br>·<br>Credit risk | ·<br>Guarantees | ·<br>Not applicable | ·<br>Mortality<br>·<br>Persistency<br>·<br>Morbidity |
| | | ·<br>Asset liability mismatch risk | | | |
| Accident and health | | ·<br>Loss ratio | ·<br>Investment performance<br>·<br>Credit risk | ·<br>Not applicable | ·<br>Claims experience<br>·<br>Morbidity<br>·<br>Persistency |
| ·<br>Asset liability mismatch risk | | | | | |
| Pensions | | ·<br>Net neutral | ·<br>Net neutral | ·<br>Performance related investment management fees | ·<br>Persistency |
| ·<br>Asset liability mismatch risk | | | | | |
| Investment-linked | | | | | |
| ·<br>Net neutral | ·<br>Net neutral | ·<br>Performance related investment management fees | ·<br>Persistency<br>·<br>Mortality | | |
| Universal life | | ·<br>Guarantees | ·<br>Investment performance<br>·<br>Credit risk | ·<br>Spread between earned rate and crediting rate to policyholders | ·<br>Mortality<br>·<br>Persistency<br>·<br>Withdrawals |
| | | ·<br>Asset liability mismatch risk | | | |

The Group is also exposed to currency risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business.

## 27. Investment contract liabilities

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| **At 1 December** | **3,482** | **6,505** | **4,898** |
| Effect of foreign exchange translation | 20 | (33) | 102 |
| Investment contract benefits | 1,228 | (2,047) | 2,164 |
| Fees charged | (222) | (174) | (326) |
| Net deposits/(withdrawals) and other movements | 1,997 | 647 | 942 |
| **At 30 November** | **6,505** | **4,898** | **7,780** |

Investment contract liabilities include amounts relating to investment-linked liabilities of US$6,669m (2007: US$5,926m; 2008: US$4,226m).

## 28. Effect of changes in assumptions and estimates

The table below sets out the sensitivities of the assumptions in respect of insurance and investment contracts with DPF to key variables. This disclosure only allows for the impact on liabilities and related assets, such as reinsurance, and deferred acquisition costs and does not allow for offsetting movements in the fair value of financial assets backing those liabilities.

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| **(Increase)/decrease in insurance contract liabilities, equity and profit before tax** | | | |
| Interest rates + 0.5% | 7 | 7 | 4 |
| Interest rates - 0.5% | (8) | (7) | (4) |
| Expenses +10% | (1) | (3) | (2) |
| Mortality +10% | (5) | (8) | (10) |
| Lapse rates +5% | (19) | (21) | (12) |

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

For interest sensitive insurance contracts, such as universal life products and investment-linked contracts, assumptions are made at each reporting date including mortality, persistency, expenses, future investment earnings and future crediting rates.

The impact of changes in assumptions on the valuation of insurance and investment contracts with DPF was US$86m decrease in profit (2007: US$17m; 2008: US$(11)m).

## 29. Borrowings

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Bank loans | 546 | 548 | 549 |
| Bank overdrafts | 71 | 88 | 85 |
| Loans from fellow subsidiaries of AIG | 812 | 20 | 50 |
| Other loans | 32 | 5 | 4 |
| **Total** | **1,461** | **661** | **688** |

Assets with a book value of US$756m (2007: US$755m; 2008: US$751m) and a fair value of US$1,290m (2007: US$1,101m; 2008: US$1,107m) are pledged as security with respect to amounts disclosed as bank loans above. Interest on loans reflects market rates of interest with the exception of certain related party borrowings which are repayable on demand. Interest expense on borrowings is shown in Note 9. Further information relating to interest rates and the maturity profile of borrowings is presented in Note 37.

## 30. Obligations under securities lending and repurchase agreements

The Group has entered into securities lending agreements whereby securities are loaned to both third parties and a related party. In addition, the Group has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date.

The securities related to these agreements are not derecognised from the Group's consolidated statement of financial position, but are retained within the appropriate financial asset classification. The following table specifies the amounts included within financial investments subject to securities lending or repurchase agreements at each period end:

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Debt securities: | | | |
| Repurchase agreements | 1,620 | 831 | 315 |
| Securities lending | | | |
| Related parties | 1,231 | 578 | - |
| Others | 2,446 | 1,691 | - |
| **Total** | **5,297** | **3,100** | **315** |

**Collateral**

Generally, the Group received collateral in excess of 100% of the fair value of securities loaned from all borrowers, typically consisting of cash or debt securities. During 2009 and 2008, borrowers were not providing collateral to 100% of the fair value of the securities lent; however, the Group's ultimate parent company provided additional collateral to fully collateralise the arrangements.

Collateral received under securities lending or consideration received for repurchase agreements typically consists of cash or debt securities. Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset in the consolidated statement of financial position, with a corresponding liability for its repayment.

Non-cash collateral received is not recognised in the consolidated statement of financial position unless the Group either sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability.

The fair value of non-cash collateral received from securities lending agreements and the respective amount which the Group can sell or re-pledge in the absence of default is disclosed in the table below:

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Debt securities | | | |
| Related parties | - | 390 | - |
| Others | - | - | - |
| **Total** | **-** | **390** | - |
| **Collateral available for pledge/sale** | **-** | **-** | - |

The value of collateral that was actually sold or re-pledged in the absence of default was nil for all periods.

