The following discussion and analysis should be read in conjunction with "Information about the AIA Group" and Appendix II "Accountants' Report of the AIA Group".

Unless otherwise indicated, the financial data relating to the AIA Group in this listing document has been extracted without material adjustment from the historical financial information of the AIA Group as reported on by PricewaterhouseCoopers set out at Appendix II "Accountants' Report of the AIA Group" to this listing document or from AIA Group's unaudited accounting records, operating records, operating systems and other information prepared by AIA or Prudential.

For the purposes of reading this part of the listing document, you should refer to the list of explanations in "Financial Information of the AIA Group" which contains explanations of certain terms used only in "Information about the AIA Group" and "Financial Information of the AIA Group" of this listing document. These terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

BUSINESS OVERVIEW

The AIA Group is a leading life insurance organisation in the Asia Pacific region that traces its roots in the region back more than 90 years. It provides individuals and businesses with products and services for their evolving insurance, protection, savings, investments and retirement needs. As of 30 November 2009, the AIA Group (excluding AIA India, a joint venture in which the AIA Group has a 26% equity interest) had approximately 15,500 employees serving the holders of its approximately 21.3 million in-force policies and approximately 9 million participating members of its clients for group life, medical, credit life coverage and pension products. As of 30 November 2009, the AIA Group's tied agency force consisted of approximately 162,720 agents (excluding those who serve AIA India). More recently, it has developed its other distribution channels, particularly bancassurance and direct marketing, to create a multi-channel distribution platform. The AIA Group derives substantially all of its premiums from its 15 geographical markets across the Asia Pacific region. Its individual local operating units are significant businesses in their own right, with Hong Kong, Singapore and Thailand each generating more than US$350 million of operating profit in FY 2009. At the same time, the AIA Group's business is well diversified with no more than 25% of TWPI arising from any one geographical market in FY 2008 and FY 2009.

FINANCIAL OVERVIEW OF THE AIA GROUP'S BUSINESS

The AIA Group had TWPI and operating profit before tax of US$11,632 million and US$1,835 million, respectively, in FY 2009, US$12,203 million and US$1,943 million, respectively, in FY 2008 and US$11,358 million and US$1,742 million, respectively, in FY 2007. Applying the average US dollar exchange rates for a particular financial year to results reported in local currency for the previous financial year, which the AIA Group refers to as "on a constant exchange rate basis", the increase in TWPI from FY 2008 to FY 2009 was 1.1% and the increase in TWPI from FY 2007 to FY 2008 was 6.4%.

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

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

	Year ended 30 November					
	2007	2008	2009	2007	2008	2009
	TWPI			Operating profit/(loss)(1)		
	(in US$ millions)					
Hong Kong	2,845	2,916	2,861	408	590	698
Thailand	2,164	2,351	2,373	401	424	358
Singapore	1,514	1,641	1,524	348	333	356
Malaysia	667	727	707	123	123	150
China	806	934	1,018	122	85	89
Korea	2,178	2,268	1,759	269	281	81
Other Markets(2)	1,184	1,366	1,390	170	188	191
Corporate and Other	—	—	—	(99)	(81)	(88)
Total	**11,358**	**12,203**	**11,632**	**1,742**	**1,943**	**1,835**

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

MAJOR FACTORS AFFECTING THE AIA GROUP'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Economic conditions and demographic fundamentals in the Asia Pacific region

The Asia Pacific region's economic growth trends, household savings rates, demographic profiles and life insurance penetration rates are some of the key factors affecting the performance of the region's life insurance industry. As the AIA Group operates in 15 geographical markets across the Asia Pacific region and provides a range of products to different customer segments in each market, its performance is less susceptible to adverse trends in any one geographical market. However, if the economic conditions in the Asia Pacific region deteriorate, or the impact on the AIA Group's business is different from what it expects, its business may be materially and adversely affected.

Fluctuations in market interest rates and credit risk

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

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

Fluctuations in equity markets

Fluctuations in equity markets may affect the AIA Group's investment returns and sales of AIA investment-linked products. Its exposure to equity markets is significantly less than its exposure to debt markets, with equity securities representing only 6.4% of the total carrying value of other policyholder and shareholder financial investments as of 30 November 2009. Other policyholder and shareholder investments form 17.9% of the total fair value of the AIA Group's equity securities as of 30 November 2009. The investment risk in respect of investments held to back AIA investment-linked contracts is borne wholly by holders of AIA investment-linked contracts whereas the investment risk associated with investments held by participating funds is shared between policyholders and AIA's shareholders.

Sales of AIA investment-linked products typically decrease in periods of protracted or steep declines in equity markets and increase in periods of rising equity markets. Customers may be reluctant to commit to new investment-linked savings products in times of uncertainty or market volatility, although some customers with regular premium paying policies may choose to maintain their payments of regular premiums as markets decline, following a strategy of dollar cost averaging. Policy loans, surrenders and withdrawals may increase at times of declining equity markets. Lower investment returns for AIA investment-linked contracts would also reduce the asset management and other fees earned by the AIA Group, certain of which are based on the account balance of these contracts.

Fluctuations in foreign exchange rates

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

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

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

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

Regulatory environment

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

Customer sentiment and policyholder behaviour

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

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

Claims experience

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

Product mix and multi-channel distribution

The AIA Group designs and distributes a broad range of insurance products. The performance of its businesses, and the revenue it generates, are affected by its ability to deliver the most suitable products to targeted customer segments through multiple distribution channels in each of its key markets on a timely basis. Its ability to expand and build alternative distribution channels, including bancassurance, direct marketing and IFA/brokerage channels, may affect the performance of its businesses.

Competition in the AIA Group's geographical markets

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

Revenues, expenses and profitability

The AIA Group derives revenues primarily from:

- insurance premiums from the sale of life insurance policies and annuity contracts, as well as health and protection insurance products;
- policy fees for AIA investment-linked products; and
- investment returns from its investment portfolio.

The AIA Group's expenses consist primarily of:

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

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

- its ability to design and distribute products and services that meet market needs and are delivered on a timely basis;
- its ability to manage AIA persistency. Maintaining a high level of AIA persistency is important to the AIA Group's financial results, as a large block of in-force policies provides it with recurring revenues in the form of renewal premiums. In addition, its ability to convert first year premiums into renewal premiums — thereby increasing the number of in-force policies — is an important factor affecting the AIA Group's financial condition and results of operations, as well as the long-term growth of its revenues and profitability;
- its ability to price its insurance products at a level that enables it to earn a margin over the cost of providing benefits and the expense of acquiring new policies and administering those products. The adequacy of the AIA Group's product pricing is, in turn, primarily a function of:
  - its mortality and morbidity experience on individual and group insurance;

- the adequacy of its methodology for underwriting insurance policies and establishing reserves for future policyholder benefits and claims; and
- the extent to which its actual expenses and investment performance meet assumptions;
- its ability to actively manage its investment portfolio to earn an acceptable return while managing liquidity, credit and duration risks in its asset and policy portfolios through asset liability management; and
- its ability to control expenses in order to maintain the target margins for its insurance products.

ACCOUNTING POLICIES

Critical accounting policies

The preparation of historical financial information of the AIA Group requires selection of accounting policies and making 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 information. Critical accounting policies are considered to be those where a diverse range of accounting treatments is permitted by IFRS as adopted by the EU and significant judgements 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, which may entitle the customer to receive, as a supplement to guaranteed benefits, additional non-guaranteed benefits, such as policyholder dividends or bonuses. The AIA Group applies the same accounting policies for the recognition and measurement of obligations arising from investment contracts with AIA discretionary participation features ("AIA DPF") as it does for insurance contracts.

Accordingly, the AIA Group performs a product classification exercise covering its portfolio of contracts to determine the classification of contracts to these categories. Product classification requires the exercise of significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the AIA Group to pay significant additional benefits to its customers. In the event the AIA 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 AIA 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 AIA DPF, and this basis has been adopted by the AIA Group in accounting for such contracts, except for participating business written in participating funds where in addition to policy liabilities a liability is recorded for the net assets of the participating fund.

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

Insurance contract liabilities including liabilities in respect of investment contracts with AIA DPF

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

For contracts with an explicit account balance, such as universal life and AIA 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 judgement is exercised in making appropriate estimates of gross profits, which are also regularly reviewed by the AIA Group.

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

The AIA Group accounts for insurance contract liabilities for participating business written in participating funds by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the net assets of participating funds. As such, income is recognised only when dividend or bonus declarations are made, to the extent that a portion of such declarations is attributable to the AIA Group. Establishing these liabilities requires the exercise of significant judgement. In addition, the assumption that all relevant performance is declared as a policyholder dividend may not be borne out in practice. The AIA Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

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

Deferred policy acquisition and origination costs

The costs of acquiring new insurance contracts, including commission, underwriting and other policy issue expenses which vary with and are primarily related to the production of new business or renewal of existing business, are deferred as an asset. Deferred acquisition costs are 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 AIA investment-linked contracts are amortised over the expected life of the contracts on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. Estimated gross profits include expected amounts for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. The interest rate used to compute the present value of estimates of expected gross profits is based on the AIA 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 services are 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 judgements exercised in the deferral and amortisation of acquisition and origination costs affect amounts recognised in the consolidated financial information as deferred acquisition and origination costs and insurance and investment contract benefits.

Liability adequacy testing

The AIA Group evaluates the adequacy of its insurance and investment contract liabilities at least annually. Liability adequacy is assessed by portfolio of contracts in accordance with the AIA Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. The AIA 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 judgement is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. The judgements exercised in liability adequacy testing affect amounts recognised in the consolidated financial information 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 AIA Group designates financial assets at fair value through profit or loss if this eliminates or reduces an accounting mismatch between the recognition and measurement of its assets and liabilities, or if the related assets and liabilities are actively managed on a fair value basis. This is the case for:

- financial assets held to back AIA 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 AIA Group's holding of shares of AIG and the AIA Group's portfolio of debt securities (other than those backing participating fund liabilities and AIA 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 AIA Group determines the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions and values obtained from current bid prices of comparable investments. More judgment is used in measuring the fair value of financial assets for which market observable prices are not available or are available only infrequently.

Changes in fair value of financial assets held by the AIA Group's participating funds affect not only the value of financial assets, but are also reflected in corresponding movements in insurance and investment contract liabilities. This is due to an insurance liability being recorded for the net assets of the participating funds as described above. Both of the foregoing changes are reflected in the consolidated income statement.

Changes in the fair value of financial assets held to back AIA 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 judgement. A financial investment is impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the investment.

Alignment of accounting policies with those of Prudential

The IFRS basis information included in Appendix I and Appendix II to this listing document for the Prudential Group and the AIA Group respectively have been prepared applying consistent IFRS accounting policies. These policies differ in three respects from those applied previously by the AIA Group. The effect of alignment for these policies on the movement in the AIA Group's total equity attributable to shareholders equity for the years to 30 November 2007, 2008 and 2009 are summarised in the table below.

Summary reconciliation of AIA results on altering from AIA Group to Prudential accounting policies

Effect of accounting policy adjustments reflected in Historical Financial Information

		Adjustments for application of altered accounting policies to align with those of Prudential				
	AIA basis	Defined Benefit Pension schemes (note (a))	Investment property (note (b))	Participating funds (note (c))	Total effect of adjustments	Prudential basis
						(in US$ millions)
Shareholders' equity at 30 November 2006	**12,542**	**(1)**	**424**	**(442)**	**(19)**	**12,523**
2007 Profit before tax attributable to shareholders' profits	***2,509***	***11***	***221***	***(13)***	***219***	***2,728***
Tax (expense) credit attributable to shareholders' profits	(581)	(3)	(6)	11	2	(579)
Non-controlling interests	(14)		(2)		(2)	(16)
Net profit attributable to shareholders of AIA Group Limited	1,914	8	213	(2)	219	2,133
Foreign currency translation reserve, fair value reserve and other movements accounted for directly in shareholders' equity	(1,016)	1	17	(42)	(24)	(1,040)
Shareholders' equity at 30 November 2007	**13,440**	**8**	**654**	**(486)**	**176**	**13,616**
2008 Profit before tax attributable to shareholders' profits	***58***	***(5)***	***(39)***	***118***	***74***	***132***
Tax (expense) credit attributable to shareholders' profits	355		4	(12)	(8)	347
Non-controlling interests	(5)		(1)		(1)	(6)
Net profit attributable to shareholders of AIA Group Limited	408	(5)	(36)	106	65	473
Foreign currency translation reserve, fair value reserve and other movements accounted for directly in shareholders' equity	(4,940)	(5)	(13)	45	27	(4,913)
Shareholders' equity at 30 November 2008	**8,908**	**(2)**	**605**	**(335)**	**268**	**9,176**

	AIA basis	Adjustments for application of altered accounting policies to align with those of Prudential: Defined Benefit Pension schemes (note (a))	Investment property (note (b))	Participating funds (note (c))	Total effect of adjustments	Prudential basis
						(in US$ millions)
2009 Profit before tax attributable to shareholders' profits	***2,274***	***7***	***218***	***(56)***	***169***	***2,443***
Tax (expense) credit attributable to shareholders' profits	(517)	3	(5)	13	11	(506)
Non-controlling interests	(3)		(18)		(18)	(21)
Net profit attributable to shareholders of AIA Group Limited	1,754	10	195	(43)	162	1,916
Foreign currency translation reserve, fair value reserve and other movements accounted for directly in shareholders' equity	4,246	1	6	(93)	(86)	4,160
Shareholders' equity at 30 November 2009	**14,908**	**9**	**806**	**(471)**	**344**	**15,252**

Notes

(a) Defined benefit pension schemes — The adjustment is to apply full recognition of the scheme financial position rather than 'corridor' accounting whereby actuarial gains and losses may not be recognised.

(b) Investment property — The adjustment is to reflect fair value in the consolidated statement of financial position rather than depreciated cost.

(c) Participating funds — The adjustment is to reflect the statutory transfer basis of profit recognition rather than the shareholders' share of pre-bonus income of the participating/with-profits funds. The unallocated surpluses representing the net assets of the funds are accounted for as liabilities rather than allocated between policyholders and shareholders using the ratio applicable for distribution of the costs of bonuses.

KEY PERFORMANCE INDICATORS

The AIA Group measures its performance using the key indicators set out in the table below. These key performance indicators have been presented on a consistent basis for the three years ended 30 November 2009.

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions, except ratios)		
TWPI	11,358	12,203	11,632
Investment income[(1)]	2,706	3,144	3,059
Operating expenses[(2)]	962	1,089	981
Operating profit	1,742	1,943	1,835
Operating profit after tax attributable to shareholders of AIA	1,270	1,588	1,438
Net profit attributable to shareholders of AIA	2,133	473	1,916
Ratios[(3)]:			
Expense ratio	8.5%	8.9%	8.4%
AIA operating margin	15.3%	15.9%	15.8%
Operating return on allocated equity	13.6%	14.8%	11.6%
Net return on equity	16.3%	4.2%	15.7%

(1) Excludes investment income related to AIA investment-linked contracts.
(2) Excludes non-operating actuarial gains and losses arising from defined benefit schemes as detailed in Appendix II, note 5.
(3) Definitions of key performance indicators are set forth in the section headed "Definitions of KPIs" below.

Year ended 30 November 2009 compared with year ended 30 November 2008

TWPI was US$11,632 million in FY 2009, a 4.7% decrease compared to FY 2008. This decrease was influenced by foreign currency movements; on a constant exchange rate basis, TWPI increased by 1.1% over the period. Renewal premiums represented 84.1% of TWPI in FY 2009 compared with 80.5% in FY 2008. Despite growth in most of the AIA Group's geographical markets, operating profit decreased 5.6% to US$1,835 million in FY 2009 compared with US$1,943 million in FY 2008, due to the effects of the depreciation of most of the currencies in the Asia Pacific region, other than the Renminbi, against the US dollar. Of the geographical markets in which the AIA Group operates, the most significant impact of local currency depreciation was in Korea, where the average Korean Won exchange rate depreciated against the US dollar by 22.9% between FY 2008 and FY 2009, from 1,047.12 Korean Won to 1 US dollar in FY 2008 to 1,287.00 Korean Won to 1 US dollar in FY 2009. On a constant exchange rate basis, the decrease in operating profit was 0.2% over the period. Factors affecting the profitability of each of the geographical markets are discussed in greater detail in "Segmental information" below. The AIA Group's expense ratio decreased to 8.4% in FY 2009 compared with 8.9% in FY 2008 due to expense reduction from operational efficiency initiatives, notwithstanding further investments in strategic initiatives, such as broadening distribution capability, which increased by 148.0% from US$25 million in FY 2008 to US$62 million in FY 2009. AIA operating margin was 15.8% in FY 2009, a slight decrease from 15.9% in FY 2008. Operating return on allocated equity declined to 11.6% in FY 2009 compared with 14.8% in FY 2008, primarily reflecting the growth of the AIA Group's capital base between FY 2008 and FY 2009, in the absence of significant dividends in FY 2009. Net profit attributable to shareholders of AIA increased by 305.1% to US$1,916 million in FY 2009 compared with US$473 million in FY 2008, driven in part by the increase in non-operating investment return to a net positive of US$665 million in FY 2009 compared with a net negative of US$2,412 million in FY 2008. The increase in non-operating investment return in FY 2009 compared with FY 2008 contributed to a significant improvement in the AIA Group's net profit and its net return on equity, which increased to 15.7% in FY 2009 compared with 4.2% in FY 2008. The AIA Group's withdrawal from securities lending was largely completed by November 2009. Excluding securities lending, the AIA Group recorded non-operating investment return of a net positive US$802 million in FY 2009, compared with a net negative of US$2,325 million in FY 2008. Similarly, excluding the effects of securities lending, operating profit was US$1,851 million in FY 2009 and US$1,949 million in FY 2008, and the corresponding net profit attributable to shareholders of AIA was US$2,069 million and US$566 million respectively in FY 2009 and FY 2008.

Year ended 30 November 2008 compared with year ended 30 November 2007

The aggregate increase in TWPI was 7.4% in FY 2008 from FY 2007. The biggest contributor to the AIA Group's TWPI was renewal premiums, representing 80.5% of TWPI in FY 2008, compared with 78.1% in FY 2007. Operating profit increased by 11.5% to US$1,943 million in FY 2008 from US$1,742 million in FY 2007, primarily due to an increase in renewal premiums and increased investment income, which collectively grew at a faster rate than the AIA Group's expense base, as well as the beneficial effect of a reinsurance recapture described below. The expense ratio increased to 8.9% in FY 2008 compared with 8.5% in FY 2007 principally due to the effect of recapturing a portfolio of business previously reinsured to another company in the AIG Group and costs associated with strategic initiatives in certain geographical markets primarily associated with expanding the AIA Group's multi-channel distribution capability. The recapture was effective from 1 March 2008 and increased the AIA Group's operating expense ratio related to such business. Overall, the recapture was beneficial to the AIA Group in generating non-operating income in FY 2008 of US$447 million. Following the AIG Events and the significant declines in the global capital markets during the fourth quarter of FY 2008, the AIA Group experienced a significant increase in policy surrenders in certain of its geographical markets. This generated surrender fee income which more than offset the acceleration of DAC amortisation relating to these surrendered policies. Net profit attributable to shareholders of AIA decreased 77.8% to US$473 million in FY 2008 from US$2,133 million in FY 2007. This decrease was principally a result of the adverse non-operating investment return of US$2,412 million caused by declines in market values compared with a net gain of US$837 million in FY 2007, partially offset by the increase in operating profit, a US$447 million gain arising on the reinsurance recapture, and the release of a withholding tax provision of US$275 million on the clarification of a tax treaty. As discussed above, the AIA Group's withdrawal from securities lending was largely completed by November 2009. Excluding securities lending, the AIA Group recorded non-operating investment return of a net negative US$2,325 million in FY 2008, compared with a net positive of US$837 million in FY 2007. Similarly, excluding the effects of securities lending, operating profit was US$1,949 million in FY 2008 and US$1,742 million in FY 2007, and the corresponding net profit attributable to shareholders of AIA was US$566 million and US$2,133 million respectively in FY 2008 and FY 2007.

