
SUPERVISION AND REGULATION

REGULATION OF THE AIA GROUP

We are subject to local regulatory oversight in each of the geographical markets in which we operate. The OCI regulates AIA and AIA-B, and these entities are subject to OCI regulation and the requirements of the ICO. As a result, the regulatory framework in Hong Kong is relevant not only to our Hong Kong operations but also applies to a substantial number of our local operating units that are branches of AIA or AIA-B. For further details of regulation at the AIA Group level, see “— Regulatory Framework — Hong Kong” in this section. The Bermuda Monetary Authority (the “BMA”) regulates AIA-B’s business in Bermuda, as well as the operations of AIA-B’s branches. For further details of regulations in Bermuda, see “— Regulatory Framework — Bermuda” in this section. Subsidiaries of AIA and AIA-B, including those in Australia, Vietnam, Indonesia, Malaysia, Singapore and the Philippines and certain non-insurance subsidiaries in Hong Kong, are not subject to supervision and regulation by the OCI or the BMA.

For a broad overview of the regulatory framework in each of our Key Geographical Markets (other than Hong Kong) applicable to the AIA Group’s operations in each of such Key Geographical Markets, see “— Regulatory Framework — Korea”, “— Regulatory Framework — Thailand”, “— Regulatory Framework — Singapore”, “— Regulatory Framework — China” and “— Regulatory Framework — Malaysia” in this section. For a brief summary of regulatory oversight in our Other Geographical Markets, see “— Summary of Supervision and Regulation in Other Geographical Markets” in this section.

REGULATORY FRAMEWORK — HONG KONG

Overview

As described above, in Hong Kong the AIA Group is primarily regulated through AIA and AIA-B. The main source of statutory regulation of the insurance market and insurance businesses in Hong Kong is the Insurance Companies Ordinance (Chapter 41 of the Laws of Hong Kong) (the “ICO”) and its subsidiary regulations, which set out requirements for the authorisation, ongoing compliance and reporting obligations of insurers and insurance intermediaries. The OCI is the regulatory body set up for the administration of the ICO. The OCI is headed by the Commissioner of Insurance, who has been appointed as the Insurance Authority for administering the ICO. The principal functions of the Insurance Authority are to ensure that the interests of policyholders or potential policyholders are protected and to promote the general stability of the insurance industry. The Insurance Authority has the following major duties and powers: (i) authorisation of insurers to carry on insurance business in Hong Kong; (ii) regulation of insurers’ financial condition, primarily through the examination of the annual audited financial statements and business returns submitted by the insurers; and (iii) development of legislation and guidelines on insurance supervision.

In addition to regulation by the OCI, AIA and AIA-B are members of the Hong Kong Federation of Insurers (the “HKFI”), a self-regulatory industry body that issues codes of practice and guidance that are binding on its members in relation to, among other things, the administration of insurance agents and the provision of insurance products and services. HKFI actively promotes a self-regulatory regime with respect to areas such as conduct of insurers and insurance intermediaries, cooling off initiatives, policy replacement and initiatives on needs analysis. The Insurance Agents Registration Board of the HKFI is responsible for administering the registration and approval of insurance intermediaries of insurance agents, their responsible officers and technical representatives and handling complaints against them and providing enquiry services to, and handling complaints from, the public relating to insurance agents. See “— The Code of Conduct for Insurers”, “— The Insurance Claims Complaints Bureau” and “— Regulation of Insurance Intermediaries” in this section.

In July 2010, the Hong Kong Financial Services and Treasury Bureau issued a consultation paper on the “Proposed Establishment of an Independent Insurance Authority” (the “Consultation Paper”) and invited comments before 11 October 2010 on the possibility of establishing an independent

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insurance authority as this would give such regulatory authority more flexibility in its operations and prepare Hong Kong for the implementation of a risk based capital regulatory regime. In addition, the OCI is also exploring with the HKFI the possibility of setting up a policyholder protection fund to be utilised in the event of an insurer insolvencies.

Certain types of products and services offered by the AIA Group in Hong Kong are regulated under separate statutory regimes by regulatory bodies other than the ICO and the OCI. These include the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the “MPFSO”) and the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) (the “ORSO”), both administered by the Mandatory Provident Fund Schemes Authority for compulsory MPFSO and voluntary ORSO retirement schemes offered by AIA-T and AIA-PT, respectively, and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), administered by the Hong Kong Securities and Futures Commission (the “SFC”) for certain investment-linked products, MPFSO and ORSO retirement schemes, securities dealing and investment advisory services. See “— Regulatory Framework — Hong Kong — Regulation under the MPFSO and ORSO” and “— Regulatory Framework — Hong Kong — Regulation under the SFO” in this section.

Licences Held by AIA in Hong Kong

The AIA Group is authorised to carry on insurance business in Hong Kong through its subsidiaries AIA and AIA-B. AIA is licensed as a composite insurer in respect of all classes of general and long-term business (as defined under the ICO and described further below). AIA-B is licensed in respect of all classes of long-term business and in respect of Classes 1 and 2 (which relate to A&H) for general business. In relation to the AIA Group’s MPFSO retirement scheme business in Hong Kong, AIA-B, in addition to being an authorised insurer under the ICO, is a registered MPFSO corporate intermediary and AIA-T is an approved trustee under the MPFSO. AIA Wealth Management Company Limited is a licensed corporation under the SFO for the purposes of dealing in and advising on securities. AIA-PT and AIA-CM are each registered with the Mandatory Provident Fund Schemes Authority as MPFSO corporate intermediaries, with AIA-T as the sponsoring approved MPFSO trustee, and are also registered corporate insurance agents, with AIA-B as the sponsoring insurer. AIA-PT also acts as trustee of certain pooled retirement schemes for which it has been registered with the Mandatory Provident Fund Schemes Authority as an ORSO trustee.