**30. Obligations under securities lending and repurchase agreements (continued)**

Obligations under securities lending and repurchase agreements comprise the following:

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Securities lending | | | |
| Related parties | 1,291 | 657 | - |
| Others | 2,523 | 1,306 | - |
| Repurchase agreements | 1,581 | 755 | 284 |
| **Total** | **5,395** | **2,718** | **284** |

**On 10 November 2008, the Group entered into an agreement with AIG Funding, Inc. ('AIGF') whereby the Group can borrow from AIGF to return cash collateral to securities borrowers in connection with a portfolio of securities loans of which AIG Securities Lending (Ireland) Ltd ('AIGSL') is the agent.**

**The Group can only borrow under this facility if the collateral investment account maintained on behalf of the Group does not have sufficient cash at the time to satisfy the Group's obligations to repay the third party borrowers.**

**Under the terms of this agreement, interest accrues on the outstanding borrowings at three months US$ LIBOR-BBA plus 1% per annum. Either party may terminate the agreement at any time upon 30 business days prior written**

**notice to the other party.**

**The Group has not drawn down on this agreement at any time. Effective 30 November 2009, the Group terminated AIGSL's ability to make additional loans on behalf of the Group. As there are no outstanding loans under the programme, the Group no longer has the ability to draw down under this agreement.**

## 31. Impairment of financial assets

**Impairment of financial assets**

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

**Available for sale debt securities**

During the period to 30 November 2009, impairment losses of US$67m (2007: nil; 2008: US$142m) were recognised in respect of available for sale debt securities.

In 2007 the onset of the credit crisis resulted in a number of impairments being made against debt securities, including CDOs, held by the Group. In 2008 the global outlook worsened significantly as the impact of the credit crisis spread to other parts of the economy. As a result, a number of companies, including certain global financial institutions, amongst them issuers of a number of available for sale debt securities held by the Group, experienced significant financial difficulties. The impairment charge for 2008 includes US$67m relating to bonds issued by Lehman Brothers and US$52m relating to CDOs.

**Loans and receivables**

The Group's primary potential credit risk exposure in respect of loans and receivables arises in respect of policy loans and a small portfolio of high quality mortgage loans on residential and commercial real estate (see Note 21 Financial investments for further details). The Group's credit exposure on policy loans is mitigated because, if and when the total indebtedness on any policy, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Group has a first lien on all policies which are subject to policy loans.

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

Under the terms of this agreement, interest accrues on the outstandingborrowings at three months US$ LIBOR-BB

## 32. Provisions

| US$m | Employee benefits | Other | Total |
|---|---|---|---|
| **At 1 December 2006** | **50** | **85** | **135** |
| Charged to the consolidated income statement | 11 | 4 | 15 |
| Exchange differences | 1 | 1 | 2 |
| Utilised during the period | (7) | (3) | (10) |
| **At 30 November 2007** | **55** | **87** | **142** |
| Charged to the consolidated income statement | 11 | 31 | 42 |
| Exchange differences | (10) | (3) | (13) |
| Utilised during the period | (3) | (2) | (5) |
| **At 30 November 2008** | **53** | **113** | **166** |
| Charged to the consolidated income statement [1] | 16 | 131 | 147 |
| Exchange differences | 3 | 9 | 12 |
| Contributions | (2) | - | (2) |
| Utilised during the period | - | (73) | (73) |
| **At 30 November 2009** | **70** | **180** | **250** |

Note: (1)
Of the provisions charged to the consolidated income statement as "Other" during 2009, US$89m related to provision for restructuring and separation *costs.*

Further details of provisions for employee post retirement benefits are provided in Note 38.

**Other provisions**

Other provisions comprise provisions in respect of regulatory matters, litigation, reorganisation and restructuring. In view of the diverse nature of the matters provided for and the contingent nature of the matters to which they relate the Group is unable to provide an accurate assessment of the term over which provisions are expected to be utilised.

## 33. Other liabilities

| | As at 30 November | As at 30 November | As at 30 November |
|---|---|---|---|
| Loans and receivables | | | |

| US$m | 2007 | 2008 | 2009 |
|---|---|---|---|
| Trade and other payables | 1,389 | 1,082 | 1,162 |
| Third party interests in consolidated investment funds | 720 | 398 | 397 |
| Payables from purchases of investments | 84 | 72 | 396 |
| Reinsurance payables | 101 | 35 | 57 |
| **Total** | **2,294** | **1,587** | **2,012** |

Third party interests in consolidated investment funds consist of third party unit holders' interests in consolidated investment funds which are reflected as a liability since they can be put back to the Group for cash.

Trade and other payables are all expected to be settled within 12 months after the end of the reporting period. The realisation of third party interests in investment funds cannot be predicted with accuracy since these represent the interests of third party unit holders in consolidated investment funds held to back insurance and investment contract liabilities and are subject to market risk and the actions of third party investors.