Definition of KPIs

TWPI provides an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. TWPI consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums (referred to as weighted single premiums) across all lines of business and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the AIA Group's accounting policies. The AIA Group applies a factor of 10% to single premiums because such weighting makes the value of a single premium sale broadly equivalent to the same dollar amount of first year premiums. As such, it provides an indication of longer-term business volumes by taking into account changes in the mix of regular and single premium business.

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

Selected results of operations

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
TWPI	**11,358**	**12,203**	**11,632**
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	8,817	10,361	10,173
Investment income[1]	2,706	3,144	3,059
Total revenue[1]	**11,523**	**13,505**	**13,232**
Net insurance and investment contract benefits[2]	7,586	8,630	8,624
Commission and other acquisition expenses	947	1,563	1,648
Operating expenses[3]	962	1,089	981
Investment management expenses and finance costs[4]	286	252	123
Total expenses[2][3][4]	**9,781**	**11,534**	**11,376**
Share of loss from associates and joint ventures	—	(28)	(21)
Operating profit	**1,742**	**1,943**	**1,835**
Tax on operating profit	(461)	(348)	(392)
Sub-total	1,281	1,595	1,443
Less: amounts attributable to non-controlling interests	(11)	(7)	(5)
Operating profit after tax attributable to shareholders of AIA	**1,270**	**1,588**	**1,438**
Operating profit may be reconciled to net profit as follows:			
Operating profit	**1,742**	**1,943**	**1,835**
Add: non-operating investment return[5]	837	(2,412)	665
Add: non-operating item — gain on recapture of reinsurance from former parent company	—	447	—
Add: non-operating item — restructuring and separation costs	—	(10)	(89)
Add: non-operating items — other[5]	219	74	169
Profit before tax	**2,798**	**42**	**2,580**
Tax on operating profit	(461)	(348)	(392)
Add: tax on non-operating items	(190)	518	(262)

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
Add: other non-operating tax items	2	267	11
Tax (expense)/credit	**(649)**	**437**	**(643)**
Sub-total	2,149	479	1,937
Less: amounts attributable to non-controlling interests	(16)	(6)	(21)
Net profit attributable to shareholders of AIA	**2,133**	**473**	**1,916**

(1) Excludes investment income related to AIA investment-linked contracts.
(2) Includes corresponding changes in insurance and investment contract liabilities from participating funds investment income (the amount that would be attributable to policyholders assuming all investment income were to be declared as a dividend based upon local regulations) and excludes (i) other changes in insurance and investment contract liabilities from participating fund investment income and (ii) changes in insurance and investment contract liabilities from participating fund AIA investment experience and (iii) corresponding changes in investment income and AIA investment experience related to AIA investment-linked contract.
(3) Excluding non-operating actuarial gains and losses arising from defined benefit schemes as detailed in Appendix II, note 5.
(4) Excludes investment management expenses related to AIA investment-linked contracts.
(5) Details of non-operating investment return and other non operating items — other, are set out in Appendix II, note 5.

Selected balance sheet information

	As of 30 November		
	2007	2008	2009
	(in US$ millions)		
Assets			
Deferred acquisition and origination costs	10,044	10,047	10,976
Financial investments	70,630	55,324	73,480
Assets — other than the above	8,241	7,307	7,089
Total assets	**88,915**	**72,678**	**91,545**
Liabilities			
Insurance and investment contract liabilities	64,240	57,462	71,583
Borrowings	1,461	661	688
Obligations under securities lending and repurchase agreements	5,395	2,718	284
Liabilities — other than the above	4,142	2,641	3,658
Total liabilities	**75,238**	**63,482**	**76,213**
Equity			
Issued share capital and shares yet to be issued, share premium and other reserves	699	1,434	1,848
Retained earnings	9,632	9,760	11,651
Allocated equity	**10,331**	**11,194**	**13,499**
Amounts reflected in other comprehensive income	3,285	(2,018)	1,753
Total equity attributable to shareholders of AIA	**13,616**	**9,176**	**15,252**
Non-controlling interests	61	20	80
Total equity	**13,677**	**9,196**	**15,332**
Total liabilities and equity	**88,915**	**72,678**	**91,545**

Year ended 30 November 2009 compared with year ended 30 November 2008

Discussion of selected results of operations

TWPI

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

	Year ended 30 November 2008			
	Renewal premium	First year premium	Weighted single premium	TWPI
	(in US$ millions)			
TWPI includes:				
Ordinary individual life insurance	6,651	762	27	7,439
AIA investment-linked insurance products	1,526	831	175	2,532
Standalone health and protection	1,077	348	1	1,426
Group	530	165	9	704
Other	43	14	45	102
Total	**9,827**	**2,119**	**257**	**12,203**

	Year ended 30 November 2009			
	Renewal premium	First year premium	Weighted single premium	TWPI
	(in US$ millions)			
TWPI includes:				
Ordinary individual life insurance	6,342	884	59	7,285
AIA investment-linked insurance products	1,741	295	33	2,069
Standalone health and protection	1,089	261	1	1,349
Group	573	293	10	877
Other	34	11	7	52
Total	**9,779**	**1,744**	**109**	**11,632**

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

The trend in TWPI was also impacted by the fall in first year premiums of US$375 million, or 17.8% (10.3% on a constant exchange rate basis). New business activity recovered in the second half of FY 2009, with first year premiums and weighted single premiums growing at 33.5% and 93.5%, respectively, between the first and second halves of FY 2009. Most of the AIA Group's geographical markets experienced this improvement in first year premiums across most lines of business in the second half of FY 2009, with Hong Kong and Thailand leading with higher sales of ordinary individual life insurance.

Premiums associated with ordinary individual life insurance, including health and protection riders where applicable, decreased 2.1% to US$7,285 million in FY 2009 from US$7,439 million in FY 2008. On a constant exchange rate basis, TWPI for ordinary individual life increased 2.6%, led by strong growth in first year premiums and single premiums of 23.0% and 125.3%, respectively, in FY 2009. The growth in first year premiums was particularly evident in Hong Kong (growth of US$136 million or 142.0%), Thailand (growth of US$31 million or 11.7%, on a constant exchange rate basis) and China (growth of US$24 million or 31.1%, on a constant exchange rate basis). The growth in weighted single premiums was led by Singapore (US$12 million or 126.6%, on a constant exchange rate basis), China (US$12 million or 1,050.2%, on a constant exchange rate basis) and Hong

Kong (US$10 million or 2,332.0%). These positive trends were muted by a decline in Korea, where renewal premiums fell by US$24 million or 3.9%, on a constant exchange rate basis, and Other Markets, by a decline of US$17 million or 3.2%, on a constant exchange rate basis. Overall, ordinary individual life assurance accounted for 62.6% of TWPI in FY 2009, as compared to 61.0% in FY 2008, as the AIA Group focused on providing protection-based products to its customers, given the recent economic uncertainties.

AIA investment-linked products TWPI decreased 18.3% to US$2,069 million in FY 2009 from US$2,532 million in FY 2008. Despite a 13.2% decrease on a constant exchange rate basis, most Key Markets experienced increases in renewal premiums for AIA investment-linked products. This trend was consistent with FY 2008 which also saw growth in renewal premiums. This was offset by a fall in first year premiums for AIA investment-linked products led by Korea (decrease of US$169 million or 59.0%, on a constant exchange rate basis), Hong Kong (decrease of US$183 million or 64.3%) and Other Markets (decrease of US$72 million or 62.9%, on a constant exchange rate basis). With improving economic conditions at the end of 2009, the AIA Group experienced an increase in sales of AIA investment-linked products in the second half of FY 2009.

Standalone health and protection insurance premiums decreased 5.4% to US$1,349 million in FY 2009 from US$1,426 million in FY 2008, but increased 6.4% on a constant exchange rate basis. The AIA Group experienced a decrease in first year premiums of 25.4%, or 15.9% on a constant exchange rate basis, mainly attributable to its Korean operations, the results of which were adversely affected in the first half of 2009 by their association with the AIG brand, prior to re-branding as AIA Life Korea in May 2009, as well as by the effects of the depreciation of the Korean Won. Despite this, the AIA Group's renewal premiums grew 1.1% (or 13.6% on a constant exchange rate basis) from US$1,077 million in FY 2008, to US$1,089 million in FY 2009, growing on a constant exchange rate basis in all reporting segments. On a constant exchange rate basis, this growth was led by Korea at US$73 million or 15.3%, Other Markets at US$18 million or 21.3%, China at US$16 million or 14.9% and Hong Kong at US$11 million or 9.2%.

Group insurance premiums continued an upward trend from FY 2008, increasing by 24.5% to US$877 million in FY 2009 from US$704 million in FY 2008. On a constant exchange rate basis, the increase was 31.9%. China and Other Markets were the main contributors to this increase, growing at 52.6% and 59.6% on an actual exchange rate basis, respectively, between FY 2008 and 2009. The AIA Group's operations in Australia, part of the Other Markets segment, continued to experience strong growth in group products, with TWPI for this product line increasing 69.6% year-on-year. Australia represented 45.3% of total TWPI with respect to group premiums in FY 2009 as compared to 33.2% in FY 2008, due mainly to the acquisition of a number of large new corporate accounts during FY 2009.

Other product lines, which include annuities and personal lines, collectively decreased to US$52 million in FY 2009 compared to US$102 million in FY 2008 largely due to the effects of foreign exchange and a decrease in Korean annuities business during FY 2009.

Net premiums, fee income and other revenues

	Year ended 30 November	
	2008	**2009**
	(in US$ millions)	
Net premiums	9,425	9,275
Fee income	857	827
Other revenues	79	71
Total	**10,361**	**10,173**

Net premiums, fee income and other revenues, which are stated net of reinsurance ceded, decreased 1.8% to US$10,173 million in FY 2009 from US$10,361 million in FY 2008. The decrease was primarily due to the effect of the depreciation of most of the currencies in the Asia Pacific region, other than Renminbi, against the US dollar. On a constant exchange rate basis, net premiums, fee income and other revenues increased 4.0%, consistent with a 5.0% increase on a constant exchange rate basis in renewal premiums, which represent a substantial portion of the AIA Group's premium income.

Premiums ceded to reinsurers amounted to US$331 million in FY 2009 compared with US$392 million in FY 2008. This primarily reflects a reduction in amounts ceded to reinsurers by the Hong Kong segment as the reinsurance recapture took place at the start of the second quarter of FY 2008 (so the AIA Group ceded such premiums for one quarter of FY 2008), partially offset by an increase in amounts ceded to reinsurers by the Other Markets segment, reflecting the growth in the Group business product line in FY 2009.

Fee income decreased 3.5% to US$827 million in FY 2009 from US$857 million in FY 2008 in line with lower sales of AIA investment-linked products during FY 2009 whilst annual management charges increased, reflecting the growth in assets under management during FY 2009. Other revenues, which mainly comprise asset management fees on pension business, remained relatively stable during the period.

Investment income

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

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

Investment income, consisting of interest, dividends and rental income, excluding investment income related to AIA investment-linked contracts, decreased marginally to US$3,059 million in FY 2009 from US$3,144 million in FY 2008. A significant proportion of the AIA Group's assets are invested in fixed income government securities and investment grade corporate bonds.

Interest income fell to US$2,870 million in FY 2009 from US$2,900 million in FY 2008 mainly due to a reduction in interest income from securities lending to US$23 million in FY 2009 from US$102 million in FY 2008. The AIA Group's withdrawal from securities lending was largely completed during the year.

Dividend income decreased to US$122 million in FY 2009 from US$181 million in FY 2008 due to lower yields from the AIA Group's equity portfolio primarily due to a reduction in dividends in response to challenging economic conditions in FY 2009.

Net insurance and investment contract benefits

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

(1) Includes corresponding changes in insurance and investment contract liabilities from participating funds investment income (the amount that would be attributable to policyholders assuming all investment income were to be declared as a dividend based upon local regulations) and excludes (i) other changes in insurance and investment contract liabilities from participating fund investment income and (ii) changes in insurance and investment contract liabilities from participating fund AIA investment experience and (iii) corresponding changes in investment income and AIA investment experience related to AIA investment-linked contract.

Net insurance and investment contract benefits (on a basis consistent with the table above) reflect the cost of all maturities, surrenders, withdrawals and claims arising during the reporting period and the net movement in the associated liabilities as a result of new business, benefit payments and changes to expected future benefits payable to policyholders, excluding AIA investment-linked contracts and participating funds.

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

Because benefits related to AIA investment-linked contracts are based on the investment return on the invested assets underlying such contracts, including them in the presentation of net insurance and investment contract benefits would subject the AIA Group's financial results to significant fluctuations due to market volatility, such as in FY 2008, which may adversely affect an investor's ability to easily compare its period-to-period operating results. For these reasons the AIA Group chooses to present net insurance and investment contract benefits (excluding AIA investment-linked contracts) as this is consistent with the basis on which it measures operating profit. Net insurance and investment contract benefits, including AIA investment-linked contracts and participating funds, were US$10,397 million, US$1,109 million and US$13,629 million in FY 2007, FY 2008 and FY 2009, respectively.

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

Commission and other acquisition expenses

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

Commission and other acquisition expenses incurred decreased due to weaker sales activity in the first half of 2009, resulting in an overall decrease to US$1,855 million in FY 2009 from US$2,269 million in FY 2008.

Deferral and amortisation of acquisition costs fell to US$207 million in FY 2009 from US$706 million in FY 2008. This decrease was attributable to the beneficial effects of lower amortisation of DAC and deferred origination costs, principally in Hong Kong, Singapore and Malaysia, due to an increase in assets under management in FY 2009.

This decrease was partially offset by a revision of AIA persistency assumptions in respect of investment-linked and variable universal life policies in Korea of approximately US$90 million where the AIA Group experienced higher than anticipated surrenders and premium holidays in FY 2009.

Operating expenses

	Year ended 30 November	
	2008	2009
	(in US$ millions)	
Operating expenses		
Operating expenses excluding strategic initiative expenses	1,069	913
Strategic initiative expenses	25	62
Total	**1,094**	**975**

Operating expenses excluding strategic initiative expenses decreased 14.6% to US$913 million in FY 2009 from US$1,069 million in FY 2008 primarily due to active control of day-to-day operational expenses, reductions based on operational efficiency initiatives undertaken in FY 2008 and the beneficial effects of foreign exchange. In addition, the AIA Group's operating expenses in FY 2008 included certain period-specific items, which are discussed in greater detail for each segment under "Segmental information" below.

Strategic initiative expenses, which consist of expenses relating to enhancing the AIA Group's growth initiatives, such as distribution capability and operational efficiency and other initiatives administered by the AIA Group's Strategic Initiative Office, increased 148.0% between FY 2008 and FY 2009, and represented 6.4% of total operating expenses in FY 2009 compared with 2.3% in FY 2008.

Investment management expenses and finance costs

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

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

Investment management expenses and finance costs decreased significantly to US$73 million and US$50 million, respectively, in FY 2009 from US$93 million and US$159 million, respectively, in FY 2008, primarily resulting from the withdrawal from securities lending which was largely completed during FY 2009, lower finance costs due to a reduction in interest rates in relation to a term loan financing the group office in Hong Kong and a reduction in operational borrowings. Finance costs in respect of securities lending decreased to US$39 million in FY 2009 from US$109 million in FY 2008.

Operating profit

Operating profit fell 5.6% to US$1,835 million in FY 2009 compared with US$1,943 million in FY 2008, despite an improvement in operating profit in local currency terms in most of the reporting segments. This decrease was mainly due to the effects of depreciation in average local currency to US dollar exchange rates, in particular the depreciation of the Korean Won. On a constant exchange rate basis, operating profit decreased 0.2% over the period.

Operating profit was adversely affected by weaker performance of the AIA Group's operations in Korea and Thailand, which reported operating profit of US$81 million and US$358 million, respectively, in FY 2009 compared with US$281 million and US$424 million, respectively, in FY 2008. Factors affecting the profitability of the Korean and Thailand operations are discussed in greater detail in "Segmental information" below.

Excluding securities lending from which the AIA Group largely withdrew in FY 2009, operating profit was US$1,851 million in FY 2009, compared with US$1,949 million in FY 2008.

Tax on operating profit

The AIA Group operates in 15 principal jurisdictions, each with its own tax regime, and the change in the tax expense (or credit) from one year to the next is affected by changes in the mix of income by jurisdiction. The tax expense on operating profit in FY 2009 was largely in line with the prior financial year, excluding the impact of tax changes, as the tax charge for FY 2008 reflected the benefit of a US$41 million tax credit arising from changes in tax laws in Malaysia and Korea.

Profit before tax

Profit before tax increased significantly to US$2,580 million in FY 2009 compared with US$42 million in FY 2008, mainly reflecting stable operating profit and the recovery in equity markets which led to a strongly positive non-operating investment return.

Non-operating investment return improved to a net positive of US$665 million in FY 2009 from a net negative of US$2,412 million in FY 2008. The main contributor to the improvement in non-operating investment return was net fair value gains of US$533 million on Thai equity securities.

The improvement in profit before tax was also attributable to lower impairment losses in respect of available-for-sale debt securities of US$67 million in FY 2009, compared with US$142 million in FY 2008.

Income tax

	Year ended 30 November	
	2008	2009
	(in US$ millions)	
Current income tax	401	321
Deferred income tax		
Temporary differences	(563)	322
Release of withholding tax provision	(275)	—
Tax (credit)/expense	**(437)**	**643**
Of which:		
Tax (credit)/expense attributable to policyholders' returns	(90)	137
Tax (credit)/expense attributable to shareholders' profits	(347)	506
	(437)	643

The AIA Group's tax expense may be analysed in two components: the tax charged on shareholders' profits of US$506 million in 2009 compared with a tax credit of US$347 million in FY 2008, and the tax that the AIA Group bears on behalf of its participating policyholders of US$137 million in FY 2009 compared with a tax credit of US$90 million in FY 2008. The tax charged on shareholders' profits plus the tax expense attributable to policyholders' returns total to a tax expense of US$643 million in FY 2009, as compared with a tax credit of US$437 million in FY 2008.

The tax on shareholders' profits for FY 2009 reflected factors affecting the tax charge on operating profit discussed above whereas the tax credit in FY 2008 included the effects of a release of a provision for withholding tax of US$275 million. Tax attributable to policyholders' returns reflects gains and losses arising in participating funds, and so does not directly relate to net profit. The tax expense on operating profit may be reconciled to the tax expense for the year by adding the tax on non-operating items, primarily non-operating investment return and non-operating expense and other items, and the release of the provision for withholding tax in FY 2008.

Net profit attributable to shareholders of AIA

Net profit attributable to shareholders of AIA increased by 305.1% to US$1,916 million in FY 2009 as compared with US$473 million in FY 2008. This increase largely reflected the after-tax effect of a significant improvement in non-operating investment return of positive US$403 million in FY 2009 compared to a loss after tax of US$1,894 million in FY 2008. Included in net profit attributable to shareholders of AIA is US$89 million of non-operating restructuring and separation costs in FY 2009, compared with US$10 million in FY 2008.