Authorisation under the ICO

Companies carrying on insurance business in or from Hong Kong must obtain authorisation from the OCI. Authorisation will be granted only to insurers meeting certain requirements set out in section 8 of the ICO, which focuses on, among other things, the following items:

- paid-up capital;
- solvency margin;
- fitness and properness of directors and controllers; and
- adequacy of reinsurance arrangements.

In addition, an insurer must meet certain other criteria contained in the authorisation guidelines issued by the OCI, which are intended to ensure that the insurer is financially sound and competent to provide an adequate level of services to the insured public. These conditions continue to apply to an insurer after its authorisation.

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Types of Insurance Business under the ICO

The ICO requirements vary depending on the type of insurance business being undertaken by an insurer. The ICO defines two main types of business as follows:

- long-term business covers those types of insurance business in which policies are typically in place for long periods and includes life and annuity, linked long-term, permanent health and retirement scheme management policies; and
- general business covers all business other than long-term business, including accident and sickness, fire, property, motor vehicle, general liability, financial loss and legal expenses insurance.

Both types of business defined in the ICO include reinsurance as well as direct insurance business. With the exception of certain capital requirements in the case of pure reinsurers who do not undertake any direct insurance business, the authorisation criteria are the same for both direct insurers and reinsurers.

An insurer that undertakes both long-term and general business is referred to by the OCl as a composite business insurer.

In addition to these main types of business, the ICO imposes further requirements on insurers conducting insurance business relating to liabilities or risks in respect of which persons are required by law to be insured (“Statutory Business”), including employees’ compensation insurance and third-party insurance in respect of motor vehicles.

Minimum Paid-Up Capital Requirement

Section 8(3)(b) of the ICO sets the following minimum paid up capital requirements for insurers depending on the type of business they intend to undertake:

- general business without Statutory Business: HK\$10 million;
- general business including Statutory Business: HK\$20 million;
- long-term business: HK\$10 million; and
- composite business (with or without Statutory Business): HK\$20 million.

Solvency Margin

Pursuant to sections 8(3)(a) and 35AA of the ICO, an insurer is required to maintain at all times an excess of assets over liabilities of not less than a required solvency margin. The objective is to provide a reasonable safeguard against the risk that the insurer’s assets may be inadequate to meet its liabilities arising from unpredictable events, such as adverse fluctuations in its operating results or the value of its assets and liabilities.

For long-term business insurers, the ICO stipulates a minimum solvency margin of HK\$2 million. Solvency margins are determined in accordance with the Insurance Companies (Margin of Solvency) Regulation 1995 (Chapter 41F of the Laws of Hong Kong), which sets out a series of calculations to be used depending on the particular class of long-term business involved, subject to a minimum solvency margin of HK\$2 million.

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To determine whether a long-term business insurer meets the solvency margin requirements, its assets and liabilities are valued in accordance with the Insurance Companies (Determination of Long-Term Liabilities) Regulation (Chapter 41E of the Laws of Hong Kong), which sets out the bases for the determination of the amount of long-term business liabilities. An insurer is required to adopt prudent provisions and assumptions, particularly on interest rates, when valuing the amount of long-term business liabilities. Among other things, valuation methods are specified for calculating the yields on assets and the amount of future premiums payable under an insurance contract.

For general business insurers, the ICO stipulates an absolute minimum solvency margin of HK\$10 million, or HK\$20 million in the case of insurers carrying on Statutory Business. Solvency margins are calculated on the basis of the greater of an insurer's relevant premium income (defined as the greater of gross premium income after deduction of reinsurance premium payments or 50% of gross premium income) or relevant outstanding claims (defined as the sum of unexpired risks plus the greater of 50% of claims outstanding before deduction of sums recoverable from reinsurers or the amount of claims outstanding after deduction of sums recoverable from reinsurers) as follows:

- 20% of premium income/outstanding claims up to HK\$200 million; and
- 10% of premium income/outstanding claims in excess of HK\$200 million,

subject to a minimum solvency margin of HK\$10 million or HK\$20 million as the case may be.

To determine whether a general business insurer meets the solvency margin requirement, its assets are valued in accordance with the Insurance Companies (General Business) (Valuation) Regulation (Chapter 41G of the Laws of Hong Kong) (the "Valuation Regulation"). The Valuation Regulation prescribes the valuation methods for different types of assets commonly found on an insurer's balance sheet. To ensure a prudent diversification of investments, the Valuation Regulation also stipulates admissibility limits for different categories of assets. The admissibility limits, however, do not apply to assets maintained in Hong Kong pursuant to section 25A of the ICO as described below.

For composite insurers, the ICO stipulates a minimum solvency margin based on the aggregate of the solvency margin required in respect of an insurer's general business and its long-term business, both calculated as described above.

Fit and Proper Directors and Controllers

Section 8(2) of the ICO requires that all directors and controllers of an insurer must be "fit and proper" persons to hold such positions. Section 9 of the ICO defines an insurer's controllers as including, among others, a managing director of the insurer or its corporate parent, a chief executive officer of the insurer or its corporate parent (only if the parent is also an insurer), a person in accordance with whose directions or instructions the directors of the insurer or its corporate parent are accustomed to act or who, alone or with any associate or through a nominee, is entitled to exercise, or control the exercise of, 15% or more of the voting power at any general meeting of the insurer or its corporate parent. Sections 13A, 13B and 14 of the ICO also require notification to the OCI of any change in the directors or controllers of an authorised insurer and the prior approval/no objection of the OCI for the appointment of certain controllers, including the chief executive of an insurer.

Although the term "fit and proper" is not defined further in the ICO, the OCI has issued a guidance note which sets out those factors that the OCI will take into account in applying the "fit and proper" test to the directors or controllers of an insurer. These factors include a director's or controller's financial status, character, reputation, integrity, reliability, qualifications and experience regarding the functions to be performed by such director or controller and ability to perform such functions efficiently, honestly and fairly.