## 34. Share capital and reserves

**Share capital**

| | As at 30 November 2007 | | As at 30 November 2008 | | As at 30 November 2009 | |
|---|---|---|---|---|---|---|
| | Million shares | US$m | Million shares | US$m | Million shares | US$m |
| **Authorised** | | | | | | |
| Ordinary shares of US$1 each | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| **Issued and fully paid** | | | | | | |
| At start of the reporting period | 12,000 | 12,000 | 12,000 | 12,000 | 12,000 | 12,000 |
| **At end of the reporting period** | **12,000** | **12,000** | **12,000** | **12,000** | **12,000** | **12,000** |
| **Shares yet to be issued** | **-** | **-** | **-** | **-** | **44** | **44** |
| **Share premium** | | **1,914** | | **1,914** | | **1,914** |

There were no shares issued under share option schemes in the period. The Company and its subsidiaries have not undertaken any purchase, sale, or redemption of the Company's issued share capital in the reporting period. Share premium of US$1,914m represents the difference between the net book value of the Group on acquisition by the Company of US$13,958m and the nominal value of the share capital issued of US$12,044m.

**Reserves**

**Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

**Foreign currency translation reserve**

The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

**Other reserves**

Other reserves include the impact of merger accounting for business combinations under common control and share based compensation.
At 30 November 2009 the Company does not have any distributable reserves.

## 35.

## Non-controlling interests

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Equity shares in subsidiaries | 6 | 6 | 51 |
| Share of earnings | 35 | 25 | - |
| Share of other reserves | 10 | (21) | - |
| **Total** | **51** | **10** | **51** |

## 36. Group capital structure

*Objectives, policies and processes for managing capital*
The Group's capital management objectives focus on maintaining a strong capital base to support the development of its business, satisfying regulatory capital requirements at all times, and supporting its credit rating targets. The Group recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain an appropriate balance.
The Group's capital management function oversees all capital related activities of the Group and assists senior management in making capital decisions. The capital management function participates in decisions concerning asset-liability management exposures, asset-liability proposals and strategic asset allocation.
The capital management function also engages in ongoing active capital and solvency management, including maintaining active dialogue and relationships with our regulators and ratings agencies. The Group has also incorporated the capital management framework into its budgeting process to ensure capital and dividend policies and programmes are implemented within the guidelines set forth by the Group.

**Externally imposed capital requirements**

The Group is in compliance with the solvency and capital adequacy requirements of its regulators. The Group's primary insurance regulator at the AIA and AIA-B levels is the Hong Kong Office of the Commissioner of Insurance (

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OCI

'

), which requires that AIA and AIA-B meet the solvency margin requirements of the Hong Kong Insurance Companies Ordinance. The Hong Kong Insurance Companies Ordinance (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The OCI requires AIA and AIA-B to maintain total available capital that is not less than 100% of the required minimum solvency margin such that total available capital exceeds required capital. The Hong Kong Insurance Companies Ordinance requires AIA and AIA-B to maintain a minimum solvency margin of 100%.

The Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries are domiciled. The various regulators overseeing the Group actively monitor the solvency margin position of the Group. AIA and AIA-B submit annual filings to the OCI of their solvency margin position based on their annual audited accounts, and the Group's other operating units perform similar annual filings with their respective local regulators.

The ability of the Company to pay dividends and meet other obligations depends on dividends and other payments from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations, as well as the terms of the Framework Agreement between the Company and the FRBNY. The various regulators overseeing the individual branches and subsidiaries of the Group have the discretion to impose additional restrictions on the ability of those regulated subsidiaries and branches to make payment of dividends or other distributions and payments to AIA, including increasing the required margin of solvency that an operating unit must maintain.

The payment of dividends and other distributions and payments by the Company's subsidiaries and their branches is regulated by applicable insurance, foreign exchange and tax and other laws, rules and regulations. The amount and timing of certain dividends, distributions and other payments require regulatory approval. In particular, the payment of dividends, distributions and other payments to the Company from AIA is subject to the oversight of the Office of the Commissioner of Insurance of Hong Kong. In addition, regulators may prohibit the payment of dividends or other distributions and payments by our regulated subsidiaries and branches if they determine that such payment could be adverse to the interests of relevant policyholders or contract holders.

Our Board of Directors will declare dividends, if any, on a per share basis in U.S. dollars. Shareholders will have the option to receive cash dividends in Hong Kong dollars or U.S. dollars.

**36. Group capital structure (continued)**

*Group capital position*

The Group defines 'capital' as the amount of assets in excess of liabilities measured in accordance with the Hong Kong Insurance Companies Ordinance. The Group defines total available capital as the amount of assets in excess of liabilities measures in accordance with the Insurance Companies Ordinance and 'required capital' as the minimum required margin of solvency calculated in accordance with the Insurance Companies Ordinance. The solvency margin ratio is the ratio of total available capital to required capital. A number of transactions undertaken in 2008 and 2009 enhanced the solvency position of the Group. With effect from 28 February 2009, AIA-B and AIA Australia, among others, become subsidiaries of AIA, and on 3 November 2009, the Group acquired Philam.

The capital positions of the two principal operating companies within the Group are illustrated in the table:

| US$m | | | 30 November 2007 | | | 30 November 2008 | | | 30 November 2009 |
|---|---|---|---|---|---|---|---|---|---|
| | Total available capital | Required capital | Solvency margin ratio | Total available capital | Required capital | Solvency margin ratio | Total available capital | Required capital | Solvency margin ratio |
| AIA | 2,551 | 1,357 | 188 | 2,751 | 1,316 | 209 | 4,811 | 1,547 | 311 |
| AIA-B | 2,519 | 648 | 389 | 1,469 | 684 | 215 | 2,742 | 911 | 301 |

# 37.

# Risk management

### Risk management framework

The managed acceptance of risk is fundamental to the Group's insurance business model. The Group's risk management framework seeks to effectively manage, rather than eliminate, the risks the Group faces. The Group's central risk management framework requires all operations to establish processes for identifying, evaluating and managing the key risks faced by the organisation. This risk management framework has evolved in recent years and now encompasses an established risk governance structure with clear oversight and assignment of responsibility for monitoring and management of strategic, operational and financial risks.