Excluding securities lending, from which the AIA Group largely withdrew in FY 2009, and restructuring and separation expenses, net profit attributable to shareholders of AIA was US$2,158 million in FY 2009, as compared with US$576 million in FY 2008.

Significant events affecting FY 2009

During FY 2009, the AIA Group largely withdrew from securities lending. The AIA Group earned interest income and fees from securities lending of US$23 million, and in addition it incurred finance costs consisting of interest expense on its related obligations of US$39 million and recorded net realised losses on disposal of US$137 million, in FY 2009. During FY 2008, the AIA Group earned interest income and fees of US$102 million and incurred finance costs of US$109 million, with realised losses of US$87 million, including impairment losses of US$52 million. In FY 2007, it earned interest income and fees from securities lending of US$145 million and incurred finance costs of US$143 million. The lower interest income and finance costs in FY 2009 reflected the gradual winding-down of the securities lending during the year. As of 30 November 2009, the AIA Group had largely ceased all securities lending and had repaid all obligations under agreements related to securities lending, whereas as of 30 November 2008, it held financial investments with a carrying value of US$1,480 million and cash of US$160 million in connection with securities lending and had obligations under securities lending of US$1,963 million. The balance of US$284 million as of 30 November 2009 shown in the line item "Obligations under securities lending and repurchase agreements" is entirely in respect of the AIA Group's outstanding repurchase agreements. The cumulative effect of its securities lending was a loss of US$153 million in FY 2009 and a loss of US$93 million in FY 2008, giving a cumulative loss of US$246 million during the track record period. Excluding securities lending, the AIA Group's operating profit was US$1,851 million in FY 2009 and US$1,949 million in FY 2008, and its net profit attributable to shareholders of AIA was US$2,069 million in FY 2009 and US$566 million in FY 2008.

During the fourth quarter of FY 2008, the AIA Group experienced a significant increase in surrender activity following the AIG Events, while the month-on-month AIA persistency, measuring the proportion of customers who continue to pay their premiums, declined significantly, recovering moderately to 89.3% in November 2008, compared with 93.9% at the start of FY 2008. Surrenders peaked at over US$250 million in September 2008. AIA persistency has since recovered during FY 2009, reaching 95.1%, above the level at the start of FY 2008, with surrenders of less than US$75 million in both October and November 2009. New business activity has also increased significantly in the second half of FY 2009.

During FY 2009, the AIA Group entered into a strategic exclusive bancassurance joint venture in the Philippines with BPI, in which Philamlife acquired a 51% interest in Ayala Life, the life insurance subsidiary of BPI, and entered into a bancassurance distribution agreement with BPI. The total consideration payable by Philamlife was US$39 million. This amount is subject to purchase price adjustment, estimated to be US$7 million, based on the adjusted net worth as at the date of acquisition. As the acquisition took place immediately before the end of the AIA Group's financial year, there was no impact on the results of operations in FY 2009.

In October 2009, the AIA Group sold its 60% interest in PT Asuransi AIA Indonesia, its joint venture operation in Indonesia, for US$65 million, giving rise to a loss on disposal of US$29 million before tax. The AIA Group continues to operate in Indonesia through its wholly-owned subsidiary, PT AIA Financial. These transactions are discussed in "Segmental information — Other Markets" below.

Discussion of selected balance sheet information

Assets

The AIA Group's total assets grew 26.0% to US$91,545 million as of 30 November 2009 from US$72,678 million as of 30 November 2008, primarily reflecting a recovery in the market values of its financial investments, the majority of which are carried at fair value.

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

	As of 30 November							
	2008				2009			
	Policyholder and shareholder		Investment-linked	Total	Policyholder and shareholder		Investment-linked	Total
	Other policyholder and shareholder	Participating funds			Other policyholder and shareholder	Participating funds		
	(in US$ millions)							
Financial investments includes:								
Debt securities								
Available for sale	29,934	—	—	29,934	37,722	—	—	37,722
At fair value through profit or loss	852	10,070	1,467	12,389	944	11,809	1,726	14,479
Total debt securities	30,786	10,070	1,467	42,323	38,666	11,809	1,726	52,201
Equity securities								
Available for sale	87	—	—	87	62	—	—	62
At fair value through profit or loss	1,855	1,123	5,682	8,660	2,827	2,209	11,080	16,116
Total equity securities	1,942	1,123	5,682	8,747	2,889	2,209	11,080	16,178
Loans and receivables	2,908	986	108	4,002	3,598	942	108	4,648
Derivative financial instruments	165	87	—	252	213	240	—	453
Total financial investments	35,801	12,266	7,257	55,324	45,366	15,200	12,914	73,480

All debt and equity securities are carried at fair value and, consequently, the values reported in the AIA Group's financial information reflect current market values as of the end of each reporting period. The carrying value of its financial investments increased to US$73,480 million as of 30 November 2009 compared with US$55,324 million as of 30 November 2008, driven by a recovery in equity markets during the second half of 2009 and as credit spreads narrowed and risk-free interest rates fell.

Financial investments held to back other policyholder and shareholder liabilities (shown in the column "Other policyholder and shareholder"), which consist mainly of fixed income debt securities, increased to US$45,366 million as of 30 November 2009 compared with US$35,801 million as of 30 November 2008. Despite disposals made during FY 2009, including the sale of US$1,840 million of debt securities previously held as collateral in respect of securities lending, impairments of US$67 million and net realised losses of US$162 million and the effects of foreign exchange, the fair value of other policyholder and shareholder debt securities increased 25.6% to US$38,666 million reflecting a recovery in the market values of these securities. The recovery in the market value of available-for-sale financial assets is reflected in the fair value reserve which increased to US$1,511 million as of 30 November 2009 from a net negative position of US$1,564 million as of 30 November 2008.

Financial investments held in respect of participating funds (shown in the column "Participating funds") increased to US$15,200 million as of 30 November 2009 from US$12,266 million as of 30 November 2008.

During FY 2009, as equity markets improved, investment-linked assets under management grew US$5,657 million, net of new funds invested. Holders of AIA investment-linked contracts benefit from changes in the market value of financial investments backing AIA investment-linked contracts (shown in the column "Investment-linked") and therefore these changes do not directly affect net profit, except for asset management fees earned on account balances.

The AIA Group held debt securities with a fair value of US$52,201 million as of 30 November 2009 compared with US$42,323 million as of 30 November 2008, despite disposals made during FY 2009, including US$1,840 million of debt securities previously held as collateral under the AIA Group's programme related to securities lending. Government bonds and bonds issued by government agencies comprised a substantial proportion of the AIA Group's fixed income debt portfolio, representing 49.6% of its debt securities as of 30 November 2009 as compared with 53.0% as of 30 November 2008. Investment-grade corporate bonds and investment-grade structured securities accounted for 47.1% of debt securities as of 30 November 2009, as compared with 44.0% as of 30 November 2008.

The AIA Group's equity securities had a fair value of US$16,178 million as of 30 November 2009 compared with US$8,747 million as of 30 November 2008 mainly as a result of a recovery in asset prices. Equity securities held in respect of AIA investment-linked contracts accounted for a significant proportion of its overall holdings of equity securities — 68.5% as of 30 November 2009 and 65.0% as of 30 November 2008. Holders of AIA investment-linked contracts receive the benefit of positive movements in the market value of the securities held to back AIA investment-linked contracts. Of the increase in the carrying value of the AIA Group's equity securities between FY 2008 and FY 2009 of US$7,431 million, US$5,398 million is attributable to investments held to back AIA investment-linked contracts. This amount is credited to the value of the policies held by the holders of AIA investment-linked contracts.

The AIA Group's loans and receivables outstanding were US$4,648 million as of 30 November 2009 compared with US$4,002 million as of 30 November 2008. This increase was mainly attributable to an increase in policy loans of US$207 million and an increase in term deposits of US$236 million between FY 2009 and FY 2008.

Within the AIA Group's assets, other than those discussed above, cash and cash equivalents decreased to US$3,405 million as at 30 November 2009, compared with US$4,164 million as at 30 November 2008, reflecting the gradual re-deployment of cash holdings during FY 2009.

Liabilities

	Year ended 30 November	
	2008	**2009**
	(in US$ millions)	
Insurance and investment contract liabilities	57,462	71,583
Borrowings	661	688
Obligations under securities lending and repurchase agreements	2,718	284
Liabilities — other than the above	2,641	3,658
Total liabilities	**63,482**	**76,213**

Total liabilities increased 20.1% to US$76,213 million as of 30 November 2009 compared with US$63,482 million as of 30 November 2008 mainly due to higher insurance and investment contract liabilities. The increased insurance and investment contract liabilities resulted from growth in the in-force portfolio, accretion of interest and investment returns accrued on participating funds. The increase in investment contract liabilities comprises the investment return on matching assets, net deposits or withdrawals and fees and expenses charged against account balances.

The AIA Group's borrowings, which comprise mainly bank overdrafts and a term loan facility financing its group office building in Hong Kong, remained largely unchanged at US$688 million in FY 2009 compared with US$661 million in FY 2008. The AIA Group's capital base is comprised solely of shareholders' equity and it had no structural borrowings, hybrid capital, loan notes or commercial paper in issue as of 30 November 2009. The marginal increase in bank borrowings was more than offset by the significant decrease in the AIA Group's obligations under its securities lending and repurchase agreements, which fell to US$284 million in FY 2009 compared with US$2,718 million in FY 2008, as the AIA Group wound down and largely withdrew from securities lending in November 2009.

Liabilities other than insurance and investment contract liabilities, borrowings and obligations under securities lending and repurchase agreements increased to US$3,658 million compared with US$2,641 million in FY 2008 mainly reflecting an increase in deferred tax liabilities of US$530 million during FY 2009.

Equity

Total equity attributable to shareholders of the AIA Group increased 66.2% to US$15,252 million as of 30 November 2009 compared to US$9,176 million as of 30 November 2008. This mainly reflected an increase in retained earnings, recovery in the fair value of the AIA Group's available-for-sale financial investments and foreign exchange movements, which together contributed to an increase in other comprehensive income from negative US$2,018 million as of 30 November 2008 to positive US$1,753 million as of 30 November 2009.

The AIA Group's equity reflects a capital contribution of US$408 million from AIG during FY 2009, primarily in relation to separation activities linked to the withdrawal from securities lending, reimbursement of other separation costs, and consideration for the sale of its investment management operations to AIG and the disposal of other entities to third parties.

Year ended 30 November 2008 compared with year ended 30 November 2007

Discussion of selected results of operations

TWPI

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

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

	Year ended 30 November 2008			
	Renewal premium	First year premium	Weighted single premium	TWPI
	(in US$ millions)			
TWPI includes:				
Ordinary individual life insurance	6,651	762	27	7,439
AIA investment-linked insurance products	1,526	831	175	2,532
Standalone health and protection	1,077	348	1	1,426
Group	530	165	9	704
Other	43	14	45	102
Total	**9,827**	**2,119**	**257**	**12,203**

TWPI increased 7.4% to US$12,203 million in FY 2008 from US$11,358 million in FY 2007, increasing 6.4% on a constant exchange rate basis.

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

Premiums associated with ordinary individual life insurance, including health and protection riders where applicable, increased 3.1% to US$7,439 million in FY 2008 from US$7,216 million in FY 2007. On a constant exchange rate basis, the increase was 1.1%. The AIA Group's operating units in Thailand, China and Singapore recorded the largest increases in ordinary individual life insurance premiums at 8.1%, 13.1% and 6.7%, respectively. Renewal premiums for ordinary individual life insurance products were the largest contributor to TWPI. Whereas first year premiums for ordinary individual life insurance overall decreased 4.3%, the AIA Group's operating unit in Hong Kong recorded a growth of 68.5%, following the launch of "Executive Life", a new suite of protection products. In addition, in the second half of FY 2008, the AIA Group's operating unit in Singapore experienced a shift back to demand for traditional ordinary life insurance products, primarily due to the economic slowdown and the resulting decline in equity market prices, as well as investment restrictions introduced by the Central Provident Fund discussed below.

Premiums related to AIA investment-linked products increased 13.9% to US$2,532 million in FY 2008 from US$2,223 million in FY 2007. On a constant exchange rate basis, the increase was 13.2%. The reporting segments driving this growth were the AIA Group's operations in Korea and Other Markets at 76.1% and 38.7%, respectively. The AIA Group's operating unit in Korea experienced significant demand for AIA investment-linked products. The increase in Other Markets was principally due to the expansion of the bancassurance distribution channel in Indonesia during 2008. Renewal premiums for AIA investment-linked insurance products grew 35.0%, while first year premiums and weighted single premiums increased 2.1% and decreased 37.3%, respectively. The increase in renewal premiums for AIA investment-linked products may be due to customers with regular premium paying policies choosing to maintain their payments of regular premiums as markets declined, following a strategy of dollar cost averaging. Conversely, the decline in weighted single premiums, particularly in its operating unit in Hong Kong, may be due to customers' reluctance to commit to new investment-linked savings products during times of uncertainty, such as the AIG Events, or market volatility. Sales of single premium AIA investment-linked products exceeded US$1 billion in FY 2007 in the AIA Group's operations in Singapore, as policyholders invested savings from their Central Provident Fund Ordinary Accounts in search of higher returns. However, in April 2008, investment restrictions introduced by the Central Provident Fund on the use of Central Provident Fund Ordinary Accounts resulted in substantially lower weighted single premiums for AIA investment-linked products for the remainder of FY 2008 in Singapore.

Standalone health and protection insurance premiums increased 9.4% to US$1,426 million in FY 2008 from US$1,304 million in FY 2007. On a constant exchange rate basis, the increase was 14.1%. The increase in standalone health and protection insurance premiums was primarily driven by renewal premiums, led by the AIA Group's operating units in Korea, Other Markets and China at 18.0%, 46.0% and 30.7%, respectively. The AIA Group's operations in Korea were the largest contributor to this increase, as it was the largest market for its standalone health and protection insurance products, representing 52.9% of the AIA Group's standalone health and protection insurance business in FY 2008. The growth of standalone health and protection renewal premiums in the AIA Group's Korean operations was 33.8% on a constant exchange rate basis, which more than offset the impact of the depreciation of the Korean Won against the US dollar in the second half of 2008. The increase in the AIA Group's operations in Other Markets was driven by growth in its operations in Australia, primarily resulting from higher sales achieved through greater focus on the IFA channel during 2008. In its operations in China, the increase was driven primarily by stable AIA persistency and growth in sales of health and protection insurance products. Renewal premiums for standalone health and protection insurance products increased 18.9%. First year premiums for standalone health and protection insurance products decreased 12.3%, with the largest decrease in premiums attributable to the AIA Group's operating unit in Korea, exacerbated by the depreciation of the Korean Won against the US dollar offsetting growth in other geographical markets.

Group premiums were the AIA Group's fastest growing product line in FY 2008, increasing 40.4% to US$704 million from US$502 million in FY 2007. On a constant exchange rate basis, the increase was 35.5%. The AIA Group's operating units in Other Markets, Singapore, Hong Kong and China had the highest growth with increases of 50.2%, 33.4%, 27.1% and 136.2%, respectively. The AIA Group's operations in Australia, which are aggregated as part of its Other Markets segment, represented 33.2% of overall group product business in FY 2008 and grew 57.8% year-on-year. The increase occurred across all premium types with renewal premiums growing at 33.1%, first year premiums at 71.4% and weighted single premiums at 28.0%.

Other product lines, which consist of annuities and personal lines, collectively decreased 10.7% to US$102 million in FY 2008 from US$113 million in FY 2007. The decrease was primarily due to a decline in single premium annuities in Korean operations.

Net premiums, fee income and other revenues

	Year ended 30 November	
	2007	2008
	(in US$ millions)	
Net premiums	8,178	9,425
Fee income	562	857
Other revenues	77	79
Total	**8,817**	**10,361**

Net premiums, which are premiums net of reinsurance ceded, increased 15.2% to US$9,425 million in FY 2008 from US$8,178 million in FY 2007. The increase in net premiums was primarily due to an increase in renewal premiums in all the AIA Group's major product lines and the continued expansion of its policyholder base. Moreover, in FY 2008, the AIA Group recaptured a portfolio of business written by the AIA Group in Hong Kong which had been previously reinsured to another company in the AIG Group, as discussed further in "Factors affecting certain of AIA Group's geographical markets in FY 2008" below.

Premiums ceded to reinsurers amounted to US$392 million in FY 2008 compared with US$833 million in FY 2007.

Fee income from AIA investment-linked products increased 52.5% to US$857 million in FY 2008 from US$562 million in FY 2007, primarily due to growth in investment-linked insurance products.

Other revenues, largely consisting of asset management fees on pensions business, remained stable during this period.

Investment income

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

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

Investment income, excluding investment income from AIA investment-linked contracts, increased 16.2% to US$3,144 million in FY 2008 from US$2,706 million in FY 2007, with Hong Kong, Thailand and Singapore recording increases of 26.4%, 18.0% and 14.5%, respectively.

Net insurance and investment contract benefits

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

(1) Includes corresponding changes in insurance and investment contract liabilities from participating funds investment income (the amount that would be attributable to policyholders assuming all investment income were to be declared as a dividend based upon local regulations) and excludes (i) other changes in insurance and investment contract liabilities from participating fund investment income and (ii) changes in insurance and investment contract liabilities from participating fund AIA investment experience and (iii) corresponding changes in investment income and AIA investment experience related to AIA investment linked contracts.

Insurance and investment contract benefits (on a basis consistent with the table above) increased 7.8% to US$8,878 million in FY 2008 from US$8,239 million in FY 2007, with Thailand, China and Singapore recording increases of 8.8%, 25.7% and 7.8%, respectively. The increase in insurance and investment contract benefits (excluding corresponding changes in insurance and investment contract liabilities from AIA investment experience for AIA investment-linked contracts and participating funds, and investment income related to AIA investment-linked contracts) was largely due to the reinsurance recapture in Hong Kong described below in "Factors affecting certain of AIA Group's geographical markets in FY 2008" and growing in-force portfolios across all the AIA Group's geographical markets. However, there was an increase in policy surrenders in the fourth quarter of FY 2008. Total surrenders in FY 2008 amounted to US$1,283 million, of which US$663 million arose in the fourth quarter. This may be due to local customer sentiment being affected by the general economic downturn and the AIG Events in the fourth quarter of 2008 in certain geographical markets, as demonstrated by AIA persistency ratios. The AIA persistency ratio declined from 93.9% at the start of FY 2008 before the AIG Events, to end the year at 89.3%. By the end of FY 2009, the ratio had improved to 95.1%, above the levels the AIA Group experienced at the beginning of FY 2008.

Insurance and investment contract liabilities ceded (or reinsured) decreased 62.0% to a recovery of US$248 million in FY 2008 from a recovery of US$653 million in FY 2007, primarily due to the reinsurance recapture described below in "Factors affecting certain of AIA's geographical markets in FY 2008".

Commission and other acquisition expenses

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

Commission and other acquisition expenses incurred decreased 0.6% to US$2,269 million in FY 2008 from US$2,282 million in FY 2007, in line with the decrease in new business sales.

The deferral and amortisation of acquisition costs decreased 47.1% to US$706 million in FY 2008 from US$1,335 million in FY 2007. The decrease reflects a higher charge for amortisation of acquisition costs, increasing 56.5% to US$1,387 million in FY 2008 from US$886 million in FY 2007. The higher charge was due in part to the adverse market conditions prevailing in the second half of FY 2008 which resulted in accelerated amortisation of acquisition costs.