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In the case of authorised insurers belonging to a financial group, the Insurance Authority adopts a group supervisory approach in assessing the financial integrity of a holding company controller and exercising oversight on the group as a whole for the purpose of administering the “fit and proper” requirements of the ICO. The Insurance Authority is empowered by the ICO to raise objection if it appears to him that any person is not fit and proper to be a controller or director of an authorised insurer. In addition, we have received guidance from the OCI regarding certain additional factors that the OCI may take into account in applying the “fit and proper” test to AIA Group Limited, the holding company of AIA and AIA-B. These additional factors include:

- the sufficiency of a holding company’s financial resources such that it is capable of providing continuing financial support to its insurance subsidiaries which are regulated by the Insurance Authority;
- the viability of a holding company’s business plan for its insurance subsidiaries which are regulated by the Insurance Authority;
- the clarity of the group’s legal, managerial and operational structures;
- the identities of any other holding companies or major regulated subsidiaries;
- whether the holding company, its directors and controllers are subject to receivership, administration, liquidation or other similar proceedings or have failed to satisfy any judgment debt under a court order or are the subject of any criminal convictions or in breach of any statutory or regulatory requirements;
- the soundness of the group’s corporate governance, including the structure and experience of senior management and the board of directors, the oversight of significant transactions with related parties, the existence of committees of the board of directors and the robustness of internal controls;
- the soundness of the group’s risk management framework, including its risk management policies and function, its risk profile and the existence of potential risks posed by affiliates, its capital management process and its liquidity management process;
- the receipt of information from its insurance subsidiaries which are regulated by the Insurance Authority to ensure that they are managed in compliance with applicable laws, rules and regulations; and
- its role in overseeing and managing the operations of its insurance subsidiaries which are regulated by the Insurance Authority.

As AIA Group Limited is a controller of AIA and AIA-B under the ICO, we are required to provide the Insurance Authority with an annual update, if any, regarding our organizational, corporate governance and risk management structures as well as our annual audited financial statements and, subject to the consummation of the Global Offering, half-yearly interim financial reports. We are also required to give written notification to the Insurance Authority as soon as practicable on the following:

- any matter that may cause us to have material financial exposure, impair our capital adequacy or liquidity, and materially affect our principal activities, operations or management;
- any significant group-wide and intra-group financial exposure;
- any significant connected parties transactions;

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- any significant charge or encumbrances created over the assets of the group;
- any material acquisition, establishment, disposal or closure of subsidiaries and branches;
- any change of chief executive, directors and controllers;
- any circumstance which may change our percentage shareholding in, or lead to a change in controller of, AIA and AIA-B;
- any circumstance we are aware of which may put the interests of the policyholders or potential policyholders of AIA and AIA-B at risk;
- relevant particulars if any of our group companies become subject to regulatory action or have been convicted of criminal offence by any court; and
- any change of our credit rating as appraised by credit rating agencies.

In addition, subject to the consummation of the Global Offering, any information or document that we are obliged to disclose or submit to the Hong Kong Stock Exchange or any other stock exchange has to be simultaneously disclosed or submitted to the Insurance Authority.

Adequate Reinsurance Arrangements

Section 8(3)(c) of the ICO requires all insurers to have adequate reinsurance arrangements in force in respect of the risks of those classes of insurance business they carry out, or to justify why such arrangements are not necessary. In considering the adequacy of reinsurance arrangements of an insurer, the OCI will take into account the following factors:

- the type of reinsurance treaties entered into by the insurer;
- the maximum retention of risks by the insurer;
- the security of the reinsurers; and
- the spread of risks among participating reinsurers.

With regard to the spread of risks among reinsurers, the OCI considers that additional risks arise where a reinsurer is a related company of the insurer. To address this concern, in 2003 the OCI issued a guidance note on reinsurance with related companies, which sets out the criteria to be used in determining the adequacy of such arrangements. The OCI will consider a related reinsurer to have provided adequate security if any of the following requirements are met:

- the reinsurer is itself authorised under the ICO;
- the reinsurer or any one of its direct or indirect holding companies has received an adequate rating from a credit rating agency (currently the OCI specifies an Insurer Financial Strength Rating of AA- or above by S&P, Aa3 or above by Moody's or A+ or above by A.M. Best, or equivalent rating); or
- the reinsurer or any one of its direct or indirect holding companies is otherwise considered by the OCI as having a status comparable to the above.

In the event that none of these requirements is met by a related reinsurer, the OCI will restrict the amount of net reinsurance it deems recoverable from that reinsurer when assessing the ceding party's

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financial position, unless it determines that acceptable collateral security, such as an irrevocable and permanently renewable letter of credit, is in place in respect of the arrangement with that reinsurer.

Maintenance of Assets

Sections 22 to 23 of the ICO require insurers carrying on long-term business to keep separate accounts for different classes of long-term businesses and to maintain certain levels of assets calculated on the basis of their solvency margins in respect of each class of business in funds that are applicable only to that particular business.

Section 25A of the ICO requires insurers carrying on general business to maintain assets in Hong Kong in respect of the liabilities arising from their Hong Kong business. The minimum amount of assets to be maintained is calculated on the basis of an insurer's net liabilities and the proportion of its solvency margin requirement attributable to its general business in Hong Kong, taking into account the level of reinsurance that has been entered into by the insurer in respect of its liabilities.

The OCI has also issued a guidance note on reserve provisioning for Class G of long-term business (defined in the ICO as long-term business involving retirement scheme contracts which provide for a guaranteed capital or return) to reinforce and enhance the required standard of provision for Class G business. Policies classified under Class G of long-term business are mainly offered as retirement scheme contracts under the MPFSO or ORSO retirement schemes. An insurer authorised to carry on long-term business is required, among other things, to maintain a separate long-term business fund for its Class G business carried on in or from Hong Kong. In respect of the Class G business fund, the OCI requires that the value of the assets contained in the fund are in aggregate not less than the amount of the liabilities attributable to such business.