### Insurance and financial risk exposures

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

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

#### Insurance risk

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

- inadequate or inappropriate product design;
- inappropriate underwriting or pricing of policies;
- lapse risk; and
- variability in claims experience.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

#### Product design risk

Product design risk refers to potential defects in product design and pricing. The Group manages product design risk by completing pre-launch reviews and approval of products by local and the Group functional departments such as actuarial and underwriting. These departments have significant experience and have developed proprietary expertise to identify potential flaws in product design.

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

**Pricing and underwriting risk**

Pricing and underwriting risk refers to the possibility of product related income being inadequate to support future obligations arising from those contracts.

The Group manages pricing and underwriting risk by adhering to group wide underwriting guidelines. Each operating unit maintains a team of professional underwriters who review and select risks that are consistent with the underwriting strategy of the Group. A second layer of underwriting review is conducted by the Group for complex and large insurance risks. Any exceptions require specific approval and may be subject to separate risk management actions.

The Group makes use, in certain circumstances, of reinsurance to obtain product pricing expertise when entering new lines of business, products or territories. Reinsurance is also used, to a limited extent, to manage concentrations of insurance risk. However, the breadth of the Group's geographical spread and product portfolio creates natural diversification and reduces the extent to which concentrations of insurance risk arise.

**Claims risk**

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

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

The Group seeks to mitigate claims risk by conducting regular reviews of mortality and morbidity experience and considering the impact of these on reinsurance needs and product design and pricing. These reviews, alongside other experience studies, results and economic outlook data, are incorporated into new product design and in-force policy management which illustrates the benefit of the Group's scale, history and experience in achieving a coherent insurance risk management strategy.

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

**Lapse risk**

Lapse risk refers to the possibility of financial loss due to early termination of contracts where the acquisition cost incurred may not be recoverable from future revenue.

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

**Concentrations of insurance risk**

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

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

**37. Risk management (continued)**

Although long-term insurance and investment business are the Group's primary operations, the Group has a range of product offerings, such as term life, accident and health, participating, annuity and investment-linked, which vary in the extent and nature of risk coverage and thereby reduce exposures to concentrations of mortality or morbidity risk. For example, the insured risk for certain annuity products is survival of the annuitant, whereas the insured risk for a term life product is the death of the policyholder.
As a result of the Group's history and scale, a substantial volume of experience data has been accumulated which assists in evaluation and pricing of insurance risk. The Group's capital position combined with its profitable product portfolio and diversified geographical presence are factors in management's decision to retain (rather than reinsure) a high proportion of its written insurance risks.
Concentrations of risk are managed within each market through the monitoring of product sales and size of the in-force book by product group. Actuarial analyses are also performed to establish the impact of changes in mortality and morbidity experience for use in financial reporting, pricing and the Group's assessment of reinsurance needs.

**Credit risk**

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

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

The Group has in place a credit analysis process that accounts for diverse factors, including market conditions, industry specific conditions, company cash flows and quality of collateral. The Group also has a monitoring programme in place whereby the Group's credit analysis teams review the status of the obligor on a regular basis to anticipate any credit issues.
Cross-border investment exposures are controlled through the assignment of individual country counterparty risk limits by the CRM.
The Group monitors its credit exposures to any single unrelated external reinsurer or group.
The maximum exposure to credit risk for loans and receivables, debt securities and cash and cash equivalents is the carrying value in the consolidated statement of financial position, net of allowances.

**Market risk**

Market risk arises from the possibility of financial loss caused by changes in financial instrument fair values or future cash flows due to fluctuations in key variables, including interest rates, equity market prices and foreign exchange rates.
The Group manages the risk of market-based fluctuations in the value of the Group's investments, as well as liabilities with exposure to market risk.

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

**37. Risk management (continued)**

The Group routinely conducts sensitivity analyses of its fixed income portfolios to estimate its exposure to movements in interest rates. The Group's fixed income sensitivity analysis is primarily a duration-based approach. This approach provides an adequate representation of risk, because very few of the Group's fixed income investments have embedded options which exhibit negative convexity.

**Interest rate risk**

The Group's exposure to interest rate risk predominantly arises from the Group's investments in long-term fixed income debt securities, which are exposed to fluctuations in interest rates.

Interest rate risk also arises from the Group's insurance and investment contracts with guaranteed and fixed terms, including settlement options available upon maturity, which carry the risk that interest income and capital redemptions from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable as interest rates rise and fall. For other products, including those with participation or investment-linked features, interest rate risk is significantly reduced due to the non-guaranteed nature of additional policyholder benefits.

The Group manages its interest rate risk by generally investing in fixed income assets in the same currencies as those of its liabilities, as well as investing in financial instruments with tenors that broadly match the duration of its liabilities.

The Group also considers the effect of interest rate risk in its overall product strategy. Certain products such as investment-linked, universal life and participating business, inherently have lower interest rate risk as their design provides flexibility as to crediting rates and policyholder dividend scales.