Operating expenses

	Year ended 30 November	
	2007	2008
	(in US$ millions)	
Operating expenses		
Operating expenses excluding strategic initiative expenses	951	1,069
Strategic initiative expenses	—	25
Total	**951**	**1,094**

The AIA Group's operating expenses excluding strategic initiative expenses increased 12.4% to US$1,069 million in FY 2008 from US$951 million in FY 2007 which was principally driven by the reinsurance recapture described above in "Investment income" and higher employee benefit expenses. Costs of strategic initiatives in FY 2008 include costs associated with expansion of distribution channels, optimisation of back office support functions and increasing agency and customer services infrastructure in China to 127 centres in FY 2008 from 104 centres in FY 2007.

Investment management expenses and finance costs

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

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

The AIA Group's investment management expenses and finance costs decreased 11.9% to US$252 million in FY 2008 from US$286 million in FY 2007. This decrease was principally the result of lower financing costs relating to securities lending and repurchase agreements, as the AIA Group continued to reduce its participation in securities lending and repurchase agreements.

Operating profit

As a result of the foregoing, operating profit increased 11.5% to US$1,943 million in FY 2008 from US$1,742 million in FY 2007. As discussed above, the increase in operating profit was primarily due to growth in renewal premiums and increased investment income, which collectively increased at a faster rate than the AIA Group's expense base and the impact of the increased level of surrenders in the fourth quarter of FY 2008, as well as the beneficial effect of the reinsurance recapture in Hong Kong. Excluding securities lending, from which the AIA Group largely withdrew in FY 2009, the AIA Group's operating profit was US$1,949 million in FY 2008, compared with US$1,742 million in FY 2007.

Tax expense on operating profit

The AIA Group operates in 15 principal jurisdictions, each with its own tax regime, and the change in the tax expense (or credit) from one year to the next is affected by changes in the mix of income by jurisdiction. The impact of the change in the mix of income by jurisdiction together with a tax credit of US$41 million relating to a change of tax law in Malaysia, a reduction in the corporate tax rate in Korea, which is set to fall to 22% from 2012, which reduced deferred tax liabilities, and the tax savings from consolidated tax filing in China reduced the weighted average corporate tax rate on operating profit to approximately 18% in FY 2008 from approximately 26% in FY 2007.

Profit before tax

Profit before tax fell 98.5% to a profit of US$42 million in FY 2008 compared to US$2,798 million in FY 2007. This decrease was primarily driven by adverse non-operating investment return arising from a decrease in the market value of the AIA Group's investment portfolio in FY 2008 of US$2,412 million compared to a gain of US$837 million in FY 2007. This loss in FY 2008 was partially offset by a US$447 million gain on settlement of the reinsurance recapture in Hong Kong. For more information, please see "Factors affecting certain of AIA Group's geographical markets in FY 2008" in this section.

Income tax

	Year ended 30 November	
	2007	2008
	(in US$m)	
Current income tax	464	401
Deferred income tax		
Temporary differences	185	(563)
Release of withholding tax provision	—	(275)
Tax expense/(credit)	649	(437)
Of which:		
Tax expense/(credit) attributable to policyholders returns	70	(90)
Tax expense/(credit) attributable to shareholders' profits	579	(347)
	649	**(437)**

Current income tax decreased 13.6% to US$401 million in FY 2008 from US$464 million in FY 2007. The amount of current taxes paid on the AIA Group's overseas operations was primarily attributable to its operations in Thailand and Korea, where the local corporate tax rates are among the highest in the region and local tax rules for life insurance companies accelerate the recognition of profits generating current taxes.

Excluding the release of the withholding tax provision, the AIA Group had a deferred income tax credit of US$563 million in FY 2008 compared with a deferred income tax charge of US$185 million in FY 2007, reflecting a decline in the market value of its investments and the impact of the factors set out above which affected its weighted average corporate tax rate.

A US$275 million withholding tax provision was released in FY 2008 as a result of the clarification of a tax treaty.

Net profit attributable to shareholders of AIA

Net profit attributable to shareholders of AIA decreased 77.8% to US$473 million in FY 2008 from US$2,133 million in FY 2007. The decline was primarily due to a negative non-operating investment return of US$2,412 million caused by declining market values, of which US$87 million was attributable to securities lending, from which the AIA Group largely withdrew in FY 2009, partially offset by the increase in operating profit after tax, a US$447 million gain arising on the reinsurance recapture in Hong Kong and the release of the provision for withholding tax of US$275 million discussed above. Excluding the effects of securities lending, from which it largely withdrew in FY 2009, the AIA Group's net profit attributable to shareholders of AIA was US$566 million in FY 2008, compared with US$2,133 million in FY 2007.

Significant events during fourth quarter FY 2008

During the fourth quarter of FY 2008, following the AIG Events, credit spreads widened and equity capital markets declined significantly. At the same time, the AIA Group experienced a sharp increase in surrenders of its products. This temporary increase in surrender activity had an adverse effect on AIA persistency.

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

- A decline in new business production of single premium AIA investment-linked products, especially in Hong Kong and Singapore. New business activities improved in the second half of FY 2009 compared with the first half of the year, as demonstrated by growth in first year premiums and single premiums products, when compared to the first half of 2009, in most of the AIA Group's geographical markets. Trends in each of the geographical markets in FY 2009 are discussed in greater detail in "Segmental information" in this section.

- A short-term increase in surrender fee income as such income more than offset the accelerated amortisation of DAC on the surrendered policies. In particular, annuity surrenders in Korea, which operated under the AIG brand during that period, were US$1,023 million in FY 2008, compared with US$250 million in FY 2007.
- Surrender trends have improved in FY 2009 with AIA persistency ratio of the AIA Group's overall in-force policies increasing to 93.4% in the second half of FY 2009 compared with 91.4% in the second half of FY 2008 (excluding Philamlife which joined the AIA Group in November 2009).
- The AIA Group accelerated a planned reorganisation and retrenchment programme resulting in a restructuring cost of US$10 million being recognised in FY 2008. This reduced the AIA Group's headcount by approximately 200 and contributed to an improvement in its expense ratio to 8.4% in FY 2009 from 8.9% in FY 2008, despite a 148.0% increase in spending on strategic initiatives during the year.

Factors affecting certain of AIA Group's geographical markets in FY 2008

In Hong Kong, the AIA Group recaptured a portfolio of reinsurance business which had previously been reinsured to another company in the AIG Group. The recapture had no impact on TWPI since this is stated before the effects of ceded reinsurance but resulted in a one-time gain of US$447 million arising on the recapture. The gain arose because the fair value of financial assets received on recapture exceeded the insurance and investment contract liabilities, deferred acquisition and origination costs and the recapture fee of US$190 million.

In Singapore, the AIA Group experienced strong growth in AIA investment-linked products in FY 2007 and the first half of FY 2008. In the second half of FY 2008, Singapore experienced a shift back to demand for traditional ordinary life insurance products, primarily due to the economic slowdown and the resulting decline in equity market prices, as well as the changes to the regulations relating to the Central Provident Fund. Sales by AIA Singapore of single premium AIA investment-linked products exceeded US$1 billion in FY 2007 as policyholders reinvested savings from their Central Provident Fund in search of higher returns. In April 2008, a change in Central Provident Fund regulations introduced restrictions on the use of Central Provident Fund Ordinary Accounts, thereby resulting in substantially lower sales of single premium AIA investment-linked products for the remainder of FY 2008. New business activities improved during FY 2009 as demonstrated by growth in first year premiums and single premiums products between the first half and second half of FY 2009, as described in "Segmental Information — Singapore — Year ended 30 November 2009 compared with year ended 30 November 2008" in this section.

In China, the AIA Group's operating expenses increased 35.4% to US$172 million in FY 2008 from US$127 million in FY 2007 due to increased headcount from an expansion of its operations and an increase in its agency and customer services infrastructure to 127 centres in FY 2008 from 104 centres in FY 2007. (This contributed to the growth in TWPI from the AIA Group's branch network in China to over US$1,000 million in FY 2009. Performance of the AIA Group's operations in China during FY 2009 is discussed further in "Segmental information — China" below.)

Discussion of selected balance sheet information

Assets

The AIA Group's total assets as of 30 November 2008 amounted to US$72,678 million, compared with US$88,915 million as of 30 November 2007. This decrease primarily reflected the decline in market value of its financial investments, the majority of which were carried at fair value.

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

	As of 30 November							
	2007				2008			
	Policyholder and shareholder		Investment-linked	Total	Policyholder and shareholder		Investment-linked	Total
	Other policyholder and shareholder	Participating funds			Other policyholder and shareholder	Participating funds		
	(in US$ millions)							
Financial investments includes:								
Debt securities								
Available for sale	30,955	—	—	30,955	29,934	—	—	29,934
At fair value through profit or loss	1,148	10,813	1,488	13,449	852	10,070	1,467	12,389
Total debt securities	32,103	10,813	1,488	44,404	30,786	10,070	1,467	42,323
Equity securities								
Available for sale	2,520	—	—	2,520	87	—	—	87
At fair value through profit or loss	4,258	2,321	11,040	17,619	1,855	1,123	5,682	8,660
Total equity securities	6,778	2,321	11,040	20,139	1,942	1,123	5,682	8,747
Loans and receivables	4,429	1,136	100	5,665	2,908	986	108	4,002
Derivative financial instruments	175	247	—	422	165	87	—	252
Total financial investments	**43,485**	**14,517**	**12,628**	**70,630**	**35,801**	**12,266**	**7,257**	**55,324**

All debt and equity securities are carried at fair value and, consequently, the values reported in the AIA Group's financial information reflect current market values as of the end of each reporting period. Despite net sales and purchases of debt and equity securities of US$6,045 million in FY 2008 and receipt of the investment portfolio of US$2,967 million arising on the reinsurance recapture in FY 2008, the total carrying value of the AIA Group's financial investments decreased to US$55,324 million as of 30 November 2008 compared to US$70,630 million as of 30 November 2007.

Other policyholder and shareholder investments comprise mainly available-for-sale debt securities. Of the US$1,317 million reduction in the value of these debt securities in FY 2008, US$142 million related to impairments, and a further US$90 million related to other gains and losses realised during the year, with the balance consisting of fair value movements and disposals made during the year.

Financial investments backing the AIA Group's insurance contract liabilities in participating funds are shown under the column "Participating funds" in the table above. The decrease in financial investments in participating funds to US$12,266 million as of 30 November 2008 from US$14,517 million as of 30 November 2007 mainly reflected the general decline in equity market prices that occurred towards the end of FY 2008.

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

The AIA Group's debt securities had a fair value of US$42,323 million as of 30 November 2008, compared with US$44,404 million as of 30 November 2007. This decrease was primarily due to declines in market values as a result of increased credit spreads under adverse market conditions and disposals made during the year. Government bonds or bonds issued by governmental agencies accounted for 53.0% of the AIA Group's debt securities as of 30 November 2008, compared with 52.1% as of 30 November 2007. In addition, investment-grade corporate bonds and structured securities accounted for 44.0% of its debt securities as of 30 November 2008, compared with 44.4% as of 30 November 2007.

The AIA Group's available for sale equity securities had a fair value of US$87 million as of 30 November 2008, compared with US$2,520 million as of 30 November 2007. The AIA Group's available for sale equity securities consist solely of shares in AIG. The decline in fair value primarily reflects the significant decline in AIG's share price during FY 2008.

The AIA Group's equity securities at fair value through profit or loss had a fair value of US$8,660 million as of 30 November 2008, compared with US$17,619 million as of 30 November 2007. This decrease was principally a result of declines in prices in the global and major Asian equity markets during the latter part of FY 2008. The majority of its equity securities at fair value through profit or loss are held to back its liabilities related to AIA investment-linked contracts, the investment risk for which is wholly borne by policyholders.

The AIA Group's loans and receivables outstanding were US$4,002 million as of 30 November 2008, compared with US$5,665 million as of 30 November 2007. This decrease was primarily due to repayments of inter-company loans of US$1,560 million from other subsidiaries of AIG.

Within the AIA Group's assets, other than those described above, cash and cash equivalents increased to US$4,164 million as of 30 November 2008 from US$2,583 million as of 30 November 2007, reflecting de-risking of its investment portfolio during FY 2008, in response to adverse conditions in both debt and equity markets in the fourth quarter of 2008.

Liabilities

	Year ended 30 November	
	2007	2008
	(in US$ millions)	
Insurance and investment contract liabilities	64,240	57,462
Borrowings	1,461	661
Obligations under securities lending and repurchase agreements	5,395	2,718
Liabilities — other than the above	4,142	2,641
Total liabilities	**75,238**	**63,482**

The AIA Group's total liabilities as of 30 November 2008 were US$63,482 million, compared with US$75,238 million as of 30 November 2007. This decrease primarily reflected lower insurance and investment contract liabilities, lower borrowings and obligations in respect of securities lending, and a reduction in "liabilities other than the above". The decrease in insurance and investment contract liabilities was principally due to the movement in liabilities related to AIA investment-linked contracts comprising the investment return on the matching assets, net deposits or withdrawals, fees charged against account balances and the effects of foreign exchange translation. The decrease in borrowings was mainly due to the repayment of loans to subsidiaries of AIG as long-term notes matured. The decrease in obligations under securities lending and repurchase agreements primarily reflected lower securities lending to related parties and third parties, and lower obligations under repurchase agreements. The decrease in "liabilities other than the above" was principally due to a decrease in deferred tax liabilities.

Equity

The AIA Group's total equity attributable to shareholders of AIA was US$9,176 million as of 30 November 2008, compared with US$13,616 million as of 30 November 2007. This decrease is primarily related to the decrease in the fair value and foreign currency translation reserves, offsetting an increase in issued share capital and shares yet to be issued and other reserves. Issued share capital, shares yet to be issued, share premium, and other reserves increased to US$1,434 million in FY 2008 from US$699 million in FY 2007, primarily due to a capital injection from the AIG Group of US$731 million. The decrease in the fair value reserve of US$4,520 million was primarily due to unrealised movements in the fair value of available-for-sale financial investments, including holdings of AIG shares. The decrease in the foreign currency translation reserve of US$783 million was due to a strengthening of the US dollar in FY 2008. Retained earnings increased by US$128 million for FY 2008, consisting of net profit attributable to shareholders of AIA Group, of US$473 million, less dividends paid of US$346 million.

SEGMENTAL INFORMATION

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

Hong Kong

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
TWPI	2,845	2,916	2,861
Investment income[1]	607	767	779
Operating expenses[2]	133	183	163
Operating profit	408	590	698
Operating profit after tax attributable to shareholders of AIA	368	568	653
Allocated segment equity	2,928	3,839	4,657
Net capital in/(out) flow[3]	(7)	684	(30)
Ratios:			
Expense ratio	4.7%	6.3%	5.7%
AIA operating margin	14.3%	20.2%	24.4%
Operating return on allocated equity	14.1%	16.8%	15.4%

(1) Excludes investment income related to AIA investment-linked contracts.
(2) Excludes non-operating actuarial gains and losses arising from defined benefit schemes as detailed in Appendix II, note 5.
(3) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

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

Year ended 30 November 2009 compared with year ended 30 November 2008

The Hong Kong reporting segment is the AIA Group's largest geographical market based on TWPI, generating 24.6% of total TWPI in FY 2009 and more than US$2,400 million of renewal premiums in both FY 2009 and FY 2008. Ordinary individual life insurance and AIA investment-linked products represented 52.5% and 37.7%, respectively, of total TWPI generated in the Hong Kong reporting segment during FY 2009 as compared with 47.0% and 43.3%, respectively, in FY 2008.

Between FY 2008 and FY 2009 renewal premiums increased as AIA persistency remained largely stable, while first year premiums and weighted single premiums decreased, largely driven by a fall in demand for AIA investment-linked products in the first half of FY 2009. Demand for AIA investment-linked products improved significantly in the second half of FY 2009, with growth in first year premiums and weighted single premiums of 68.9% and 149.9%, respectively, compared with the first half of FY 2009. First year premiums in respect of ordinary individual life insurance also increased by 138.3% in the second half of FY 2009 compared with the first half of the year following the launch of an enhanced regular savings product with health and protection benefits. Ordinary individual life remains AIA Hong Kong reporting segment's most significant product line, with TWPI increasing to US$1,503 million in FY 2009, as compared with US$1,370 million in FY 2008, an increase of 9.8%.

Investment income (excluding investment income from AIA investment-linked contracts) grew 1.6% to US$779 million in FY 2009 from US$767 million in FY 2008 due to an increase in the average size of the investment portfolio following the recapture of an intragroup reinsurance arrangement in March 2008 and positive results of operations in FY 2009.

Operating expenses decreased 10.9% to US$163 million in FY 2009 compared with US$183 million in FY 2008 due in part to the inclusion of certain non-recurring items in FY 2008. The reduction in operating expenses had a positive impact on the expense ratio which improved to 5.7% in FY 2009 compared with 6.3% in FY 2008.

Operating profit grew by 18.3% and operating profit after tax attributable to shareholders of AIA grew by 15.0% to US$698 million and US$653 million, respectively, in FY 2009 from US$590 million and US$568 million, respectively, in FY 2008. These increases were mainly due to the full-year beneficial impact of the reinsurance recapture in FY 2009, lower DAC amortisation as assets under management increased reflecting the strong recovery in investment performance in FY 2009, higher policy surrenders in the first quarter of FY 2009 and reduced finance costs. Investment management expenses and finance costs in FY 2009 of US$52 million decreased 63.1% from the US$141 million incurred in FY 2008 as the AIA Group wound down and largely withdrew from securities lending during the year.

AIA operating margin improved to 24.4% in FY 2009 from 20.2% in 2008, in line with the increase in operating profit.

Operating return on allocated equity decreased to 15.4% in FY 2009 from 16.8% in FY 2008, despite the increase in operating profit after tax attributable to shareholders of AIA, due to the retention of surplus capital in the principal insurance business in Hong Kong. Allocated segment equity is stated after the effects of a dividend remittance to the AIA Group of US$20 million from the pensions trustee business during FY 2009.

Year ended 30 November 2008 compared with year ended 30 November 2007

TWPI increased 2.5% to US$2,916 million in FY 2008 from US$2,845 million in FY 2007. This increase was primarily driven by growth in renewal premiums as a result of stable AIA persistency, partially offset by lower first year and weighted single premiums. In the first half of FY 2008, the AIA Group's operations in Hong Kong and Macau experienced growth in first year and weighted single premiums. However, in the second half of FY 2008, its first year and weighted single premiums fell significantly due to lower demand. The AIA Group introduced a new suite of protection products called "Executive Life" in Hong Kong in FY 2008, which had a partial mitigating effect, as it increased sales of its ordinary individual life insurance products. As a result, TWPI for ordinary life products increased to US$1,370 million in FY 2008, from US$1,348 million in FY 2007, with first year premiums increasing by 68.5%, from US$57 million in FY 2007 to US$95 million in FY 2008.

The AIA Group also recaptured a portfolio of reinsurance business which had previously been reinsured to another company in the AIG Group. The recapture had no impact on TWPI since this is stated before the effects of ceded reinsurance but resulted in a gain of US$447 million arising on the recapture, which is not reflected in operating profit before and after tax because of its one time nature. The gain arose because the fair value of financial assets received on recapture exceeded the insurance and investment contract liabilities, deferred acquisition and origination costs and the recapture fee of US$190 million.

Investment income (excluding investment income from AIA investment-linked contracts) increased 26.4% to US$767 million in FY 2008 from US$607 million in FY 2007, with the substantial majority of this increase attributable to the reinsurance recapture. As part of this recapture, the AIA Group received a US$2,967 million portfolio of financial investments in FY 2008 which was previously held to match the liabilities ceded by the AIA Group on which investment returns were earned for the last three quarters in FY 2008.