Accounting and Reporting Requirements

The ICO requires insurers to maintain proper books of accounts which must exhibit and explain all transactions entered into by them in the course of their business. Insurers must submit information including audited financial statements, a directors' report and statistics relating to the valuation of their insurance business and outstanding claims to the OCI on an annual basis.

Insurers carrying on long-term business are also required to appoint an actuary to conduct an annual actuarial investigation and submit a report to the OCI on their financial condition in respect of the long-term business. The appointed actuary is responsible for advising on all actuarial aspects of the financial management of an insurer's long-term business including proper premium setting, a prudent reserving policy, a suitable investment allocation, appropriate reinsurance arrangements and due reporting of irregularities to the OCI.

Corporate Governance of Authorised Insurers

The OCI has issued a guidance note on the corporate governance of authorised insurers, which aims to enhance the integrity and general well being of the insurance industry by providing assistance to authorised insurers for the evaluation and formulation of their internal practices and procedures. This guidance note sets out the minimum standard of corporate governance expected of authorised insurers and applies to both authorised insurers incorporated in Hong Kong and authorised insurers incorporated outside Hong Kong where 75% or more of their annual gross premium income pertains to their Hong Kong insurance business, unless written consent for exemption has been obtained from the OCI. This guidance note covers the following key items:

- structure of senior management;
- roles and responsibilities of the board of directors;

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- board matters;
- board committees;
- internal controls;
- compliance with laws and regulations; and
- servicing of clients.

Irrespective of the proportion of an overseas insurer's Hong Kong insurance business, the OCI expects such an insurer to observe strictly any applicable guidelines on corporate governance promulgated by its home regulatory authority.

Asset Management

In order to ensure that an insurer will meet its contractual liabilities to policyholders, its assets must be managed in a sound and prudent manner, taking into account the profile of liabilities and risks of the insurer. The OCI has issued a guidance note on asset management by authorised insurers, which is adopted from the paper "Supervisory Standard on Asset Management By Insurance Companies" as approved by the International Association of Insurance Supervisors in 1999. This guidance note applies to both an insurer incorporated in Hong Kong and the Hong Kong branch of an insurer incorporated outside Hong Kong whose investment in financial assets exceeds HK\$100 million. This guidance note provides a checklist for assessing how insurers should control the risks associated with their investment activities and includes guidance and commentary on the following key items:

- investment process, policy and procedures;
- overall asset management strategies;
- investment mandate given by the board of directors to senior management;
- audit in respect of the insurer's asset management functions;
- risk management functions; and
- internal controls.

In order to assess how insurers control the risks associated with their investment activities, the OCI may periodically request information from insurers, including accessing information through on-site inspections and discussion with insurers.

Power of Intervention

The OCI is empowered under Part V of the ICO to intervene in an insurer's business and take appropriate actions in the following circumstances:

- where the OCI considers that the exercise of this power is desirable for protecting the interests of existing and potential policyholders against the risk that the insurer may be unable to meet its liabilities or to fulfil the reasonable expectations of existing or potential policyholders;
- where it appears to the OCI that the insurer or its corporate parent has failed to satisfy any of its obligations under the ICO;

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- where it appears to the OCI that the insurer has provided misleading or inaccurate information to it for the purposes of the ICO;
- where the OCI is not satisfied as to the adequacy of the insurer's reinsurance arrangements;
- where the OCI is not satisfied with the financial condition of the insurer or its compliance position with the prescribed regulatory benchmark or requirements in respect of, among other things, its assets and liabilities matching position, reserving level or financial protections; or
- where the insurer fails its ongoing authorisation conditions or requirements imposed by the OCI, any financial undertakings provided by its corporate controller or any "fitness and properness" requirement on its directors and controllers.

The OCI may also intervene in an insurer's business, whether or not any of the above circumstances exist, at any time during the five year period following authorisation of the insurer or a person becoming a controller of an insurer.

The actions that the OCI may take in intervening in an insurer's business include:

- restrictions on the insurer effecting new business;
- limits on the amount of premium income an insurer may receive during a specified period in respect of certain classes of business;
- restrictions on types of investments an insurer may make, or requirements that the insurer realise certain types of investments within a specified period;
- requirements that an insurer maintain assets in Hong Kong equal to the whole or a specified portion of the liabilities arising from its Hong Kong business, and that these assets be held in the custody of a trustee approved by the OCI;
- the appointment of a manager to assume control of an insurer; and
- requirements that the insurer has to conduct a special actuarial investigation on its long-term business to produce information and documents and to accelerate submission by the insurer.

Section 35 Orders

Following the AIG Events, letters dated 17 September 2008 were issued from the Insurance Authority to each of AIA and AIA-B ("Section 35 Ring-fencing Orders") requiring each of AIA or AIA-B, including all of their branches, as appropriate:

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

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For the purpose of the Section 35 Ring-fencing Orders, “specified person” includes but is not limited to an insurer’s branches, directors, controllers, shareholders and associates or group companies.

Among other consequences, the Section 35 Ring-fencing Orders place restrictions on the ability of AIA and AIA-B to engage in capital related transactions with specified persons. Accordingly, the Section 35 Ring-fencing Orders restrict the ability of AIA 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 Insurance Authority.

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

The Insurance Authority has informed us that on the first day of dealings in Shares on the Hong Kong Stock Exchange and in consideration of the undertakings described below the Section 35 Ring-fencing Orders will be rescinded and that the Insurance Authority will vary the Section 35 Controller Orders such that prior consent of the Insurance Authority will not be required where any person becomes a controller (within the meaning of section 9(1)(c)(ii) of the ICO) of AIA and AIA-B through the acquisition of our Shares traded on the Hong Kong Stock Exchange.