**Exposure to interest rate risk**

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

| US$m | Variable interest rate | Fixed interest rate | Non-interest bearing | Total |
|---|---|---|---|---|
| **30 November 2009** | | | | |
| Financial assets | | | | |
| Loans and receivables | 904 | 2,825 | 919 | 4,648 |
| Debt securities | 4,715 | 47,486 | - | 52,201 |
| Equity securities | - | - | 16,178 | 16,178 |
| Reinsurance receivables | - | - | 29 | 29 |
| Derivative financial instruments | - | - | 453 | 453 |
| Cash and cash equivalents | 3,144 | - | 261 | 3,405 |
| **Total financial assets** | **8,763** | **50,311** | **17,840** | **76,914** |
| Financial liabilities | | | | |
| Insurance contract liabilities (net of reinsurance) | - | - | 63,000 | 63,000 |
| Investment contract liabilities | - | - | 7,780 | 7,780 |
| Borrowings | 603 | - | 85 | 688 |
| Obligations under securities lending and repurchase agreements | 284 | - | - | 284 |

| | | | | |
|---|---|---|---|---|
| Derivative financial liabilities | - | - | 71 | 71 |
| Other financial liabilities including tax payable | - | - | 1,800 | 1,800 |
| **Total financial liabilities** | **887** | **-** | **72,736** | **73,623** |
| **Net financial assets and liabilities** | **7,876** | **50,311** | **(54,896)** | **3,291** |

**37. Risk management (continued)**

| US$m | Variable interest rate | Fixed interest rate | Non-interest bearing | Total |
|---|---|---|---|---|
| **30 November 2008** | | | | |
| Financial assets | | | | |
| Loans and receivables | 1,423 | 1,563 | 1,016 | 4,002 |
| Debt securities | 3,723 | 38,600 | - | 42,323 |
| Equity securities | - | - | 8,747 | 8,747 |
| Derivative financial instruments | - | - | 252 | 252 |
| Reinsurance receivables | - | - | 19 | 19 |
| Cash and cash equivalents | 4,116 | - | 48 | 4,164 |
| **Total financial assets** | **9,262** | **40,163** | **10,082** | **59,507** |
| Financial liabilities | | | | |
| Insurance contract liabilities (net of reinsurance) | - | - | 52,030 | 52,030 |
| Investment contract liabilities | - | - | 4,898 | 4,898 |
| Borrowings | 546 | 26 | 89 | 661 |
| Obligations under securities lending agreements | 2,718 | - | - | 2,718 |
| Derivative financial liabilities | - | - | 138 | 138 |
| Other financial liabilities including tax payable | - | - | 1,407 | 1,407 |
| **Total financial liabilities** | **3,264** | **26** | **58,562** | **61,852** |
| **Net financial assets and liabilities** | **5,998** | **40,137** | **(48,480)** | **(2,345)** |
| **30 November 2007** | | | | |
| Financial assets | | | | |
| Loans and receivables | 2,009 | 1,543 | 2,113 | 5,665 |
| Debt securities | 4,578 | 39,826 | - | 44,404 |
| Equity securities | - | - | 20,139 | 20,139 |
| Derivative financial instruments | - | - | 422 | 422 |
| Reinsurance receivables | - | - | 87 | 87 |
| Cash and cash equivalents | 2,529 | - | 54 | 2,583 |
| **Total financial assets** | **9,116** | **41,369** | **22,815** | **73,300** |
| Financial liabilities | | | | |
| Insurance contract liabilities (net of reinsurance) | - | - | 54,580 | 54,580 |
| Investment contract liabilities | - | - | 6,505 | 6,505 |
| Borrowings | 543 | 846 | 72 | 1,461 |
| Obligations under securities lending agreements | 5,395 | - | - | 5,395 |
| Derivative financial liabilities | - | - | 47 | 47 |
| | - | 785 | 1,058 | 1,843 |

| | | | | | |
|---|---|---|---|---|---|
| Other financial liabilities including tax payable | | | | | |
| **Total financial liabilities** | **5,938** | **1,631** | | **62,262** | **69,831** |
| **Net financial assets and liabilities** | **3,178** | **39,738** | | **(39,447)** | **3,469** |

## 37. Risk management (continued)

**Foreign exchange rate risk**

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

The Group generally invests in assets denominated in currencies that match its liabilities to avoid currency mismatches. However, for yield enhancement and risk diversification purposes, the Group's business units also invest, in some instances, in instruments in currencies that are different from the originating liabilities. These activities expose the Group to gains and losses arising from foreign exchange rate movements. The Group's business units monitor foreign currency exposures and where these are not consistent with the risk appetite of the Group, positions may be closed or hedging instruments may be purchased.