Operating expenses increased 37.6% to US$183 million in FY 2008 from US$133 million in FY 2007, with a portion of this increase attributable to the reinsurance recapture, related to the operating expenses on the ceded business. Operating expenses were also impacted by strategic initiative expenses to broaden the Hong Kong operations' distribution channels and build wealth management capabilities. Expense ratio increased to 6.3% in FY 2008 from 4.7% in FY 2007.

Operating profit increased 44.6% to US$590 million in FY 2008 from US$408 million in FY 2007. This increase was primarily due to the beneficial effect of the reinsurance recapture, which resulted in more business being retained by the AIA Group, higher investment income and fees on surrenders following the AIG Events. Surrender fees more than offset the acceleration of DAC amortisation relating to surrenders. The growth in operating profit was greater than the growth in TWPI, and AIA operating margin increased to 20.2% in FY 2008 from 14.3% in FY 2007.

Operating return on allocated equity increased to 16.8% in FY 2008 from 14.1% in FY 2007. The increase in operating profit after tax attributable to shareholders of AIA in FY 2008 was partially offset by the impact of a net capital contribution into the AIA Group's Hong Kong operations of US$684 million.

Thailand

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
TWPI	2,164	2,351	2,373
Investment income(1)	557	657	640
Operating expenses(2)	114	132	135
Operating profit	401	424	358
Operating profit after tax attributable to shareholders of AIA	275	303	251
Allocated segment equity	2,737	2,443	2,919
Net capital in/(out) flow(3)	(61)	(74)	(175)
Ratios:			
Expense ratio	5.3%	5.6%	5.7%
AIA operating margin	18.5%	18.0%	15.1%
Operating return on allocated equity	11.0%	11.7%	9.4%

(1) Excludes investment income related to AIA investment-linked contracts.
(2) Excludes non-operating actuarial gains and losses arising from defined benefit schemes as detailed in Appendix II, note 5.
(3) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

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

Year ended 30 November 2009 compared with year ended 30 November 2008

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

TWPI increased 0.9%, or 4.1% on a constant exchange rate basis, to US$2,373 million in FY 2009 from US$2,351 million in FY 2008 largely due to growth in renewal and first year premiums. Renewal premiums increased across all product lines mainly as a result of stable AIA persistency in FY 2009, while first year premiums were up 3.2%, or 6.7% on a constant exchange rate basis. First year premiums in respect of ordinary individual life insurance products grew 40.1% in the second half of FY 2009 as compared with the first half of FY 2009.

Investment income (excluding investment income from AIA investment-linked contracts) decreased 2.6% to US$640 million in FY 2009 as compared with US$657 million in FY 2008 partly due to the effects of foreign exchange rates; on a constant exchange rate basis, investment income (excluding investment income from AIA investment-linked contracts) increased 1.1% year-on-year. Investment income (excluding investment income from AIA investment-linked contracts) was adversely affected by lower dividends on equity investments in FY 2009.

Operating expenses increased marginally to US$135 million in FY 2009 from US$132 million. As a result, the expense ratio remained largely stable at 5.7% in FY 2009 compared with 5.6% in FY 2008.

Operating profit and operating profit after tax attributable to shareholders of AIA decreased to US$358 million and US$251 million, respectively, in FY 2009 from US$424 million and US$303 million, respectively, in FY 2008, primarily reflecting the effects of depreciation of the Thai Baht during FY 2009.

AIA operating margin decreased to 15.1% in FY 2009 from 18.0% in FY 2008 reflecting the decrease in operating profit. Operating return on allocated equity decreased to 9.4% in FY 2009 from 11.7% in FY 2008 reflecting the deterioration in AIA operating margin and higher allocated segment equity. Allocated segment equity increased to US$2,919 million as of 30 November 2009 from US$2,443 million as of 30 November 2008 reflecting contribution from positive results of operations and a significant improvement in non-operating investment return from a loss after tax of US$493 million in FY 2008 to a gain after tax of US$403 million. The improvement in non-operating investment return was mainly attributable to the recovery in market values of Thai equity securities, the carrying value of which increased from US$781 million at 30 November 2008, to US$1,322 million at 30 November 2009. Allocated segment equity reflected capital repatriation of US$180 million of allocated equity from the AIA Group's Thai operations during the year.

Year ended 30 November 2008 compared with year ended 30 November 2007

The AIA Group's core operations in Thailand were not significantly affected by the global economic slowdown and political demonstrations in Thailand in FY 2008. TWPI increased 8.7% to US$2,351 million in FY 2008 from US$2,164 million in FY 2007. On a constant exchange rate basis, the growth was 4.5%. The increase was generated across renewal premium, first year premium and weighted single premium products, particularly ordinary individual life insurance. Renewal premiums increased across all product lines with an overall increase of 8.4% to US$2,009 million in FY 2008 from US$1,853 million in FY 2007. First year premiums increased 8.3% to US$326 million in FY 2008 from US$301 million in FY 2007, primarily due to growth in the bancassurance and agency distribution channels. Weighted single premiums grew 59.3% to US$16 million in FY 2008 from US$10 million in FY 2007.

Investment income (excluding investment income from AIA investment-linked contracts) increased 18.0% to US$657 million in FY 2008 from US$557 million in FY 2007.

Operating expenses increased 15.8% to US$132 million in FY 2008 from US$114 million in FY 2007, primarily due to an appreciation in the Thai Baht against the US dollar and to a lesser extent due to strategic initiatives. The expense ratio increased to 5.6% in FY 2008 from 5.3% in FY 2007.

Operating profit increased 5.7% to US$424 million in FY 2008 from US$401 million in FY 2007. This increase was principally the result of growth in premiums, an associated increase in investment income and an increase in surrender fees following the AIG Events which more than offset the resulting acceleration of DAC amortisation. Surrenders were significantly higher in the fourth quarter of FY 2008, increasing more than threefold compared with the first quarter of the year, particularly in respect of ordinary life products. Despite an increase in operating profit, AIA operating margin decreased to 18.0% in FY 2008 from 18.5% in FY 2007 as operating expenses rose faster than TWPI.

Operating return on allocated equity increased marginally to 11.7% in FY 2008 from 11.0% in FY 2007 reflecting stable growth in operating profit after tax attributable to shareholders of AIA and TWPI in FY 2008.

Singapore

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
TWPI	1,514	1,641	1,524
Investment income(1)	538	616	609
Operating expenses(2)	95	129	91
Operating profit	348	333	356
Operating profit after tax attributable to shareholders of AIA	280	233	264
Allocated segment equity	874	871	1,355
Net capital in/(out) flow(3)	(319)	(45)	220
Ratios:			
Expense ratio	6.3%	7.9%	6.0%
AIA operating margin	23.0%	20.3%	23.4%
Operating return on allocated equity	33.4%	26.7%	23.7%

(1) Excludes investment income related to AIA investment-linked contracts.
(2) Excludes non-operating actuarial gains and losses arising from defined benefit schemes as detailed in Appendix II, note 5.
(3) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

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

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

The Singapore reporting segment accounted for 13.1% of TWPI in FY 2009 as compared with 13.4% in FY 2008. TWPI decreased 7.1%, or 4.0% on a constant exchange rate basis, to US$1,524 million in FY 2009 from US$1,641 million in FY 2008 largely as a result of a fall in demand for AIA investment-linked products. TWPI for AIA investment-linked products fell 26.4%, or 23.8% on a constant exchange rate basis, as sales in the first half of FY 2008 were boosted by strong growth prior to the introduction of reduced investment options on Central Provident Fund ordinary accounts in April 2008. Sales of AIA investment-linked products improved in the second half of FY 2009 reflecting various sales promotions and the launch of certain wealth management products to target high net worth individuals. These initiatives resulted in growth in first year premiums and weighted single premiums of 29.9% and 183.2%, respectively, between the first and second halves of 2009. TWPI in respect of ordinary individual life products remained stable at US$1,119 million in FY 2009, as compared with US$1,169 million in FY 2008, a decline of 4.3%, or 1.2% on a constant exchange rate basis, accounting for 73.4% of total TWPI in FY 2009, as compared with 71.2% in FY 2008.

Investment income (excluding investment income from AIA investment-linked contracts) decreased 1.1% to US$609 million in FY 2009 from US$616 million in FY 2008 mainly as a result of the depreciation of the average exchange rate of the Singaporean Dollar against the US dollar and because cash balances were used to repay obligations under repurchase agreements, forgoing investment income in order to reduce finance costs. On a constant exchange rate basis, investment income (excluding investment income from AIA investment-linked contracts) increased 2.4% during the year.

Operating expenses fell 29.5% to US$91 million in FY 2009 from US$129 million in FY 2008 as savings in salaries and related expenses were achieved through greater operational efficiency, such as the transfer of certain support functions to a shared service centre in Malaysia. Moreover, operating expenses in FY 2008 included non-recurring items and, as a result, operating expenses in FY 2009 fell to a level more comparable to FY 2007. This resulted in an improvement in expense ratio to 6.0% in FY 2009 from 7.9% in FY 2008, despite the decrease in TWPI.

Operating profit and operating profit after tax attributable to shareholders of AIA increased to US$356 million and US$264 million, respectively, in FY 2009, from US$333 million and US$233 million, respectively, in FY 2008, mainly attributable to the improvement in expense ratio and a decrease in commission and other acquisition expenses during FY 2009, whereas FY 2008 was adversely affected by accelerated DAC amortisation arising from higher than expected surrenders in the aftermath of the AIG Events in the fourth quarter of 2008.

The increase in operating profit led to an improvement in the AIA operating margin to 23.4% in FY 2009 from 20.3% in 2008. Despite this increase, operating return on allocated equity fell to 23.7% in FY 2009 compared to 26.7% in FY 2008, reflecting an increase in allocated segment equity from the retention of earnings and a capital injection of US$220 million to increase the regulatory capital position of the Singapore operations.

Year ended 30 November 2008 compared with year ended 30 November 2007

In FY 2007 and the first half of FY 2008, the AIA Group's operations in Singapore experienced strong growth in AIA investment-linked products. Sales of single premium AIA investment-linked products exceeded US$1 billion in FY 2007 as policyholders reinvested savings from their Central Provident Fund Ordinary Accounts in search of higher returns. In April 2008, investment restrictions introduced by the Central Provident Fund on the use of Central Provident Fund Ordinary Accounts resulted in substantially lower sales of single premium AIA investment-linked products for the remainder of FY 2008. In the second half of FY 2008, the AIA Group's operations in Singapore experienced a shift back to demand for traditional ordinary life insurance products, primarily due to the economic slowdown and the resulting decline in equity market values, as well as the investment restrictions introduced by the Central Provident Fund. As a result, TWPI for ordinary individual life increased to US$1,169 million in FY 2008, from US$1,096 million in FY 2007, accounting for 71.2% of TWPI in FY 2008, as compared with 72.4% in FY 2007.

Overall, TWPI increased 8.4% to US$1,641 million in FY 2008 from US$1,514 million in FY 2007. On a constant exchange rate basis, the growth was 1.1%. The increase was primarily due to a rise in renewal premiums and growth in first year premiums in all major lines of business, particularly following the launch of the "Smart Growth" and "Achiever" ordinary life insurance products. This growth was partially offset by lower sales of weighted single premium AIA investment-linked products.

Investment income (excluding investment income from AIA investment-linked contracts) increased 14.5% to US$616 million in FY 2008 from US$538 million in FY 2007.

Operating expenses of the AIA Group's operations in Singapore increased 35.8% to US$129 million in FY 2008 from US$95 million in FY 2007, primarily due to increased expenses of US$9 million relating to several strategic initiatives to grow the agency distribution channel, build new distribution channels and improve wealth management capabilities and operational efficiency, a provision, and the effects of the appreciation of the Singapore dollar against the US dollar. This led to an increase in expense ratio to 7.9% in FY 2008 from 6.3% in FY 2007.

Operating profit of the AIA Group's operations in Singapore decreased 4.3% to US$333 million in FY 2008 from US$348 million in FY 2007, primarily due to an acceleration of DAC amortisation and an increase in operating expenses. These factors more than offset the fee income arising on surrenders. This led to a decrease in AIA operating margin to 20.3% in FY 2008 from 23.0% in FY 2007, and a decrease in operating profit after tax attributable to shareholders of AIA.

Operating return on allocated equity declined to 26.7% in FY 2008 from 33.4% in FY 2007 largely reflecting lower operating profit after tax attributable to shareholders of AIA.

Malaysia

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
TWPI	667	727	707
Investment income(1)	200	230	223
Operating expenses(2)	52	64	58
Operating profit	123	123	150
Operating profit after tax attributable to shareholders of AIA	85	112	106
Allocated segment equity	272	325	386
Net capital in/(out) flow(3)	(51)	(28)	(54)
Ratios:			
Expense ratio	7.8%	8.8%	8.2%
AIA operating margin	18.4%	16.9%	21.2%
Operating return on allocated equity	34.8%	37.5%	29.8%

(1) Excludes investment income related to AIA investment-linked contracts.
(2) Excludes non operating actuarial gains and losses arising from defined benefit schemes as detailed in Appendix II, note 5.
(3) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

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

Year ended 30 November 2009 compared with year ended 30 November 2008

Operations in Malaysia generated operating profit growth of 22.0% between FY 2008 and FY 2009, despite a decrease in TWPI of 2.8% to US$707 million in FY 2009 from US$727 million in FY 2008. The decrease in TWPI was due to the depreciation of the Malaysian Ringgit to US dollar average exchange rate in FY 2009; on a constant exchange rate basis, TWPI increased 3.5% year-on-year. The depreciation also affected renewal premiums and first year premiums. Renewal premiums declined 2.6% but increased 3.8% across all product lines on a constant exchange rate basis over FY 2008, while first year premiums increased 2.0%, or 7.7% on a constant exchange rate basis, led by sales of ordinary individual life insurance products, which accounted for 67.6% of total TWPI in FY 2009.

Investment income (excluding investment income from AIA investment-linked contracts) decreased 3.0% to US$223 million in FY 2009 from US$230 million in FY 2008 due largely to depreciation of the average rate of Malaysian Ringgit against the US dollar. On a constant exchange rate basis, investment income (excluding investment income from AIA investment-linked contracts) grew 3.5% between FY 2008 and FY 2009.

Operating expenses decreased 9.4% to US$58 million in FY 2009 compared with US$64 million in FY 2008 primarily because operating expenses in FY 2008 included certain non-recurring expenses associated with converting the Malaysian operations from a branch to a subsidiary and the establishment of the international Takaful operations, but also reflecting the beneficial effects of foreign exchange. There was a corresponding improvement in the expense ratio to 8.2% in FY 2009 as compared with 8.8% in FY 2008.

Operating profit increased 22.0% to US$150 million in FY 2009 compared with US$123 million in FY 2008, as a result of lower claims and policyholder dividends in FY 2009, following the maturity of an endowment product in FY 2008. This contributed to a more favourable AIA operating margin of 21.2% in FY 2009 as compared with 16.9% in FY 2008.

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

Operating return on allocated equity decreased to 29.8% in FY 2009 from 37.5% in FY 2008 largely reflecting higher allocated segment equity. Allocated segment equity has been stated after the effects of a dividend remittance of US$69 million to the AIA Group during the year.

Year ended 30 November 2008 compared with year ended 30 November 2007

Despite the regional economic slowdown in Asia, the AIA Group's operating unit in Malaysia continued to experience growth in TWPI in FY 2008. TWPI increased 9.1% to US$727 million in FY 2008 from US$667 million in FY 2007. On a constant exchange rate basis, the increase was 4.6%. The increase was primarily due to growth in renewal premiums as a result of stable AIA persistency levels and an increase in first year premiums across all product lines. Single premiums declined in FY 2008 as a result of lower demand for AIA investment-linked products due to declining equity market values. Overall, the product mix remained stable, with ordinary individual life and AIA investment-linked products accounting for 68.0% and 17.4% of total TWPI in FY 2008, respectively, as compared to 68.6% and 17.8%, respectively, in FY 2007.

Investment income (excluding investment income from AIA investment-linked contracts) increased 15.0% to US$230 million in FY 2008 from US$200 million in FY 2007.

Operating expenses increased 23.1% to US$64 million in FY 2008 from US$52 million in FY 2007, partly due to the appreciation of the Malaysian Ringgit against the US dollar and expenses relating to strategic initiatives, such as converting the AIA Group's branch to a wholly-owned subsidiary and costs associated with setting up its Takaful operations. The expense ratio increased to 8.8% in FY 2008 from 7.8% in FY 2007 as growth in operating expenses outpaced growth in TWPI due to certain non-recurring expenses.

Operating profit remained unchanged at US$123 million in FY 2008 and FY 2007. However, AIA operating margin decreased to 16.9% in FY 2008 from 18.4% in FY 2007 mainly as TWPI increased while operating profit was unchanged.

Operating profit after tax attributable to shareholders of AIA in FY 2008 increased more than the corresponding increase in operating profit mainly due to the recognition of a tax credit of US$41 million relating to a beneficial change in tax regulation in Malaysia. Operating return on allocated equity increased to 37.5% in FY 2008 from 34.8% in FY 2007 largely reflecting the effect of the increase in operating profit after tax attributable to shareholders of AIA and lower net capital outflows during FY 2008. Net capital outflows were lower in FY 2008 as the AIA Group decided to retain more capital in Malaysia to fund future growth when it converted its branch to a wholly-owned subsidiary.

China

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
TWPI	806	934	1,018
Investment income(1)	147	184	201
Operating expenses(2)	127	172	181
Operating profit	122	85	89
Operating profit after tax attributable to shareholders of AIA	111	88	68
Allocated segment equity	450	489	601
Net capital in/(out) flow(3)	—	7	16
Ratios:			
Expense ratio	15.8%	18.4%	17.8%
AIA operating margin	15.1%	9.1%	8.7%
Operating return on allocated equity	30.2%	18.7%	12.5%

(1) Excludes investment income related to AIA investment-linked contracts.
(2) Excludes non-operating actuarial gains and losses arising from defined benefit schemes as detailed in Appendix II, note 5.
(3) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
TWPI includes:			
Renewal premium	607	755	835
First year premium	161	160	166
Weighted single premium (10% of single premium)	38	19	17
Total	**806**	**934**	**1,018**

Year ended 30 November 2009 compared with year ended 30 November 2008

Operations in China generated TWPI of US$1,018 million in FY 2009 as compared to US$934 million in FY 2008, reflecting the continued efforts to expand distribution capabilities across the branch network. Between FY 2008 and 2009, TWPI increased across all major product lines contributing to an overall growth in TWPI of 9.0%, or 6.6% on a constant exchange rate basis.

Renewal premiums increased 10.6% year-on-year (8.3% on a constant exchange rate basis), as a result of growth in AIA investment-linked products, standalone health and protection products, and group insurance products. First year premiums grew 3.9% between FY 2008 and FY 2009 largely due to improved productivity of the tied agency force. Growth in first year premiums was particularly significant in the second half of FY 2009 as premiums for ordinary individual life insurance increased 46.6% as compared with the first half of FY 2009. TWPI in respect of ordinary individual life products grew 5.0% to US$745 million in FY 2009, from US$710 million in FY 2008, or 2.8% on a constant exchange rate basis, accounting for 73.3% of total TWPI in FY 2009, compared with 76.0% in FY 2008.

Investment income (excluding investment income from AIA investment-linked contracts) increased 9.2% to US$201 million in FY 2009 from US$184 million in FY 2008, mainly due to a larger average balance of assets under management from net inflow of new funds, of which a larger proportion was invested in financial investments in FY 2009 compared with FY 2008. The AIA Group's operations in China reduced its holding of cash balances to an average of US$127 million in FY 2009 from US$255 million as of 30 November 2008.