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

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

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

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

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- (ii) ensure that, for so long as AIG directly or indirectly holds a legal or beneficial interest in AIA Group Limited in excess of 10% of the outstanding or issued share capital of AIA Group Limited (or AIG directly or indirectly is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of AIA Group Limited), AIA and AIA-B shall not, without first obtaining written consent from the Insurance Authority: (a) place any deposit with AIG and/or any member of the AIG Group that AIG controls (excluding the Company, its subsidiaries and their branches); (b) transfer any assets to AIG and/or any member of the AIG Group that AIG controls (excluding the Company, its subsidiaries and their branches), except for normal insurance transactions or any arrangements on normal commercial terms in place as of the date of the undertaking (including renewals thereof); or (c) provide any financial assistance to AIG and/or any member of the AIG Group that AIG controls (excluding the Company, its subsidiaries and their branches);
- (iii) notify the Insurance Authority in writing as soon as we are aware of any person (a) becoming a controller (within the meaning of section 9(1)(c)(ii) of the ICO) of AIA and AIA-B through the acquisition of our Shares traded on the Hong Kong Stock Exchange; or (b) ceasing to be a controller (within the meaning of section 9(1)(c)(ii) of the ICO) of AIA and AIA-B through the disposal of our Shares traded on the Hong Kong Stock Exchange;
- (iv) comply with the guidance from the Insurance Authority to AIA Group Limited that the AIA Group will be subject to the supervision of the Insurance Authority and AIA Group Limited will be required to continually comply with the Insurance Authority's guidance on the "fit and proper" standards of a controller pursuant to section 8(2) of the ICO. The Insurance Authority is empowered by the ICO to raise objection if it appears to him that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company's financial resources; the viability of a holding company's business plan for its insurance subsidiaries which are regulated by the Insurance Authority; the clarity of the group's legal, managerial and operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors and controllers are subject to receivership, administration, liquidation or other similar proceedings or have failed to satisfy any judgment debt under a court order or are the subject of any criminal convictions or in breach of any statutory or regulatory requirements; the soundness of the group's corporate governance; the soundness of the group's risk management framework; the receipt of information from its insurance subsidiaries which are regulated by the Insurance Authority to ensure that they are managed in compliance with applicable laws, rules and regulation; and its role in overseeing and managing the operations of its insurance subsidiaries which are regulated by the Insurance Authority. For additional information on these standards see "—Fit and Proper Directors and Controllers" in this section; and
- (v) fulfil all enhancements or improvements to the guidance referred to in sub-paragraph (iv) above, as well as administrative measures issued from time to time by the Insurance Authority or requirements that may be prescribed by the Insurance Authority in accordance with the ICO, regulations under the ICO or Guidance Notes issued by the Insurance Authority from time to time.

The Code of Conduct for Insurers

As part of the self-regulatory initiatives taken by the industry, the HKFI has published The Code of Conduct for Insurers. This code seeks to: describe the expected standard of good insurance practice in the establishment of insurance contracts and claims settling; promote the disclosure of relevant and useful information to customers; facilitate the education of customers about their rights and obligations under insurance contracts; foster a high professional standard in the transaction of insurance business; and encourage insurers to promote and enhance the industry's public image and standing. This code applies to all general insurance members and life insurance members of the HKFI

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and applies to insurance effected in Hong Kong by individual policyholders resident in Hong Kong and insured in their private capacity only. As a condition of membership of the HKFI, all general insurance members and life insurance members undertake to abide by this code and use their best endeavours to ensure that their staff and insurance agents observe its provisions.

The Insurance Claims Complaints Bureau

The Insurance Claims Complaints Bureau was established by the HKFI to implement self-regulation in the interpretation and handling of insurance claims complaints arising from all types of personal insurance policies taken out by residents of Hong Kong. The Insurance Claims Complaints Panel was established by the Insurance Claims Complaints Bureau with the objective of providing independent and impartial adjudication of complaints between insurers and their policyholders. The Insurance Claims Complaints Panel is in charge of handling claims complaints from both policyholders themselves and their beneficiaries and rightful claimants. The Insurance Claims Complaints Panel, in making its rulings, is required to act in conformity with the terms of the relevant policy, general principles of good insurance practice, any applicable rule of law or judicial authority, and any codes and guidelines issued from time to time by the HKFI.

Regulation of Insurance Intermediaries

General Provisions

Insurance intermediaries are defined under the ICO as either insurance agents or insurance brokers. The key difference between the two types of insurance intermediaries is that insurance agents act as agents or subagents of insurers, while insurance brokers act as agents of policyholders and potential policyholders. Both are subject to a self-regulatory system supported by provisions contained in Part X of the ICO.

Under the ICO, a person is prohibited from holding itself out as an insurance agent or insurance broker unless such person is properly appointed or authorised. A person is also prohibited from holding itself out as an appointed insurance agent and an authorised insurance broker at the same time. It is also an offence under the ICO for an insurer to effect a contract of insurance through, or accept insurance business referred to it by, an insurance intermediary who has not been properly appointed or authorised.

Registration and Administration of Appointed Insurance Agents

To act as an insurance agent, a person is required to be appointed by an insurer and registered with the Insurance Agents Registration Board established by the HKFI. Under Section 66 of the ICO, an insurer is required to keep a register of appointed insurance agents and to make such register available for public inspection at its registered office (or principal place of business) in Hong Kong or the registered office of the HKFI. An insurer is required to give the Insurance Authority details of the registration or removal of its appointed insurance agents within seven days of such registration or removal.

An insurer is required to comply with the Code of Practice for the Administration of Insurance Agents issued by the HKFI and endorsed by the OCI pursuant to section 67 of the ICO. The Code of Practice for the Administration of Insurance Agent specifies the rules and procedures governing the registration and de-registration of insurance agents, the power of the Insurance Agents Registration Board to handle complaints and to require insurers to take disciplinary actions against their insurance agents, the “fit and proper” criteria for insurance agents and the minimum requirements of agency agreements. An insurer is responsible for the actions of its appointed insurance agents in their dealings with clients in respect of the issue of insurance contracts and related insurance business. The OCI has the power to direct the de-registration of an appointed insurance agent.