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

**Net exposure**

| US$m | United States Dollar | Hong Kong Dollar | Thai Baht | Singapore Dollar | Malaysian Ringgit | China Renminbi | Korean Won |
|---|---|---|---|---|---|---|---|
| **30 November 2009** | | | | | | | |
| Equity analysed by original currency | 11,824 | (410) | 2,448 | (1,922) | 563 | 704 | 924 |
| Net notional amounts of currency derivative positions | (3,845) | - | 1,256 | 3,031 | - | - | 100 |
| **Currency exposure** | 7,979 | (410) | 3,704 | 1,109 | 563 | 704 | 1,024 |
| 5% strengthening of original currency | | | | | | | |
| **Impact on profit before tax** | 103 | (63) | 1 | 11 | 1 | 9 | 2 |
| 5% strengthening of the US dollar | | | | | | | |
| **Impact on shareholders' equity** | (103) | (9) | (184) | (54) | (28) | (30) | (50) |
| **30 November 2008** | | | | | | | |
| Equity analysed by original currency | 7,085 | (502) | 2,113 | (1,887) | 482 | 628 | 598 |
| Net notional amounts of currency derivative positions | (3,316) | - | 1,039 | 2,776 | - | - | (96) |
| **Currency exposure** | 3,769 | (502) | 3,152 | 889 | 482 | 628 | 502 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 5% strengthening of original currency | | | | | | | |
| **Impact on profit before tax** | 31 | (66) | 1 | 6 | - | 7 | 1 |
| 5% strengthening of the US dollar | | | | | | | |
| **Impact on shareholders' equity** | (31) | (5) | (156) | (42) | (24) | (28) | (25) |

**37. Risk management (continued)**

| US$m | United States Dollar | Hong Kong Dollar | Thai Baht | Singapore Dollar | Malaysian Ringgit | China Renminbi | Korean Won |
|---|---|---|---|---|---|---|---|
| **30 November 2007** | | | | | | | |
| Equity analysed by original currency | 11,387 | (15) | 2,141 | (2,370) | 318 | 355 | 831 |
| Net notional amounts of currency derivative positions | (2,818) | - | 686 | 2,728 | - | - | - |
| **Currency exposure** | 8,569 | (15) | 2,827 | 358 | 318 | 355 | 831 |
| 5% strengthening of original currency | | | | | | | |
| **Impact on profit before tax** | 128 | (41) | (14) | 8 | 2 | 8 | 8 |
| 5% strengthening of the US dollar | | | | | | | |
| **Impact on shareholders' equity** | (128) | (9) | (141) | (16) | (15) | (14) | (35) |

**37. Risk management (continued)**

**Equity market price risk**

Equity market price risk arises from changes in the market value of equity securities and equity funds. With the exception of the Group's holding of shares in AIG, the majority of the Group's equity instruments are held to match investment-linked contracts, the investment risk in respect of which is wholly borne by policyholders, or in respect of participating business, where investment risks are shared between the Group and its policyholders. Equity securities form a relatively low proportion of the Group's overall non-linked investment portfolios (including participating funds).

**Sensitivity analysis**

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in Note 28. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support investment-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholders' participation ratios described in Note 2. Information is presented to illustrate the estimated impact on profits and equity arising from a change in a single variable before taking into account the effects of taxation.

For the purpose of illustrating the sensitivity of profit and total equity to changes in interest rates and equity prices, the impact of possible impairments of financial investments classified as available for sale which may arise in times of economic stress has been ignored, since default events reflect the characteristics of individual issuers. Because the Group's accounting policies lock in interest rate assumptions on policy inception and the Group's assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is no corresponding effect on liabilities.

| | 30 November 2007 | | 30 November 2008 | | 30 November 2009 | |
|---|---|---|---|---|---|---|
| US$m | Impact on profit before tax | Impact on net assets (before the effects of taxation) | Impact on profit before tax | Impact on net assets (before the effects of taxation) | Impact on profit before tax | Impact on net assets (before the effects of taxation) |
| **Interest rate risk** | | | | | | |
| + 50 basis points shift in yield curves | (45) | (1,130) | (53) | (1,096) | (64) | (1,492) |
| - 50 basis points shift in yield curves | 45 | 1,130 | 53 | 1,096 | 64 | 1,492 |
| **Equity risk** | | | | | | |
| 10 per cent increase in equity prices | 464 | 716 | 204 | 214 | 308 | 314 |
| 10 per cent decrease in equity prices | (464) | (716) | (204) | (214) | (308) | (314) |

**37. Risk management (continued)**

**Liquidity risk**

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

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

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

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

| US$m | Total | No fixed maturity | Due in one year or less | Due after one year through five years | Due after five years through 10 years | Due after 10 years |
|---|---|---|---|---|---|---|
| **30 November 2009** | | | | | | |
| Financial assets: | | | | | | |
| Loans and receivables | 4,648 | 1,814 | 1,508 | 209 | 626 | 491 |
| Debt securities | 52,201 | - | 1,624 | 11,825 | 14,806 | 23,946 |
| Equity securities | 16,178 | 16,178 | - | - | - | - |
| Derivative financial instruments | 453 | - | 12 | 308 | 133 | - |
| Reinsurance receivables | 29 | - | 29 | - | - | - |
| Cash and cash equivalents | 3,405 | - | 3,405 | - | - | - |
| **Total** | **76,914** | **17,992** | **6,578** | **12,342** | **15,565** | **24,437** |
| Financial liabilities and insurance contracts: | | | | | | |
| Insurance contract liabilities (net of reinsurance) | 63,000 | - | (726) | (885) | 4,064 | 60,547 |
| Investment contract liabilities | 7,780 | - | 39 | 1,807 | 2,564 | 3,370 |
| Borrowings | 688 | 139 | 7 | 542[1] | - | - |
| Obligations under securities lending and repurchase agreements | 284 | - | 284 | - | - | - |
| Derivative financial instruments | 71 | - | 10 | 46 | 14 | 1 |
| Other liabilities including tax payable | 1,800 | - | 1,800 | - | - | - |
| **Total** | **73,623** | **139** | **1,414** | **1,510** | **6,642** | **63,918** |