Operating expenses increased by 5.2% to US$181 million in FY 2009 from US$172 million in FY 2008 as the operations in China continued to enhance its agency and customer services network and develop its bancassurance and IFA distribution capabilities during the year and reflecting the strengthening of the Renminbi against the US dollar during FY 2009. Despite higher operating expenses, the expense ratio reduced to 17.8% in FY 2009 compared with 18.4% in FY 2008 as growth in TWPI outpaced growth in operating expenses.

Operating profit increased to US$89 million in FY 2009 compared with US$85 million in FY 2008, reflecting higher investment income, whereas operating profit after tax attributable to shareholders of AIA decreased to US$68 million in FY 2009 from US$88 million in FY 2008 as the effective tax rate in FY 2008 reflected the receipt of a one-time tax benefit from filing a consolidated tax return. The effective tax rate on operating profit in FY 2009 of approximately 24% is more closely aligned to the headline corporate income tax rate of 25%.

AIA operating margin for FY 2009 was 8.7% compared with 9.1% in FY 2008 as TWPI grew at a faster rate than operating profit. Operating return on allocated equity fell to 12.5% in FY 2009 compared to 18.7% in FY 2008 influenced by lower operating profit after tax attributable to shareholders of AIA and an increase in allocated equity reflecting retention of earnings from growth of the branch network and an increase in allocated equity of US$16 million, including a capital injection of US$6 million into a real estate development project in Guangdong province.

Year ended 30 November 2008 compared with year ended 30 November 2007

TWPI increased 15.8% to US$934 million in FY 2008 from US$806 million in FY 2007. On a constant exchange rate basis, the growth was 6.0%. The increase was primarily due to growth in renewal premiums across all major product lines and a significant increase in group insurance products across all available premium categories, offset by a decrease in single premiums. The decrease in single premiums reflected lower customer demand for AIA investment-linked products in the second half of FY 2008, which was due in large part to the significant decline in Asian and global equity market values.

Investment income (excluding investment income from AIA investment-linked contracts) increased 25.2% to US$184 million in FY 2008 from US$147 million in FY 2007.

Operating expenses increased 35.4% to US$172 million in FY 2008 from US$127 million in FY 2007, mainly due to higher employee expenses as a result of an increase in headcount combined with an increase in salaries, investments in initiatives to expand the AIA Group's business in China and the appreciation of the Renminbi against the US dollar, but was offset by a refund of US$7 million of business tax which related to commission expenses. Specifically, AIA China expanded its agency and customer services infrastructure by increasing new sales and services centres to 127 centres in FY 2008 from 104 centres in FY 2007. The expense ratio increased to 18.4% in FY 2008 from 15.8% in FY 2007.

Operating profit decreased 30.3% to US$85 million in FY 2008 from US$122 million in FY 2007, principally as a result of the increase in expenses discussed above. AIA operating margin decreased to 9.1% in FY 2008 from 15.1% in FY 2007 largely for the same reasons that led to the decrease in operating profit in FY 2008.

Operating profit after tax attributable to shareholders of AIA in FY 2008 decreased less than the corresponding reduction in operating profit mainly due to tax savings of approximately US$20 million from the consolidated tax filing of the China branches.

The operating return on allocated equity decreased to 18.7% in FY 2008 from 30.2% in FY 2007 reflecting the decrease in operating profit and an increase in allocated segment equity, including the effect of a capital injection made by the AIA Group relating to a real estate development project in Guangdong province.

Korea

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
TWPI	2,178	2,268	1,759
Investment income[(1)]	233	248	217
Operating expenses[(2)]	136	132	101
Operating profit	269	281	81
Operating profit after tax attributable to shareholders of AIA	192	218	65
Allocated segment equity	950	1,224	1,227
Net capital in/(out) flow[(3)]	60	105	11
Ratios:			
Expense ratio	6.2%	5.8%	5.7%
AIA operating margin	12.4%	12.4%	4.6%
Operating return on allocated equity	23.7%	20.1%	5.3%

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

(2) Excludes non-operating actuarial gains and losses arising from defined benefit schemes as detailed in Appendix II, note 5.

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

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
TWPI includes:			
Renewal premium	1,421	1,559	1,429
First year premium	683	664	322
Weighted single premium (10% of single premium)	74	45	8
Total	**2,178**	**2,268**	**1,759**

Year ended 30 November 2009 compared with year ended 30 November 2008

Performance of operations in Korea in FY 2009 was affected by ongoing uncertainty in the Korean economy and the AIG Events, which had a more pronounced and longer lasting impact than on other operations due to the previous branding of the Korean operations as AIG Life Korea. The impact on results of operations in Korea was exacerbated by further depreciation of the Korean Won against the US dollar during FY 2009, as the average Korean Won to US dollar exchange rate deteriorated 22.9% to 1,287.00 in FY 2009 from 1,047.12 in FY 2008.

TWPI decreased 22.4% to US$1,759 million in FY 2009 compared to US$2,268 million in FY 2008, although on a constant exchange rate basis the decrease was 4.7%. The 8.3% decrease in renewal premiums between FY 2008 and 2009 was largely attributable to adverse foreign exchange movements; on a constant exchange rate basis renewal premiums increased 11.9% during FY 2009. This increase was driven by a 60.7% growth on a constant exchange rate basis in renewal premiums for AIA investment-linked products in FY 2009.

First year premiums decreased 51.5%, or 39.5% on a constant exchange rate basis, to US$322 million in FY 2009 compared with US$664 million in FY 2008, mainly as a result of weaker sales in the first half of 2009. First year premiums were greater in the second half of FY 2009 as the AIA Group rebranded the Korean operations to AIA Life Korea, led by a 40.2% increase in sales of ordinary individual life insurance in the second half of FY 2009 as compared with the first half.

Investment income (excluding investment income from AIA investment-linked contracts) fell 12.5% to US$217 million in FY 2009 from US$248 million in FY 2008 due to the depreciation of the

Korean Won against the US dollar as well as the carry-over effect of lower assets under management during FY 2009 following high policy surrenders in the last quarter of FY 2008 and the first quarter of 2009. On a constant exchange rate basis, investment income (excluding investment income from AIA investment-linked contracts) increased 7.5% year-on-year.

Operating expenses decreased 23.5% to US$101 million in FY 2009 from US$132 million in FY 2008 mainly as a result of the depreciation of the Korean Won against the US dollar and active cost control measures during the year. On a constant exchange rate basis, the decrease in operating expenses was 5.7%. The expense ratio remained largely stable at 5.7% in FY 2009 compared with 5.8% in FY 2008 as both operating expenses and TWPI were affected by the depreciation in the Korean Won.

Operating profit and operating profit after tax attributable to shareholders of AIA decreased to US$81 million and US$65 million, respectively, in FY 2009, from US$281 million and US$218 million, respectively, in FY 2008 due to the effects of depreciation of the Korean Won and the impact of increased DAC amortisation in respect of AIA investment-linked contracts and variable universal life products of approximately US$90 million in FY 2009. This increase in DAC amortisation resulted from a revision to AIA persistency assumptions in respect of investment-linked and variable universal life policies reflecting higher than anticipated surrenders and premium holidays were experienced during FY 2009.

A further factor contributing to the reduction in operating profit was an increase in claims in FY 2009 estimated at US$40 million, particularly in respect of cancer products, where claims increased significantly due to enhanced awareness of and access to health screening. Steps have since been taken to limit the exposure to products with long-term guaranteed rates that offer protection against cancer risk and to update insurance contract liabilities to reflect the increase in historical claims experience. In addition, operating profit in FY 2008 benefited from approximately US$40 million of surrender gains following the AIG Events in the last quarter of 2008.

Both AIA operating margin and operating return on allocated equity were adversely affected by the deterioration in operating profit and decreased to 4.6% and 5.3%, respectively, in FY 2009 from 12.4% and 20.1%, respectively, in FY 2008.

Year ended 30 November 2008 compared with year ended 30 November 2007

The AIA Group's business in Korea experienced growth in the first half of FY 2008, but was adversely affected by the financial market downturn and the AIG Events in the second half of FY 2008. The depreciation of the Korean Won against the US dollar in FY 2008 also had an adverse impact on the results of the AIA Group's business in Korea.

TWPI increased 4.1% to US$2,268 million in FY 2008 from US$2,178 million in FY 2007. On a constant exchange rate basis, the increase was 17.3%. This increase was primarily due to a growth in renewal premiums of 9.6% (24.2% on a constant exchange rate basis), partially offset by a 2.8% decrease in first year premiums, although on a constant exchange rate basis first year premiums increased 8.5%. In the first half of FY 2008, AIA Korea experienced growth in first year and single premiums, particularly with respect to variable universal life products. In the second half of FY 2008, AIA Korea's sales of AIA investment-linked products fell significantly, which was mainly attributable to the significant decline in values in the Asian and global equity markets and the AIG Events. In Korea, response to the AIG Events was particularly marked as the local operations were branded AIG Life Korea, which, in particular, affected the bancassurance distribution channel adversely.

Korea was a significant geographical market with respect to the AIA Group's standalone health and protection insurance product line in FY 2008. During FY 2008, first year premiums for standalone health and protection insurance products decreased 27.7% (19.2% on a constant exchange rate basis) due to declining demand in these products, reflecting increased competition and decline in sales of insurance products through the direct marketing channel, and the depreciation of the Korean Won against the US dollar.

Investment income (excluding investment income from AIA investment-linked contracts) increased 6.4% to US$248 million in FY 2008 from US$233 million in FY 2007.

Operating expenses decreased 2.9% to US$132 million in FY 2008 from US$136 million in FY 2007, primarily due to the depreciation of the Korean Won against the US dollar in FY 2008. The expense ratio decreased to 5.8% in FY 2008 from 6.2% in FY 2007, partially reflecting greater operational efficiencies.

Operating profit increased 4.5% to US$281 million in FY 2008 from US$269 million in FY 2007, primarily as a result of an increase in surrender fees following the AIG Events, which more than offset the resulting acceleration of DAC amortisation relating to such surrendered policies. Surrenders increased significantly in September 2008, particularly in respect of investment-linked and annuity products and products sold through the bancassurance distribution channel.

The Korean operations' AIA operating margin remained at 12.4% in FY 2008 and FY 2007.

The increase in operating profit after tax attributable to shareholders of AIA for FY 2008 compared with FY 2007 was greater than the corresponding increase in operating profit, partly due to a lower deferred tax charge in respect of FY 2008, as a reduction in corporate tax rates to 22% from 2012 has been announced (compared to 24% in FY 2008). However, operating return on allocated equity decreased to 20.1% in FY 2008 from 23.7% in FY 2007, despite the increase in operating profit after tax attributable to shareholders of AIA, primarily due to the effects of a depreciation of the Korean Won against the US dollar and a capital contribution from the AIA Group to support local solvency following significant annuity surrenders.

The Korean operations experienced annuity surrenders of US$1,023 million in FY 2008, compared with US$250 million in FY 2007. These surrender cash outflows were reflected in the statement of financial position as a decrease in assets, offset by a decrease in liabilities. Given the adverse market conditions at the time, the Korean operations chose to maintain its investment in a portfolio of US dollar denominated assets originally held to back the annuity business, thereby creating a temporary currency mismatch of assets and liabilities. As a result, monthly surrenders for October 2008 and November 2008 of US$158 million and US$79 million, respectively, were significantly reduced from the peak in September 2008 of US$526 million.

Other Markets

Other Markets includes the results of the AIA Group's operations in Australia, the Philippines, Indonesia, Vietnam, New Zealand and Taiwan, and the AIA Group's interest in its joint venture in India, which is reflected in the AIA Group's consolidated financial information using the equity method of accounting.

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
TWPI	1,184	1,366	1,390
Investment income[(1)]	352	397	400
Operating expenses[(2)]	157	173	170
Operating profit	170	188	191
Operating profit after tax attributable to shareholders of AIA	105	153	137
Allocated segment equity[(3)]	1,135	1,314	1,445
Net capital in/(out) flow[(4)]	(1)	118	18
Ratios:			
Expense ratio	13.3%	12.7%	12.2%
AIA operating margin	14.4%	13.8%	13.7%
Operating return on allocated segment equity	10.0%	12.5%	9.9%

(1) Excludes investment income related to AIA investment-linked contracts.
(2) Excludes non-operating actuarial gains and losses arising from defined benefit schemes as detailed in Appendix II, note 5.
(3) Allocated segment equity includes capital allocations in the form of subordinated inter-company debt.
(4) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
TWPI includes:			
Renewal premium	861	1,015	1,020
First year premium	296	325	358
Weighted single premium (10% of single premium)	27	25	12
Total	**1,184**	**1,366**	**1,390**

Year ended 30 November 2009 compared with year ended 30 November 2008

The collective performance of the AIA Group's Other Markets segment continued to increase with TWPI and operating profit in FY 2009 exceeding the corresponding amounts in FY 2008 and FY 2007. As the purchase of a 51% interest in Ayala Life was concluded only shortly before the AIA Group year end, this purchase had no impact on TWPI for FY 2009.

TWPI for Other Markets grew 1.7% to US$1,390 million in FY 2009 from US$1,366 million in FY 2008, corresponding to an increase of 12.6% on a constant exchange rate basis. In common with the performance of the Key Markets reporting segments, TWPI growth in the second half of FY 2009 was stronger in most of the AIA Group's operations in Other Markets, and across most product lines, compared with the first half of the year. Overall, TWPI grew 24.7% in the second half of FY 2009, as compared with the first half of the year. The increase in TWPI was led by growth in group insurance products, which represented 32.9% of overall TWPI for Other Markets in FY 2009 compared with 20.9% in FY 2008.

The overall growth in TWPI in Other Markets was led by the operations in Australia and Vietnam. TWPI for the Australian operations increased 37.8% to US$576 million in FY 2009 from US$418 million in FY 2008, or 53.5% on a constant exchange rate basis, as a result of strong growth in group insurance products and expansion of AIA Australia's distribution channels to include bancassurance in FY 2009. AIA Australia acquired significant new corporate accounts during the year, enabling it to attain a leading position in the Australian group insurance market in FY 2009. In Vietnam, TWPI increased 11.9% to US$43 million in FY 2009 from US$38 million in FY 2008, or 21.2% on a constant exchange rate basis, mainly attributable to growth in ordinary individual life insurance products. In October 2009, the AIA Group sold its interest in its joint venture operation in Indonesia, PT Asuransi AIA Indonesia. The sale generated a loss on disposal of US$29 million. The AIA Group continues to operate in Indonesia through its wholly-owned subsidiary PT AIA Financial.

Investment income (excluding investment income from AIA investment-linked contracts) increased 0.8% to US$400 million in FY 2009 from US$397 million in FY 2008. On a constant exchange rate basis, investment income (excluding investment income from AIA investment-linked contracts) grew 10.3% year-on-year.

Operating expenses decreased marginally to US$170 million in FY 2009 from US$173 million in FY 2008 but increased 8.3% on a constant exchange rate basis mainly as a result of higher spending on strategic initiatives during FY 2009, particularly in Australia, as the AIA Group invests in diversifying its distribution capabilities and improving operational efficiency. Its expense ratio improved to 12.2% in FY 2009 compared with 12.7% in FY 2008 as growth in TWPI outpaced the increase in expenses.

Operating profit increased to US$191 million in FY 2009 from US$188 million in FY 2008 mainly attributable to a decrease in the AIA Group's share of losses associated with its interest in its joint venture in India, which fell to US$22 million in FY 2009 from US$29 million in FY 2008. Despite the growth in operating profit, operating profit after tax attributable to shareholders of AIA decreased to US$137 million in FY 2009 compared to US$153 million in FY 2008.

AIA operating margin remained broadly unchanged at 13.7% in FY 2009 and 13.8% in FY 2008, reflecting stable operating profit. Excluding the share of losses from associates and joint ventures, the AIA operating margin was 15.3% in FY 2009, a slight deterioration compared with FY 2008 of 15.9%, but higher than 15.0% in FY 2007.

Operating return on equity declined to 9.9% in FY 2009 as compared with 12.5% in FY 2008, reflecting lower operating profit after tax attributable to shareholders of AIA and higher allocated equity as the AIA Group retained earnings in local operations in order to provide capital to support further growth. During FY 2009 capital allocated to the Other Markets segment increased US$18 million, primarily reflecting a US$75 million increase in the Philippines as a result of sales of former subsidiaries less a dividend of US$25 million to ALICO and increases in capital allocated to the AIA Group's operations in Australia, Vietnam and its ongoing operations in Indonesia, which more than offset a decrease of US$62 million resulting from the sale of PT Asuransi AIA Indonesia.

Year ended 30 November 2008 compared with year ended 30 November 2007

Despite the regional economic slowdown, most of the AIA Group's operating units in Other Markets experienced TWPI growth in FY 2008. Overall, the AIA Group's operations in Other Markets saw TWPI grow 15.5% to US$1,366 million in FY 2008 from US$1,184 million in FY 2007. On a constant exchange rate basis, the increase was 12.7%.

The AIA Group's Australian operations were the largest contributor to TWPI among the Other Markets segment, representing 30.6% on a TWPI basis in FY 2008. In Australia, TWPI increased across all product lines and premium types with an overall increase of 33.2%, primarily as a result of a significant increase in group and standalone health and protection insurance premiums. The AIA Group's group insurance business in Australia acquired a number of large corporate customers, while growth in standalone health and protection insurance business was driven primarily by higher sales achieved through greater focus on the IFA channel throughout FY 2008. Most of the AIA Group's other operating units within the Other Markets segment experienced growth in investment-linked and group product premiums. Its operations in Vietnam saw first year premiums grow at 19.6% in FY 2008, which was mainly due to increased sales of universal life products.

Investment income (excluding investment income from AIA investment-linked contracts) increased 12.8% to US$397 million in FY 2008 from US$352 million in FY 2007.

Operating expenses increased 10.2% to US$173 million in FY 2008 from US$157 million in FY 2007. This increase was primarily driven by strategic initiatives undertaken in operating units in Indonesia, Australia and Vietnam, such as distribution channel expansion and systems improvements, and local currency appreciation against the US dollar in FY 2008. The expense ratio decreased marginally to 12.7% in FY 2008 from 13.3% in FY 2007.

Operating profit increased 10.6% to US$188 million in FY 2008 from US$170 million in FY 2007. Operating profit increased in most of its operating units in Other Markets due to higher sales and higher investment income. Operating profit also includes the effect of equity accounting for the AIA Group's share of losses from associates and joint ventures of US$29 million in FY 2008 and US$8 million in FY 2007. The AIA operating margin decreased to 13.8% in FY 2008 from 14.4% in FY 2007, mainly as a result of TWPI increasing at a greater rate than operating profit before tax.

Operating return on allocated equity increased to 12.5% in FY 2008 from 10.0% in FY 2007, reflecting the increase in operating profit after tax attributable to shareholders of AIA and the effects of capital allocations by the AIA Group to support continued expansion in Australia of US$18 million (in the form of subordinated debt), in Vietnam of US$23 million, in Taiwan of US$9 million, as well as US$50 million (in the form of subordinated debt) in Indonesia to support local solvency requirements in FY 2008. In addition, the AIA Group invested US$44 million in its joint venture in India in FY 2008.