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Under the Consultation Paper, the proposed independent insurance authority should have more effective supervisory oversight over insurance intermediaries (which includes agents) through the introduction of a licensing regime.

Regulation under the MPFSO and ORSO

Companies that operate compulsory retirement schemes in Hong Kong are regulated under the MPFSO. The Mandatory Provident Fund Schemes Authority is the body established to act as the regulatory authority under the MPFSO and is responsible for approving and supervising trustees who wish to administer MPFSO schemes. The Mandatory Provident Fund Schemes Authority shares responsibility with other regulatory bodies for supervision of the institutions, such as banks and insurance companies, that act as MPFSO intermediaries that provide MPFSO products to customers. The MPFSO includes rules on prudential management and the permissible investments that may be made using scheme funds, accounting and reporting requirements and the powers of the Mandatory Provident Fund Schemes Authority to intervene and terminate a trustee's administration of a scheme. Voluntary retirement schemes are subject to regulation under the ORSO. The Mandatory Provident Fund Schemes Authority is also the supervisory body for ORSO schemes. The ORSO requires schemes to be registered with the Mandatory Provident Fund Schemes Authority and imposes reporting requirements and rules on the types of assets in which a scheme may invest. In addition, the marketing and promotion of MPFSO and ORSO scheme products requires SFC approval, as these products involve investment in securities. In addition to these reporting requirements, the Mandatory Provident Schemes Authority requested in 2008, following the AIG Events, that prior notice be given of the following types of events in respect of AIA-T and AIA-PT:

- declaration or payment of dividends to shareholders;
- granting of advances, loans or credit facilities to any parties;
- incurrence of major cash outflow arising from extraordinary events or non-operating activities; and
- any incidents which may have an adverse impact on the liquidity or financial position of either company.

Regulation under the SFO

Companies that wish to deal in and advise on securities in Hong Kong must be licensed to do so under the SFO, and the marketing and promotion of certain financial products and schemes that involve investment in securities is also regulated under the SFO and subsidiary legislation enacted thereunder. The Securities and Futures Commission (the "SFC") is the body responsible for licensing, supervision and enforcement pursuant to the SFO. Licensed corporations under the SFO are subject to financial adequacy and reporting requirements and directors, senior management and individuals responsible for investment activities must satisfy suitability and qualification requirements and be approved by the SFC.

The operation, marketing and promotion of investment-linked products and schemes, including long-term insurance schemes by insurers, is subject to authorisation by the SFC in accordance with Part IV of the SFO and related codes and guidelines issued by the SFC that require certain information to be disclosed to potential investors and impose restrictions on the content of advertisements and the claims that can be made with respect to risks and potential returns on an investment. Most recently, in June 2010 the SFC issued the "SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Products", which requires certain enhanced disclosures for existing and new investment-linked products and schemes.

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REGULATORY FRAMEWORK – BERMUDA

Overview

AIA-B is regulated in respect of its branches and its business in Bermuda by the BMA. The Insurance Act 1978 and related regulations (the “Insurance Act of Bermuda”) govern the conduct of insurance business in or from within Bermuda and provide for a system of registration for insurers administered by the BMA. The Insurance Act of Bermuda also grants to the BMA powers to supervise, investigate and intervene in the affairs of insurance companies. The Insurance Act of Bermuda imposes solvency and liquidity standards, as well as auditing and reporting requirements on Bermuda insurance companies.

Licences Held by AIA-B

AIA-B is registered in Bermuda as a Class 3 general business and as long-term insurer under the Insurance Act of Bermuda and, as such, has the authority to conduct both general and life insurance business as a composite insurer. AIA-B has held its Class 3 and long-term insurance licence since 1 January 1996. AIA-B is classified as a “Section 24(6) composite” under the Insurance Act of Bermuda.

Regulation by the BMA under the Insurance Act of Bermuda

The Insurance Act of Bermuda requires all insurers to maintain certain minimum solvency and liquidity standards and imposes auditing and reporting requirements on Bermuda insurance companies. In respect of insurers carrying on long-term business, the Insurance Act of Bermuda also imposes certain restrictions and conditions on the transfer of business by, and winding-up of, long-term insurers.

The Insurance Act of Bermuda gives the BMA broad powers to supervise, investigate and intervene in the affairs of an insurer if it appears to the BMA that the insurer is in breach of a provision of the Insurance Act of Bermuda or there is significant risk of that insurer becoming insolvent. The BMA may appoint an inspector with powers to investigate the affairs of an insurer if it believes that an investigation is required in the interests of the insurer’s policyholders or persons who may become policyholders. If it appears to the BMA that there is a significant risk that an insurer will become insolvent, the BMA may also direct that such insurer not effect further contracts of insurance, vary any insurance contract if the effect would be to increase the insurer’s liabilities or make certain types of investments. The BMA may also direct such an insurer to realise certain of the investments it holds, maintain assets in Bermuda or transfer assets to the custody of a specified bank or limit its premium income.

The BMA may cancel an insurer’s registration on grounds specified in the Insurance Act of Bermuda, including (i) the failure of that insurer to comply with its obligations under the Insurance Act of Bermuda; or (ii) the failure of that insurer in the opinion of the BMA to carry on its business in accordance with sound insurance principles.

The BMA may present a petition for the winding-up of an insurer on the ground that (i) it is unable to pay its debts, (ii) it has failed to satisfy an obligation under the Insurance Act of Bermuda, or (iii) it has failed to produce or file statutory financial statements and that the BMA is unable to ascertain its financial position.