Note: (1)
Includes amounts of US$542m (2008: US$542m; 2007: US$546m) falling due after 2 years through 5 years

**37. Risk management (continued)**

| US$m | Total | No fixed maturity | Due in one year or less | Due after one year through five years | Due after five years through 10 years | Due after 10 years |
|---|---|---|---|---|---|---|
| **30 November 2008** | | | | | | |
| Financial assets: | | | | | | |
| Loans and receivables | 4,002 | 232 | 2,220 | 736 | 637 | 177 |
| Debt securities | 42,323 | - | 1,842 | 9,568 | 13,661 | 17,252 |
| Equity securities | 8,747 | 8,747 | - | - | - | - |
| Derivative financial instruments | 252 | - | 2 | 160 | 90 | - |
| Reinsurance receivables | 19 | - | 19 | - | - | - |
| Cash and cash equivalents | 4,164 | - | 4,164 | - | - | - |
| **Total** | **59,507** | **8,979** | **8,247** | **10,464** | **14,388** | **17,429** |
| Financial liabilities and insurance contracts: | | | | | | |
| Insurance contract liabilities (net of reinsurance) | 52,030 | 46 | (1,278) | (2,039) | 2,451 | 52,850 |
| Investment contract liabilities | 4,898 | - | 126 | 686 | 887 | 3,199 |
| Borrowings | 661 | 4 | 108 | 549[1] | - | - |
| Obligations under securities lending and repurchase agreements | 2,718 | - | 2,718 | - | - | - |
| Derivative financial instruments | 138 | - | 19 | 53 | 58 | 8 |
| Other liabilities including tax payable | 1,407 | - | 1,407 | - | - | - |
| **Total** | **61,852** | **50** | **3,100** | **(751)** | **3,396** | **56,057** |
| **30 November 2007** | | | | | | |
| Financial assets: | | | | | | |
| Loans and receivables | 5,665 | 204 | 4,165 | 392 | 427 | 477 |
| Debt securities | 44,404 | - | 1,925 | 8,983 | 15,168 | 18,328 |
| Equity securities | 20,139 | 20,139 | - | - | - | - |
| Derivative financial instruments | 422 | - | 14 | 107 | 301 | - |
| Reinsurance receivables | 87 | - | 87 | - | - | - |
| Cash and cash equivalents | 2,583 | - | 2,583 | - | - | - |
| **Total** | **73,300** | **20,343** | **8,774** | **9,482** | **15,896** | **18,805** |
| Financial liabilities and insurance contracts: | | | | | | |
| Insurance contract liabilities (net of | 54,580 | 43 | (1,318) | (1,352) | 3,702 | 53,505 |

| | | | | | | |
|---|---|---|---|---|---|---|
| reinsurance) | | | | | | |
| Investment contract liabilities | 6,505 | - | 179 | 961 | 1,244 | 4,121 |
| Borrowings | 1,461 | 4 | 911 | 546[1] | - | - |
| Obligations under securities lending and repurchase agreements | 5,395 | - | 5,395 | - | - | - |
| Derivative financial instruments | 47 | - | 1 | 12 | 34 | - |
| Other liabilities including tax payable | 1,843 | - | 1,843 | - | - | - |
| **Total** | **69,831** | **47** | **7,011** | **167** | **4,980** | **57,626** |

**Note: (1)**

**Includes amounts of US$**

**542**

**m (2008: US$542m; 2007: US$546m) falling due after 2 years through 5 years**

## 38. Employee benefits

**Defined benefit plans**

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Present value of unfunded obligations | 40 | 64 | 58 |
| Present value of funded obligations | 61 | 37 | 52 |
| **Total present value of obligations** | **101** | **101** | **110** |
| Fair value of plan assets | (56) | (50) | (53) |
| **Present value of net obligations** | **45** | **51** | **57** |
| Unrecognised actuarial (losses)/gains | 10 | - | 9 |
| Unrecognised past service (cost)/benefit | - | (1) | (1) |
| Net recognised defined benefit obligations | **55** | **50** | **65** |
| **Recognised defined benefit deficits** | **55** | **53** | **70** |
| **Recognised defined benefit surpluses** | **-** | **(3)** | **(5)** |

The Group operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong, Singapore, Malaysia, Thailand, Taiwan, Indonesia, the Philippines and Korea.

Plan assets comprise:

| | As at 30 November | As at 30 November | As at 30 November |
|---|---|---|---|

| US$m | 2007 | 2008 | 2009 |
|---|---|---|---|
| Equity securities | 3 | 2 | 1 |
| Debt securities | 1 | - | 1 |
| Real estate | 40 | 38 | 39 |
| Investment contracts issued by third party financial institutions | 10 | 9 | 12 |
| Bank deposits | 2 | 1 | - |
| **Total** | **56** | **50** | **53** |

**Movement in the present value of defined benefit obligations**

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| At 1 December | 86 | 101 | 101 |
| Benefits paid by the plan | (3) | (6) | (6) |
| Current service costs and interest (see next page) | 15 | 17 | 19 |
| Actuarial losses/(gains) | (3) | 2 | (11) |
| Plan settlement, curtailment or amendment | - | 1 | (1) |
| Foreign exchange movements | 6 | (14) | 8 |
| **At 30 November** | **101** | **101** | **110** |