Corporate and Other

	Year ended 30 November		
	2007	**2008**	**2009**
	(in US$ millions)		
Investment income(1)	72	45	(10)
Operating expenses(2)	148	104	82
Operating loss	(99)	(81)	(88)
Operating loss after tax attributable to shareholders of AIA	(146)	(87)	(106)
Allocated segment equity(3)	985	689	909
Net capital in/(out) flow(4)	285	(377)	383

(1) Excludes investment income related to AIA investment-linked contracts.
(2) Excludes non-operating actuarial gains and losses arising from defined benefit schemes as detailed in Appendix II, note 5.
(3) Allocated segment equity includes capital allocations in the form of subordinated into company debt.
(4) Capital outflows consist of dividends/profit distributions to the Corporate and Other segment and capital inflows consist of capital injections by the Corporate and Other segment.

Year ended 30 November 2009 compared with year ended 30 November 2008

The activities of the Corporate and Other segment consist of the AIA Group's corporate functions, shared services and eliminations of intragroup transactions. The Corporate and Other segment holds the majority of the AIA Group's investment in AIG shares.

Investment income (excluding investment income from AIA investment-linked contracts) decreased to a net loss of US$10 million in FY 2009 from a net gain of US$45 million in FY 2008 reflecting lower interest income.

Operating expenses for this segment are stated net of fees for intra-group corporate services which are charged to the reporting segments. Operating expenses decreased to US$82 million in FY 2009 from US$104 million in FY 2008 as the AIA Group further refined its corporate service fee charging policy and rationalised headcount in certain central support functions, reducing head office personnel by some 200 individuals. Taking all of the above, together with a substantial reduction in investment management and finance costs, the operating loss grew to US$88 million in FY 2009 compared with US$81 million in FY 2008.

The allocated segment equity increased in FY 2009 reflecting capital contribution from AIG, less net redeployment of capital to other segments and payment of dividends to AIG.

Year ended 30 November 2008 compared with year ended 30 November 2007

Investment income (excluding investment income from AIA investment-linked contracts) decreased 37.5% to US$45 million in FY 2008 from US$72 million in FY 2007 as capital from the Corporate and Other segment was redeployed to support continued expansion of the AIA Group's business and capital requirements of other segments, thereby decreasing funds available for investment in this reporting segment.

Operating expenses are stated net of fees for intra-group corporate services which are charged to the reporting segments. Operating expenses decreased 29.7% to US$104 million in FY 2008 from US$148 million in FY 2007, reflecting refinement in the basis of charging expenses, within the AIA Group. The operating loss decreased 18.2% to US$81 million in FY 2008 from US$99 million in FY 2007 mainly as a result of the reduction in investment income, partially offset by the reduction in operating expenses.

Operating loss after tax attributable to shareholders of AIA reduced to US$87 million in FY 2008 from US$146 million in FY 2007, representing a greater reduction than in the operating loss, primarily due to a reversal of deferred tax liabilities during FY 2008.

Allocated segment equity decreased in FY 2008 reflecting redeployment of capital to other segments to support business expansion and capital requirements as well as payment of dividends to the AIG Group.

LIQUIDITY AND CAPITAL RESOURCES

The AIA Group manages its liquidity and capital resources on a group-wide basis, as well as at the level of its subsidiaries and branches. Its principal cash inflows come from insurance premiums, deposits, policy fees, management fees for its AIA investment-linked products and annuity sales. In the case of AIA, as discussed below under "Distributable reserves", its principal capital inflows will be dividends from AIA Co and its principal capital outflows will be dividends to shareholders.

The principal sources of funds generated by the AIA Group's insurance operations are generally affected by fluctuations in the level of policy surrenders, withdrawals, maturities, benefits and claims and guarantees to policyholders. The AIA Group's operating units may face liquidity pressure in the form of unexpected cash demands that could arise from an increase in the level of policyholders terminating policies. The AIA Group closely monitors and manages the level of surrenders in order to minimise such liquidity risk. AIA is a holding company and depends upon dividends and other distributions and payments from AIA Co for its cash flow, and AIA Co depends upon dividends and other distributions and payments from the AIA Group's operating subsidiaries and branches for substantially all of its cash flow. The payment of dividends and other distributions and payments by the AIA Group's subsidiaries and branches are regulated by applicable insurance, foreign exchange and tax laws, rules and regulations. The amount and timing of certain dividends, distributions and other payments by the AIA Group's insurance subsidiaries or branches require regulatory approval. In particular, the payment of dividends, distributions and other payments to AIA by AIA Co is subject to the oversight of the OCI. As a holding company, the ability of AIA to pay dividends and meet other obligations depends on dividends and other payments from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations.

Liquidity is also available from the AIA Group's portfolio of investment assets. Its investments generally comprise highly liquid and marketable securities, which generally could be liquidated to meet cash needs. As of 30 November 2009, its cash and cash equivalents were US$3,405 million. The

AIA Group seeks to augment its liquidity by employing various liability management techniques, including staggering of maturities of term deposits and investing in marketable short-term securities. As of 30 November 2009, its investments in fixed maturity securities had a fair value of US$52,201 million. In some of the markets in which it invests, the AIA Group is subject to market liquidity risk due to the significant size of its local currency denominated investments. In some of the markets in which it invests, its ability to sell investments in a sizeable volume without affecting the markets may be limited.

The AIA Group's cash inflows and existing cash balances are used to pay liabilities under various life insurance, annuity and health and protection insurance products, and to purchase investment assets. The AIA Group also uses its funds to pay operating expenses, income taxes and dividends that may be declared and payable to its shareholders.

Foreign exchange rate risk arises from the AIA Group's capital being held in multiple currencies in the Asia Pacific region. The AIA Group's primary concern is potential gains and losses to the group-level solvency position that could result from translation of local currencies into the US dollar. The US dollar is the functional currency for solvency margin reporting to the Hong Kong Office of the Commissioner of Insurance. Foreign exchange rate risk can also arise from gains or losses that result from the conversion of profits distributed to AIA Co that are denominated in local currencies to the US dollar. The AIA Group actively monitors the exposure of its capital position to such foreign exchange rate risks and undertakes appropriate hedging strategies to mitigate such risks, to the extent they are inconsistent with the AIA Group's risk appetite.

Cash flows

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
Profit before tax	**2,798**	**42**	**2,580**
Net cash (used in)/provided by operating activities	1,634	2,287	(1,101)
Net cash (used in)/provided by investing activities	(72)	(168)	(98)
Net cash (used in)/provided by financing activities	(62)	(414)	348
Net increase in cash and cash equivalents	**1,500**	**1,705**	**(851)**
Cash and cash equivalents at the beginning of the financial year	1,035	2,583	4,164
Effect of exchange rate changes on the balance of cash held in foreign currencies at the beginning of the financial year	48	(124)	92
Cash and cash equivalents at end of the financial year	**2,583**	**4,164**	**3,405**

Operating activities

Net cash used in operating activities was US$1,101 million in FY 2009 compared with net cash provided by operating activities of US$2,287 million in FY 2008, primarily reflecting the repositioning of the AIA Group's investment portfolio during the third and fourth quarters of FY 2009. During FY 2007 and FY 2008, the AIA Group de-risked its balance sheet and maintained a high cash balance in response to the AIG Events and to meet potential obligations as it wound down and largely withdrew from securities lending. The AIA Group increased its investment activities significantly in the second half of FY 2009 as debt and equity markets recovered and the economic and trading outlook became more positive, funded mainly by cash generated from operating activities. The impact of the AIA Group's portfolio re-risking as it re-entered the market at the end of FY 2009 was muted because of the substantial cash balances that it had built up.

Net cash provided by operating activities was US$2,287 million in FY 2008, an increase from US$1,634 million in FY 2007. The increase in cash provided by operating activities over this period was primarily due to realisation of financial investments, and due to changes in the AIA Group's investment strategy in the latter half of FY 2008 which resulted in an increase in the proportion of net cash inflows from its insurance business held as cash and cash equivalents, rather than invested in financial investments.

Of cash and cash equivalents at 30 November 2009, US$764 million was held to back investment-linked contracts, as compared with US$1,116 million at 30 November 2008. The AIA Group held a balance of cash and cash equivalents of US$160 million as at 30 November 2008 in respect of securities lending as compared with nil as at 30 November 2009 as it largely withdrew from securities lending during the year.

As at 28 February 2010 cash and cash equivalents of the AIA Group were US$3,887 million (30 November 2009 US$3,405 million).

Investing activities

Investing activities consist of acquisitions and divestitures of subsidiaries and associates and acquisitions and disposals of investment property and intangible assets. Net cash used in investing activities was US$98 million in FY 2009, a decrease from US$168 million in FY 2008. The decrease in cash used in investing activities over this period was primarily due to a reduction in purchases of investment property, plant and equipment.

Net cash used in investing activities was US$168 million in FY 2008, an increase from US$72 million in FY 2007. The increase in cash used in investing activities over this period was primarily due to investment activities in investment property, plant and equipment.

Financing activities

Net cash provided by financing activities was US$348 million in FY 2009 compared with net cash used in financing activities of US$414 million in FY 2008. This increase reflected the repayment of a substantial portion of loans from fellow subsidiaries of AIG in FY 2008 and the capital contribution the AIA Group received from AIG during FY 2009 of US$401 million, primarily in relation to separation activities including the withdrawal from securities lending, reimbursement of separation costs, the sale of the AIA Group's investment management operations to AIG and the disposal of other entities to third parties.

Net cash used in financing activities was US$414 million in FY 2008, an increase from US$62 million in FY 2007. The increase in cash used in financing activities over this period was primarily due to repayment of borrowings from subsidiaries of AIG and an increase in dividend payments to AIA's parent. These amounts offset the cash inflow from a capital contribution by AIA's parent.

Insurance solvency margin

The AIA Group is in compliance with the solvency and capital adequacy requirements of its regulators. Its primary insurance regulator at the group level is the OCI, which requires that AIA meet the solvency margin requirements of the ICO. AIA defines "Total Available Capital" as the amount of assets in excess of liabilities measured in accordance with ICO and "Required Capital" as the minimum required margin of solvency calculated in accordance with ICO. The ICO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The "Solvency Margin Ratio" is the ratio of Total Available Capital to Required Capital. The ICO requires Hong Kong regulated insurance entities within the AIA Group 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.

Capital and Regulatory Orders Specific to the AIA Group

The AIA Group is subject to regulatory orders designed to protect the AIA Group's assets in several of its geographical markets. The orders imposed by the following regulators are summarised below.

Hong Kong Office of the Commissioner of Insurance

Letters dated 17 September 2008 were issued from the OCI to each of AIA Co and AIA-B ("Section 35 Orders") requiring each of AIA Co or AIA-B, including all of their branches, as appropriate:

1) to ensure that all insurance business and all transactions with any "specified person" (which includes but is not limited to its branches, directors, controllers, shareholders and associates or group companies) is on normal commercial terms;

2) to ensure that AIA Co or AIA-B not place any deposit with or transfer assets (except for normal insurance transactions) or provide financial assistance to any specified person without first obtaining written consent from the OCI; and

3) to inform the OCI as soon as practicable of any circumstances which may put the interest of policyholders or potential policyholders at risk.

Among other consequences, the Section 35 Orders place restrictions on the ability of AIA Co and AIA-B to engage in capital related transactions with specified persons. Accordingly, the Section 35 Orders restrict the ability of AIA Co and AIA-B to pay dividends to their parent companies, and limit their ability to engage in intercompany transactions with specified persons, such as payment of intercompany service fees without first obtaining written consent from the OCI.

By further letters dated 18 September 2008 to AIA Co and AIA-B, the OCI required that AIA Co or AIA-B as appropriate not acquire a new controller without first obtaining written consent from the OCI.

By letters to AIA Co and AIA-B dated 15 March 2010, the OCI confirmed that the requirements contained in its letters dated 17 and 18 September 2008 remain in force.

Monetary Authority of Singapore

Since October 2008, the Monetary Authority of Singapore ("MAS") has issued certain directions to AIA Singapore specifying that it comply with increased capital adequacy requirements. In addition, the directions provide that prior MAS consent be sought in respect of certain transactions including transfers or disposals of certain assets (including land or buildings) and financing and guarantee arrangements. The directions also impose certain additional reporting requirements on AIA Singapore.

Bermuda Monetary Authority

By a Letter of Undertaking dated 18 December 2008, American International Company Limited ("AICO"), in its capacity as the licensed Insurance Manager of AIA-B, made certain undertakings to the Bermuda Monetary Authority ("BMA").

In the Letter of Undertaking, AICO:

1) undertakes to ensure that AIA-B would seek prior approval from the BMA before entering into transactions outside the normal course of business; and

2) undertakes to submit a daily basis report to the BMA on: (i) transfers of more than US$1,000,000 per transaction or an aggregate amount of greater than US$1,000,000 per day from AIA-B to another jurisdiction other than where the fund originated;

(ii) transactions of greater than US$15,000,000 whether incoming or outgoing; (iii) all material issues having an impact threshold of equal to or greater than 10% of AIA-B's total statutory capital and surplus.

China Insurance Regulatory Commission

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

1) maintain sufficient funds to cope with possible cancellations and to prevent liquidity risks and monitor the liquidity daily; and

2) enhance capital fund safety by: (a) not entering into any mortgage, guarantee, letter of credit or incurring debt other than in the normal course of business; (b) not transferring any assets or funds outside of the PRC; and (c) obtaining approval from the CIRC on any affiliated transaction with AIG including reinsurance transactions (so as to prevent capital and assets from flowing outside of the PRC).

Bank Negara Malaysia

Under a letter dated 16 September 2008, Bank Negara Malaysia ("BNM") requested AIA Malaysia to obtain prior written approval of BNM in relation to the following:

1) payment of dividends (interim and/or final) to its shareholders (being in addition to the general requirement to obtain a no objection from BNM prior to declaring a dividend exceeding a prescribed statutory amount);

2) extension of credit facilities to related-parties within the AIG Group;

3) guarantees or undertakings given to/on behalf of related-parties within the AIG Group; and

4) any other related-party transactions, excluding any transaction in the ordinary course of AIA Malaysia business relating to insurance policies, reinsurance cessions and claims.

Other Orders

Correspondence has also been issued to the AIA Group by the Mandatory Provident Fund Schemes Authority in Hong Kong and the regulators in Taiwan, Brunei and Vietnam. Pursuant to this correspondence, regular updates are to be provided to the regulators, and certain regulators must provide their consent before assets are transferred or transactions are entered into with connected parties.

A number of transactions undertaken in FY 2008 and FY 2009 enhanced the company solvency position of the AIA Group. Effective 28 February 2009, AIA-B and AIA Australia, among others, became subsidiaries of AIA Co. On 3 November 2009, beneficial ownership of Philamlife was transferred to AIA Group. In particular, the integration of AIA-B as a wholly-owned subsidiary of AIA Co substantially strengthened solvency and capital position. The information below illustrates

AIA Co and AIA-B's Total Available Capital, Required Capital and Required Solvency Margin Ratio under the ICO at the end of FY 2007, FY 2008 and FY 2009.

AIA Co

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
Total Available Capital	2,551	2,751	4,811
Required Capital	1,357	1,316	1,547
Solvency Margin Ratio	188%	209%	311%

AIA-B

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
Total Available Capital	2,519	1,469	2,742
Required Capital	648	684	911
Solvency Margin Ratio	389%	215%	301%

Combined with the capital contributions of AIA Australia and Philamlife into AIA Co, the Total Available Capital, Required Capital and Solvency Margin Ratio as of 30 November 2009 of AIA Co under the ICO was approximately US$4,811 million, US$1,547 million and 311%, respectively.

The AIA Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries are domiciled. AIA-B, although domiciled in Bermuda, is also required to comply with the solvency margin requirements under the ICO because of its substantial insurance business carried on in Hong Kong. The various regulators overseeing the AIA Group actively monitor its solvency margin position. AIA Co and AIA-B submit annual filings to the OCI setting forth their solvency margin ratios based on their annual audited accounts, and the AIA Group's operating units make similar annual filings with their respective local regulators. The AIA Group's operating units were in compliance with the solvency margin requirements of their respective local regulators at 30 November 2007, 2008 and 2009.

INDEBTEDNESS

Borrowings and obligations under securities lending and repurchase agreements

As of 30 November 2009, the AIA Group had borrowings of US$688 million outstanding. Of these borrowings, US$549 million were in the form of bank loans, US$85 million in the form of bank overdrafts, US$50 million in the form of loans from fellow subsidiaries of AIG and US$4 million in the form of other loans.

The most material financing transaction that the AIA Group is a party to is a five-year variable rate term loan facility dated 23 November 2007 relating to a refinancing of a loan facility for AIA Central. The available facility and amount outstanding as of 30 November 2009 was US$542 million. The loan facility for AIA Central is on standard commercial terms and on a non-recourse basis, principally secured against assets of the AIA Group's subsidiary company, Bayshore Development Group Limited ("Bayshore"), a 90% owned subsidiary of the AIA Group which owns AIA Central in Hong Kong, and shares held by Grand Design Development Limited, a wholly-owned subsidiary company, and the immediate parent of Bayshore, in Bayshore.

The remaining bank loan relates to a three-year fixed rate term loan facility commencing 31 August 2007, held by the AIA Group's Thai operations. The available facility and amount outstanding as of 30 November 2009 was US$7 million. The loan facility, which is on standard commercial terms and on a non-recourse basis, is secured against a piece of land held by the AIA Group's Thai operations and is subject to AIA maintaining a certain minimum solvency ratio in respect of its regulated life insurance business in Thailand.

As of 30 November 2009, the AIA Group had no material bank loans other than as described immediately above.

Changes to liquidity and indebtedness subsequent to 30 November 2009

As of 28 February 2010, cash and cash equivalents were US$3,887 million (30 November 2009 US$3,405 million). As of 28 February 2010, the AIA Group borrowings had decreased to US$628 million outstanding (30 November 2009 US$688 million) principally reflecting a fall in bank loan balances.

The net cash position is defined as cash and cash equivalents less borrowings. At 28 February 2010 the net cash position was US$3,259 million. Since this date net cash has decreased as a result of normal investing and trading activity. There has been no significant change in the borrowings of the AIA Group or in the long term banking facilities available to the AIA Group.

Operational borrowings

The following operational borrowing as a ratio of total equity attributable to shareholders of AIA is presented on a consistent basis as of 30 November 2007, 2008 and 2009. For the purpose of this analysis, operational borrowings include short-term loans from fellow subsidiaries of AIG arising from an intra-group corporate reorganisation and borrowings and obligations under repurchase agreements. It excludes obligations under agreements related to securities lending since the AIA Group largely withdrew from all securities lending in November 2009.

- As of 30 November 2007, the AIA Group's operational borrowing as a percentage of total equity attributable to shareholders of AIA was 22.3%. Excluding loans from fellow subsidiaries of AIG, the ratio of operational borrowing to total equity attributable to shareholders of AIA was 16.4%

- As of 30 November 2008, the AIA Group's operational borrowing as a percentage of total equity attributable to shareholders of AIA decreased to 15.4% despite a 32.6% decrease in equity attributable to shareholders of AIA to US$9,176 million from US$13,616 million in the previous year. The decrease in equity was principally driven by negative fair value and foreign currency translation reserves; while the decrease in operational borrowings reflects a substantial reduction in obligations under repurchase agreements (which decreased to US$755 million) and repayment of a substantial portion of related party borrowings (which decreased the related party borrowings to US$20 million).

- As of 30 November 2009, the AIA Group's ratio of operational borrowing as a percentage of total equity attributable to shareholders of AIA decreased further to 6.4% largely due to a reduction in obligations under repurchase agreements, which decreased 62.4% to US$284 million as of 30 November 2009 from US$755 million in the previous year, combined with a significant increase in equity attributable to shareholders of AIA to US$15,252 million as of 30 November 2009 compared with US$9,176 million in the previous year. The latter was largely driven by a recovery in market values of financial investments towards the end of FY 2009.