Principal Office and Principal Representative

AIA-B is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda. Without a reason acceptable to the BMA, an insurer may not terminate the appointment of its principal representative, and the principal representative may not

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cease to act as such, unless 30 days' notice in writing to the BMA is given of the intention to do so. It is the duty of the principal representative to forthwith notify the BMA where the principal representative believes there is a likelihood of the insurer (for which the principal representative acts) becoming insolvent or that a reportable "event" has, to the principal representative's knowledge, occurred or is believed to have occurred. Examples of such a reportable "event" include failure by the insurer to comply substantially with a condition imposed upon the insurer by the BMA relating to a solvency margin or a liquidity or other ratio. Within 14 days of such notification to the BMA, the principal representative must furnish the BMA with a written report setting out all the particulars of the case that are available to the principal representative.

Auditor

AIA-B is required to appoint and maintain an independent auditor, subject to the approval of the BMA.

Actuaries

AIA-B must appoint an actuary approved by the BMA. It is the approved actuary who prepares the annual actuary's certificate for filing with the Statutory Financial Return. The actuary must be an individual and will typically be a qualified life actuary.

Loss Reserve Specialist

As a Class 3 insurer, AIA-B will be required to submit an opinion of its approved loss reserve specialist with its statutory financial return in respect of its loss and loss expense provisions. The loss reserve specialist will normally be a qualified casualty actuary and must be approved by the BMA.

Capital Requirements

Class 3 and long-term composite insurers are required to maintain a fully paid up share capital of at least US\$370,000. In addition, the Insurance Act of Bermuda provides that the statutory assets of an insurer must exceed its statutory liabilities by an amount greater than the prescribed minimum solvency margin.

With respect to its general business, an insurer is required to maintain a minimum solvency margin equal to the greatest of:

- US\$1,000,000;
- 20% of net premiums written, up to US\$6,000,000, plus 15% of net premiums written over US\$6,000,000; and
- 15% of loss and other insurance reserves.

With respect to the minimum solvency margin requirement of its long-term business, a composite insurer's long-term statutory assets must exceed its long-term statutory liabilities by not less than US\$250,000.

As a Section 24(6) composite insurer, AIA-B is required to maintain a minimum liquidity ratio whereby the value of its relevant assets are required to be not less than 100% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable, and reinsurance balances receivable. There are certain categories of assets, which, unless specifically permitted by the BMA, do not qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates, and real estate and collateral loans. The

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relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and certain other liabilities.

In an effort to achieve equivalency with Solvency II, the BMA have issued a consultation paper on the proposed amendments to the Insurance Act of Bermuda and related regulations as they relate to long-term insurers. The BMA are proposing to enhance the capital and solvency framework to ensure that long-term insurers maintain adequate capital and liquidity levels proportionate to the insurer's risk profile. As AIA-B is registered as a long-term insurer, the proposed amendments, if formally approved and implemented, will likely have a direct impact on AIA-B.

Financial Reporting Requirements

All insurers are required to prepare and file with the BMA annual financial statements and returns in respect of their insurance business as stipulated in the Insurance Act of Bermuda, including an income statement, a balance sheet, a statement of capital and surplus, an independent auditor's report and a declaration of statutory ratios and a certificate of solvency in the prescribed form. Composite insurers are also required to submit with their statutory financial returns, a general business solvency certificate, a long-term business solvency certificate, an opinion from an approved loss reserve specialist in respect of their general business loss and loss expense provisions and an opinion from an approved actuary in respect of their outstanding liabilities on account of their long-term business.

AIA-B has been granted a Direction under Section 56 of The Insurance Act of Bermuda by the BMA which exempts AIA-B from the requirements of Sections 15 to 18 of The Insurance Act of Bermuda, conditional upon AIA-B filing with the BMA, in each financial year, its Financial Statements and Returns filed with the Insurance Regulatory Authorities in Hong Kong, and a Certificate of Compliance of Good Standing obtained from the Insurance Regulatory Authorities in Hong Kong. The Direction was granted under Section 56 of the Insurance Act of Bermuda on 26 March 2010 with respect to AIA-B's financial years ending 30 November 2010, 2011 and 2012.

Restrictions on Dividends and Distributions

As a Section 24(6) composite insurer, AIA-B is prohibited from declaring or paying any dividends during any financial year if it is, or by virtue of paying such dividends would be, in breach of its minimum general business solvency margin, minimum long-term business solvency margin or minimum liquidity ratio. If AIA-B fails to meet its minimum solvency margins or minimum liquidity ratio on the last day of any financial year, it will be prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA.

The restrictions on declaring or paying dividends or distributions under the Insurance Act of Bermuda are in addition to the solvency requirements under the Companies Act 1981 (as amended) which restrict Bermuda companies from declaring or paying a dividend or a distribution out of contributed surplus unless there are reasonable grounds for believing that the company is able, and after the payment of the dividend or distribution will be able, to pay its liabilities when they become due and that the realizable value of that company's assets will, after payment of the dividend or distribution, be greater than the sum of its liabilities, share capital and share premium.

In addition, a Class 3 and long-term composite insurer is prohibited from reducing by 15% or more its total statutory capital as set out in its previous year's financial statements without the approval of the BMA.

New or Increased Controllers Requirement

The Insurance Act of Bermuda states that no person shall become a controller of any description of a Bermuda registered insurer unless he has first served on the BMA notice in writing stating that he

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intends to become such a controller and that BMA has either, before the end of 45 days following the date of notification, provided notice to the proposed controller that it does not object to his becoming such a controller or the full 45 days has elapsed without the BMA filing an objection. Any person who fails to give notice or knowingly becomes a controller of any description before the prescribed time has elapsed is guilty of an offence.

A controller includes (i) the managing director of the registered insurer or its parent company; (ii) the chief executive of the registered insurer or of its parent company; (iii) the holder of at least 10% of the voting shares of a Bermuda registered insurer or its parent company; and, (iv) any person in accordance with whose directions or instructions the directors of the registered insurer or of its parent company are accustomed to act. In the event the BMA determines that such person seeking to become a controller or who has become a controller is not “fit and proper”, the BMA may give notice objecting to such persons.