**38. Employee benefits (continued)**

**Movement in the fair value of plan assets**

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| At 1 December | 37 | 56 | 50 |
| Contributions paid into the plan | 6 | 7 | 4 |
| Benefits paid by the plan | (3) | (6) | (7) |
| Expected return on plan assets | 3 | 5 | 5 |
| Actuarial gains/(losses) | 7 | (2) | (2) |
| Foreign exchange movements | 6 | (10) | 4 |
| Asset distributed on settlement | - | - | (1) |
| **At 30 November** | **56** | **50** | **53** |

**Expense recognised in consolidated income statement**

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Current service costs | 10 | 11 | 13 |
| Interest on obligation | 5 | 6 | 6 |

| | | | |
|---|---|---|---|
| Expected return on plan assets | (3) | (5) | (5) |
| Settlement/curtailment (gains)/losses recognised | - | - | - |
| **Total** | **12** | **12** | **14** |

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

| US$m | Year ended 30 November 2007 | Year ended 30 November 2008 | Year ended 30 November 2009 |
|---|---|---|---|
| Operating expenses | 12 | 12 | 14 |

**Actuarial assumptions**

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

| | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Expected return on plan assets at the start of the reporting period | 2.5 - 10.5% | 2.75 - 9.75% | 2.75 - 12.5% |
| Future salary increases | 3.0 - 9.0% | 3.0 - 10.0% | 3.0 - 10.0% |
| Healthcare trend rate: | | | |
| Immediate trend rate | 4.0 - 12.5% | 4.0 - 12.5% | 4.0 - 10.5% |
| Ultimate trend rate | 4.0 - 10.5% | 4.0 - 10.5% | 4.0 - 10.5% |
| Year in which the ultimate trend rate is reached | 2008 - 2013 | 2009 - 2013 | 2010 - 2013 |
| Discount rate at the end of the reporting period | 2.75 - 11.0% | 1.5 - 15.0% | 1.5 - 15.0% |

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

**38. Employee benefits (continued)**

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

| | Hong Kong | Singapore | Thailand | Malaysia | Philippines |
|---|---|---|---|---|---|
| Retirement age | 65 | 62 | 60 | 55 - 60 | 65 |
| Average life expectancy on retirement | | | | | |
| Males | 18.5 years | 21.5 years | 18.1 years | 19.2 - 23.3 years | 17.3 years |
| Females | 20.4 years | 24.1 years | 21.2 years | 25.5 - 29.9 years | 20.8 years |

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

| US$m | 1% increase | | | 1% decrease | | |
|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2007 | 2008 | 2009 |
| Effect on the aggregate service and interest cost | - | - | 1 | - | (1) | (1) |
| Effect on defined benefit obligation | 1 | 7 | 4 | (1) | (5) | (3) |

**Historical information**

| US$m | As at 30 November 2007 | As at 30 November 2008 | As at 30 November 2009 |
|---|---|---|---|
| Present value of the defined benefit obligation | 101 | 101 | 110 |
| Fair value of plan assets | (56) | (50) | (53) |
| Deficits of the plans | 45 | 51 | 57 |
| Experience gain/(loss) arising on plan liabilities | (2) | (14) | (7) |
| Experience gain/(loss) arising on plan assets | 6 | (2) | (2) |

Contributions to funded and unfunded defined benefit plans during the year ended 30 November 2009 are not expected to be material.

**Defined contribution plans**

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current period was US$30m (2007: US$20m; 2008: US$27m).

The outstanding liability for defined contribution benefit plans is US$1m (2007: nil; 2008: US$1m).

## 39. Share based compensation

**Stock compensation plans**

The Group's employees have participated in six different stock based compensation arrangements of AIG; the AIG 1999 Stock Option Plan, as amended (

'

the 1999 plan

'

), the AIG 1996 Employee Stock Purchase Plan, as amended (

'

the 1996 plan

'

), the 2007 AIG Stock Incentive Plan, as amended (

'

the 2007 plan

'

), various SICO Plans, the Deferred Compensation Profit Participation Plan (

'

DCPPP

'

) and the Partners Plan. No future grants are expected under these plans.

Under IFRS, share based compensation is recognised and measured based on the fair value of the equity instruments granted measured at grant date. The Group is required to continue to recognise an expense in respect of share based compensation based on the fair value of the options at grant date.

On 30 June 2009, AIG completed a one-for-twenty reverse stock split. The comparative information presented for number of shares and option exercise prices reflects the reverse stock split. The reverse stock split did not result in any changes to the underlying terms or value of the share awards.

The 1999 plan

Under the 1999 plan, options to purchase a certain number of shares of AIG's common stock have been granted to officers and other key employees of the Group and its subsidiaries at prices not less than the fair market value of those shares at the date of grant. The maximum number of options granted under the Plan in total is 2,250,000 and the maximum number of shares that may be granted to any employee in any one year is 45,000. Under this plan, 25% of the options become exercisable on the anniversary of the date of grant in each of the four years following that grant and expire 10 years from the date of grant. Each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period.

| | Year ended 30 November 2007 | | Year ended 30 November 2008 | | Year ended 30 November 2009 | |
|---|---|---|---|---|---|---|
| | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| **Options** | | | | | | |
| Outstanding at 1 December | 47,622 | *$1,222.63* | 46,769 | *$1,240.01* | 47,539 | *$1,232.40* |
| Granted | 3,800 | *$1,413.45* | 3,750 | *$1,132.66* | - | - |
| Transfers in | | | | | | |