Contractual obligations

Commitments under operating leases

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
Properties and others			
Not later than one year	64	69	76
Later than one and not later than five years	121	136	102
Later than five years	117	101	94
Total	**302**	**306**	**272**

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

Investment commitments

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
Investment commitments			
Not later than one year	—	107	90
Later than one and not later than five years	143	51	36
Later than five years	—	131	138
Total	**143**	**289**	**264**

Investment commitments consist of commitments to invest in private equity partnerships.

Contingencies

The AIA Group is subject to regulation in each of the geographical markets in which it operates by insurance, securities, capital markets, pension, data privacy and other regulators and it is exposed to the risk of regulatory actions in response to perceived or actual non-compliance with regulations relating to suitability, sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties.

The AIA Group is exposed to legal proceedings, complaints and other actions from its activities including those arising from commercial activities, sales practices, suitability of products, policies and claims.

The AIA Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. Due to a change in law, further cessions under this contract ended in July 2008. This reinsurance is fully retroceded to a subsidiary of AIG. The AIA Group is exposed to the risk of losses in the event of the failure of the counterparty retrocessionaire to honour its obligations. The principal balance outstanding on mortgage loans to which the reinsurance agreement relates was approximately US$3,588 million at 30 November 2009 (US$3,147 million at 30 November 2008 and US$4,507 million at 30 November 2007). The liabilities and related reinsurance assets, which totalled US$24 million at 30 November 2009 (US$32 million at 30 November 2008 and US$31 million at 30 November 2007) respectively arising from these agreements are reflected and presented on a gross basis in accordance with the AIA Group's accounting policies. The AIA Group expects to fully recover amounts outstanding at 30 November 2009 under the terms of this agreement from the retrocessionaire. In the event of a change in control, either party has the right to terminate the retrocession cover with the AIA Group electing whether the termination is on a run-off basis or clean cut basis.

The AIA Group provided reinsurance and retrocession of general insurance business which was primarily underwritten in the 1970s and 1980s. In the absence of any claim notifications in the three years ended 30 November 2009, the AIA Group does not expect any further material liabilities to arise. At the time AIA-B was transferred to the AIA Group, AIRCO, the former owner of AIA-B, provided AIA Co with an uncapped indemnification for losses with respect to claims made before 1 November 2010, arising from underwriting activities of the Bermuda office of AIA-B prior to 28 February 2009.

The AIA Group has issued capital guarantees and minimum guaranteed rates of return ranging from 0% to 5% to holders of units of pension funds that have an accumulation value of approximately US$1,260 million at 30 November 2009 (US$1,232 million at 30 November 2008 and US$1,272 million at 30 November 2007). It has the ability to reduce the guaranteed rates of return, subject to obtaining approvals of applicable regulators.

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

OFF-BALANCE SHEET ARRANGEMENTS

Except as described above in "Contractual Obligations – Commitments under Operating Leases" and the discussion of capital guarantees and minimum guaranteed rates of return the AIA Group has issued to certain holders of units of pension funds in "Contingencies" in this section, the AIA Group has no other material off-balance sheet arrangements.

DISTRIBUTABLE RESERVES

The principal source of income of AIA is dividends from AIA Co, while the principal capital outflows of AIA will be dividends to shareholders. AIA serves principally as a holding company and will incur certain corporate expenses.

OTHER NON-RECURRING ITEMS

In FY 2009, material non-recurring items comprised restructuring and separation costs of US$89 million.

In FY 2008, material non-recurring items comprised: (i) a US$447 million gain arising on final settlement of the reinsurance recapture; (ii) the release of a withholding tax provision of US$275 million resulting from the clarification of a tax treaty; and (iii) US$10 million of restructuring and separation costs incurred in order to enhance future operational efficiency of corporate operating expenses.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the exposure created by potential changes in market prices and rates. The AIA Group is exposed to market risk arising principally from its holding of financial investments. Some of the significant market risks it faces include interest rate risk, foreign exchange risk and equity market price risks.

Interest rate risk

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

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

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

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

The table below sets forth the sensitivity of profit and total equity to changes in interest rates. In calculating the sensitivity of debt instruments to changes in interest rates the AIA Group has made assumptions about the corresponding impact on liabilities to policyholders. Assets held to support AIA investment-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholders' participation ratios. For the purpose of this illustration the impact of possible impairments of financial investments classified as available for sale which may arise in times of economic stress have been ignored, since default events reflect the characteristics of individual issuers. Because the AIA Group's accounting policies lock in interest rate assumptions on policy inception and its assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is no corresponding effect on liabilities.

	30 November 2007		**30 November 2008**		**30 November 2009**	
	Impact on profit before tax	**Impact on total equity (before the effects of taxation)**	**Impact on profit before tax**	**Impact on total equity (before the effects of taxation)**	**Impact on profit before tax**	**Impact on total equity (before the effects of taxation)**
	(in US$ millions)					
+50 basis points shift in yield curves	(45)	(1,130)	(53)	(1,096)	(64)	(1,492)
−50 basis points shift in yield curves	45	1,130	53	1,096	64	1,492

Foreign exchange rate risk

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

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

The table below sets forth the sensitivity of the AIA Group's total equity to changes in foreign exchange rates applied to net foreign currency exposures after taking into account the effect of economic hedges of currency risk. While providing economic hedges that reduce net exposure to foreign exchange rate risk, hedge accounting is not applied. Currencies for which net exposure is not significant are excluded from the analysis below. In compiling the table below, the impact of a 5% strengthening of original currency is stated relative to the functional currency of the relevant operation of the AIA 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.

	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
				(in US$ millions)			
30 November 2009							
Equity analysed by original currency	11,824	(410)	2,448	(1,922)	563	704	924
Net notional amounts of currency 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 total equity	(103)	(9)	(184)	(54)	(28)	(30)	(50)
30 November 2008							
Equity analysed by original currency	7,085	(502)	2,113	(1,887)	482	628	598
Net notional amounts of currency derivative positions	(3,316)	—	1,039	2,776	—	—	(96)
Currency exposure	3,769	(502)	3,152	889	482	628	502
5% strengthening of original currency							
Impact on profit before tax	31	(66)	1	6	—	7	1
5% strengthening of the US dollar							
Impact on total equity	(31)	(5)	(156)	(42)	(24)	(28)	(25)
30 November 2007							
Equity analysed by original currency	11,387	(15)	2,141	(2,370)	318	355	831
Net notional amounts of currency derivative positions	(2,818)	—	686	2,728	—	—	—
Currency exposure	8,569	(15)	2,827	358	318	355	831
5% strengthening of original currency							
Impact on profit before tax	128	(41)	(14)	8	2	8	8
5% strengthening of the US dollar							
Impact on total equity	(128)	(9)	(141)	(16)	(15)	(14)	(35)

Equity market price risk

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

For the purpose of illustrating the sensitivity of profit and total equity to changes in equity prices, the impact of possible impairments of financial investments classified as available for sale which may arise in times of economic stress has been ignored and certain assumptions were made about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support AIA investment-linked contracts have also been excluded on the basis that changes in fair value are wholly borne by policyholders.

	30 November 2007		30 November 2008		30 November 2009	
	Impact on profit for the year before tax	Impact on total equity (before the effects of taxation)	Impact on profit for the year before tax	Impact on total equity (before the effects of taxation)	Impact on profit for the year before tax	Impact on total equity (before the effects of taxation)
			(in US$ millions)			
10% increase in equity prices . . .	464	716	204	214	308	314
10% decrease in equity prices . . .	(464)	(716)	(204)	(214)	(308)	(314)

FIRST QUARTER 2010 RESULTS FOR THE AIA GROUP

The following information was prepared by Prudential on a basis consistent with Prudential's reporting basis for the comparable periods based on unaudited financial data extracted from AIA's management accounts.

Sales — APE	3 months to 28 February 2010	3 months to 28 February 2009	% change
	US$m	US$m	
Hong Kong	96	85	13
Singapore and Brunei	31	21	48
Thailand	97	69	41
Korea	76	68	12
China	44	37	19
Malaysia	28	23	22
Other markets	83	90	(8)
Group total	**455**	**393**	**16**

New business profit	3 months to 28 February 2010	3 months to 28 February 2009	% change
	US$m	US$m	
Group total — pre tax	**198**	150	32
— post tax	**141**	107	32

Margin — APE %	3 months to 28 February 2010	3 months to 28 February 2009	+/- % pts
Group total — pre tax	**44**	38	+6pts
— post tax	**31**	27	+4pts

In the first quarter of 2010 new business APE sales grew by 16% over the first quarter of 2009 at actual exchange rates.

The first quarter 2010 growth was driven by strong single premium sales due to the improvement in investor sentiment as stock markets recovered. This growth was particularly strong in Singapore and Thailand where new business APE sales increased in the first quarter of 2010 by 48% and 41% respectively.

Other markets new business APE sales in the first quarter of 2010 decreased by 8%. The main contributing factor for this was a 33% decrease in APE in Australia, where the first quarter 2009 included new business in respect of two large new group schemes.

The increase in the first quarter 2010 pre tax new business margin to 44% from 38% reflects improvements in pricing and product mix over those sold during the financial year ended 30 November 2009.

EEV New Business Methodology and Assumptions

Valuation of new business

The contribution from new business has been prepared in accordance with the EEV principles and guidance issued in May 2004 by the European Insurers' CFO Forum except for certain disclosure points (described in the Consulting Actuaries' Report set out in Appendix V to this listing document, such that they relate to the new business contribution for the 12 months to 30 November 2009).

The new business contribution represents the profits determined by applying the same operating and economic assumptions as those used for the 30 November 2009 value of in-force business. The only exception to this is for Hong Kong and Thailand where the long term returns were used for the whole projection period as opposed to grading to market yields. The impact of this difference is immaterial.

In determining the cost of required capital, the more onerous (at 30 November 2009) of the local entity reserving and regulatory capital basis and the Hong Kong basis (at 150% of regulatory capital) for branches of AIA and AIA-B has been assumed.

The new business contribution for 2010 does not allow for any excess of acquisition expenses over the unit cost assumptions. This assumption is consistent with the preparation of the new business contribution for the 12 months to 30 November 2009 as set out in the Consulting Actuaries' Report in Appendix V to this listing document.

Principal economic assumptions

- The same economic assumptions have been used to determine the new business contribution for the 3 months ending 28 February 2010 and the 3 months ending 28 February 2009. This is appropriate as, given the fact that the new business is largely regular premium business, the key economic assumptions impacting the new business contribution are the long-term assumptions. These assumptions are not expected to vary significantly between 2009 and 2010.
- Initial returns on fixed income assets have been based on current market yields, adjusted for the risk of default.

- Long term returns for fixed income assets reflect expected returns having regard to historical returns, estimates of long term forward rates from yields available on Government bonds and current bond yields.
- Where initial returns on fixed interest assets differ markedly from long term returns, returns are assumed to grade to the long term returns linearly over the estimated mean term of the existing fixed interest assets.
- Equity returns have been determined by reference to the projected long term yield on 10-year government bonds plus an equity risk premium which varies by territory with a maximum risk premium of 600 basis points.
- Risk discount rates are set equal to risk-free rates plus a risk margin. The risk margin reflects any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation.

The tables below summarise the principal financial assumptions at 28 February 2010 and 28 February 2009:

	Australia %	**China** %	**Hong Kong** %	**Indonesia (USD denominated)** %	**Indonesia (Rupiah denominated)** %	**Korea** %
New business risk discount rate	9.0	10.0	8.0	12.5	17.0	10.0
Government bond yield	5.75	3.7	3.8	6.9	11.0	5.2

	Malaysia %	**New Zealand** %	**Philippines** %	**Singapore & Brunei** %	**Taiwan** %	**Thailand** %	**Vietnam** %
New business risk discount rate	9.0	9.0	14.0	7.5	8.0	10.0	16.0
Government bond yield . . .	4.5	6.3	7.5	2.9	1.7	4.2	9.25

	AIA Group Total	
	28 February 2010 %	**28 February 2009** %
New business weighted risk discount rate (note)	**9.5**	9.3

Note:

The weighted risk discount rates shown for the AIA Group above have been determined by weighting each country's risk discount rates by reference to the EEV basis new business result.

Approach to estimate the new business contribution for the 3 months ended 28 February 2009

The new business contribution for the 3 months ended 28 February 2009 has been estimated assuming that new business margins (as a percentage of APE) for each product group within each territory are the same as for the 12 months ended 30 November 2009. It has therefore been implicitly assumed that the mix of business within each product group has remained unchanged during the 12 months ended 30 November 2009. Should this product mix have changed during this period, the new business contribution for the 3 months ended 28 February 2009 could be materially different to that shown.

Foreign exchange rates

Foreign currency profits have been translated at average exchange rates for the period. The principal exchange rates are as follows:

Local currency: USD $	Average for 3 months to 28 February 2010	Average for 3 months to 28 February 2009
China	6.83	6.85
Hong Kong	7.75	7.75
Korea	1,154.30	1,384.60
Malaysia	3.40	3.59
Singapore	1.40	1.49
Thailand	33.14	35.09

Other information

In addition, AIG provided to Prudential the following unaudited information on AIA's results for the fiscal quarters ended 28 February 2010 and 2009, prepared for inclusion as a discontinued operation in AIG's unaudited consolidated financial statements prepared in accordance with US generally accepted accounting principles (US GAAP) for the three months ended 31 March 2010 as follows:

(US$ in millions) (unaudited)	Q1 2010	Q1 2009
Total Revenues:	3,175	2,787
Pre-tax Income:	658	390

The information on Total Revenues and Pre-tax Income shown above is not necessarily indicative of how AIA's results may have been presented if separate stand-alone financial statements had been prepared on either a US GAAP or an IFRS basis (as used by Prudential).

LIST OF EXPLANATIONS

The sections headed "Information about the AIA Group" and "Financial Information of the AIA Group" of this listing document are to be read in conjunction with the following list, which sets out the explanations of certain terms. These terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

"AIA discretionary participation features" or "AIA DPF" a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- that are contractually based on the performance of any of the following: a specified pool of contracts or a specified type of a contract; a specified pool of assets; or the company, fund or other equity that issues the contract as discussed in IFRS 4;

"AIA investment experience" realised and unrealised investment gains and losses recognised in the consolidated income statement;

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

"AIA operating margin" AIA operating margin measures the operating profitability of business relative to the volume of the business generated by the AIA Group; AIA operating margin is calculated as operating profit as a percentage of TWPI;

"AIA total investment portfolio" the AIA Group's investment portfolio composed of cash and cash equivalents, investment property and financial investments but excluding receivables (consisting of amounts due from insurance and investment contract holders, amounts due from agents, brokers and intermediaries as well as insurance and intercompany receivables, receivables from sales of investments and other receivables);

"AIA persistency" the percentage of insurance policies remaining in force from year to year, as measured by premiums. AIA persistency data discussed in this listing document excludes Philamlife which only joined AIA in November 2009;

"Asia Pacific" consists of Australia, Brunei, China, Hong Kong, India, Indonesia, Korea, Macau, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand and Vietnam. **For the avoidance of doubt, the phrase "Asia Pacific" excludes Japan**;

"equity securities and alternative investments" equity securities (comprising private and public equities, securities held by consolidated mutual funds managed by AIG, interests in investment funds and AIA's holding of shares in AIG) and investment property;

"expense ratio" operating expenses expressed as a percentage of TWPI;

"financial investments" equity and fixed income securities plus receivables and derivative financial instruments classified as assets, excluding cash and cash equivalents;

"fixed income securities" debt securities (consisting of government and government agency bonds, corporate bonds and structured securities) as well as policy loans, mortgage loans on residential and commercial real estate, inter-company loans to fellow subsidiaries of AIG and other loans (less any allowance for loan losses) plus term deposits and cash and cash equivalents;

"investment income" investment income comprises interest income, dividends and rental income;

"investments" fixed income securities plus equity securities and alternative investments. This may be further defined as financial investments excluding receivables, plus investment property and cash and cash equivalents;

"lapse risk" the risk that, having purchased an insurance policy from the AIA Group, customers either surrender the policy or cease paying premiums on it and so the expected stream of future premiums ceases. Lapse risk is taken into account in building projections of future premium revenues, for example when testing for liability adequacy and the recoverability of deferred acquisition costs;

"net insurance and investment contract benefits" life insurance investment contract benefits, claims and movements in contract liabilities net of amounts ceded to third party reinsurers, excluding corresponding changes in insurance and investment contract liabilities from AIA investment experience for AIA investment-linked contracts and participating funds, and investment income related to AIA investment-linked contracts;

"net profit" profit for the year after tax attributable to shareholders of AIA;

"net return on allocated equity" net profit expressed as a percentage of the simple average of opening and closing allocated equity;

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

"new business premiums" first year premiums plus 10% of single premiums on new business written during the period;

"operating expenses" the expenses of operations excluding restructuring and separation costs;

"operating profit" profit before tax excluding AIA investment experience and investment income related to AIA investment-linked contracts; changes in insurance and investment contract benefits in respect of AIA investment-linked contracts and the AIA investment experience of participating funds; changes in third party interests in consolidated funds, and other significant items of non-operating income and expenditure;

"Operating Profit After Tax" or "OPAT" profit after tax attributable to shareholders of AIA, excluding the following non-operating items:

- AIA investment experience (consisting of realised gains and losses, foreign exchange gains and losses, impairments and unrealised gains and losses on investments held at fair value through profit and loss);
- investment income related to AIA investment-linked contracts (consisting of dividends, interest income and rental income);

- investment management expenses related to AIA investment-linked contracts;
- corresponding changes in insurance and investment contract liabilities in respect of AIA investment-linked contracts and participating funds and changes in third party interests in consolidated investment funds; and
- other significant items management consider to be non-operating income and expenses;

"operating return on allocated equity" measures the efficiency of use of capital in AIA's operations. Operating return on allocated equity is calculated as operating profit after tax attributable to shareholders of AIA, expressed as a simple average of opening and closing total equity attributable to shareholders of AIA, less the fair value and foreign currency translation reserves, and adjusted for subordinated intercompany debt;

"policyholder and shareholder investments" investments other than those held to back AIA investment-linked contracts;

"restructuring and separation costs" restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination. Separation costs are those significant and identifiable costs related to the AIA Group's separation from AIG. Restructuring and separation costs do not form part of operating expenses;

"securities lending" securities lending consists of the loan of certain of the AIA Group's financial investments in third parties securities on a short term basis. AIG established a global securities lending programme in the late 1990s, in which AIA-B, AIA and AIA-B's Hong Kong branches and AIA's Brunei branch participated to enhance portfolio return. AIG Global Securities Lending (Ireland) Ltd acted as an agent for AIG subsidiaries in this programme. The operating units that participated in the programme lent AIA assets in exchange for cash as collateral from the borrowers of the assets. The cash collateral was then used to reinvest generally in securities which were rated as investment grade at the date of purchase. Due to the deterioration of market conditions and liquidity issues in the securities lending programme at AIG, the AIA Group began to restructure and wind down its participation in this programme, which was largely completed by 30 November 2009.

References to the effects of securities lending in this section relate to the investment income, investment management expenses and finance costs and non-operating investment return directly arising from this programme of securities lending and their consequent impact pre tax on operating profit, and net profit attributable to shareholders of AIA;

"solvency"	the ability of an insurance company to satisfy its policyholder benefits and claims obligations; and
"strategic initiative expenses"	strategic initiative expenses are those operating expenses controlled by AIA Group's Strategic Initiatives Office, mainly comprising investment in distribution channel development and operational efficiency.