In addition, pursuant to section 30J of the Insurance Act of Bermuda, all registered insurers are required to give the BMA written notice of the fact that a person has become, or ceased to be, a controller or officer of the registered insurer within 45 days of becoming aware of such fact. For purposes of notifications effected pursuant to section 30J, an officer in relation to a registered insurer includes a director, secretary, chief executive or senior executive, by whatever named called.

Code of Conduct

Effective 1 July 2010, all Bermuda insurers must comply with the recently enacted Code of Conduct which prescribes duties and standards to be complied with under the Insurance Act of Bermuda. Failure to comply with these requirements will be a factor to be taken into account by the BMA in determining whether an insurer is conducting its business in a sound and prudent manner under the Insurance Act of Bermuda.

Disclosure of Information

In addition to powers under the Insurance Act of Bermuda to investigate the affairs of an insurer, the BMA may require certain information from an insurer (or certain other persons related to the insurer) to be produced to the BMA. Furthermore, the BMA has been given powers to assist other regulatory authorities, including foreign insurance regulatory authorities, with their investigations involving insurance and reinsurance companies in Bermuda, subject to certain restrictions. For example, the BMA must be satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities of the foreign regulatory authority. Additionally, the BMA must also consider whether cooperation with the foreign regulatory authority is in the public interest. The grounds on which the BMA can request further disclosure are limited and the Insurance Act of Bermuda provides for sanctions for breach of the statutory duty of confidentiality.

Certain Other Bermuda Law Considerations

Although AIA-B is incorporated in Bermuda, it is classified as a non-resident of Bermuda for foreign exchange control purposes by the BMA. Pursuant to its non-resident status, AIA-B may engage in transactions in currencies other than Bermuda dollars, and there are no restrictions on its ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda or to pay dividends to persons non-resident in Bermuda who are holders of its common shares.

Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place of business in Bermuda. As an “exempted” company, AIA-B may not, without the express authorization of the Bermuda legislature or under a licence or consent granted by the Minister of Finance, participate in certain business transactions, including: (i) the acquisition or holding of land in Bermuda (except that held by way of lease or tenancy agreement which is required for its business and held for a term not exceeding 50 years, or

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which is used to provide accommodation or recreational facilities for its officers and employees and held with the consent of the Bermuda Minister of Finance, for a term not exceeding 21 years); (ii) the taking of mortgages on land in Bermuda to secure an amount in excess of US\$50,000; or (iii) the carrying on of business of any kind for which it is not licensed in Bermuda, except in certain limited circumstances, such as doing business with another exempted undertaking in furtherance of the Company's business carried on outside Bermuda. AIA-B is a licensed insurer in Bermuda, and so may carry on activities from Bermuda that are related to and in support of its insurance business.

Securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of Bermuda, which regulates the sale of securities in Bermuda. In addition, the BMA must approve all issuances and transfers of shares of a Bermuda exempted company.

The Bermuda government actively encourages foreign investment in "exempted" entities like AIA-B that are based in Bermuda, but which do not operate in competition with local businesses. AIA-B is not currently subject to taxes computed on profits or income or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax or to any foreign exchange controls in Bermuda.

Bermuda Letter Agreement After the AIG Events

By a Letter of Undertaking dated 18 December 2008, American International Company Limited (now known as Chartis Bermuda Limited) in its capacity as the licensed Insurance Manager of AIA-B, made certain undertakings to the BMA. That Letter of Undertaking was replaced on 2 August 2010 by a Letter Agreement between the BMA and AIA-B. In the Letter Agreement, AIA-B has agreed to:

- (1) seek prior approval from the BMA before entering into a payment or transfer of assets out of AIA-B relating to a single transaction or matter (an "Outpayment Transaction") outside the normal course of business that comprises a single payment or series of multiple linked payments that, in the aggregate would equal or exceed US\$15,000,000;
- (2) notify the BMA before entering into an Outpayment Transaction below US\$15,000,000 which is outside the normal course of business (the BMA may request additional information and, if the BMA objects, shall provide a written objection within 72 hours of receipt of the additional information); and
- (3) submit a daily 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 funds originated (including inter-jurisdictional transfers within AIA-B or a branch of AIA-B); (ii) transactions of greater than US\$15,000,000 whether incoming or outgoing; and (iii) all material issues having an impact threshold of equal to or greater than 10% of AIA-B's total statutory capital and surplus.

The obligations of AIA-B under the Letter Agreement shall be extinguished in the event that the majority ownership interest of AIA-B is sold, transferred or assigned to a third-party purchaser. We are in discussions with the BMA in relation to the release of AIA-B from the obligations under the Letter Agreement in connection with the Global Offering.

REGULATORY FRAMEWORK — THAILAND

Overview

AIA Thailand's branches ("AIA (Life) Thailand" and "AIA (Non-Life) Thailand") are regulated by the OIC Thailand, the Department of Business Development and the Office of the Securities and Exchange Commission of Thailand. The principal regulator of Thailand's insurance industry is the OIC Thailand. Thailand's non-life insurance and life insurance sectors are governed by the Non Life

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Insurance Act 1992 amended by the Non Life Insurance Act (No. 2) 2008 (the “Non Life Insurance Act of Thailand”) and the Life Insurance Act 1992 amended by the Life Insurance Act (No. 2) 2008 (the “Life Insurance Act of Thailand”) respectively. The legislative structure is similar for both types of insurance business and addresses the contractual relationship between insurers and consumers and the regulation of the insurance industry as a whole.

Licences Held by AIA Thailand’s Branches

The licences held by AIA Thailand’s branches include the following:

AIA (Life) Thailand:

- Foreign Business Licence for undertaking AIA Thailand’s principal business activities in Thailand as a non-Thai company. This licence was issued on 15 July 2004.
- Life Insurance Licence for operating life insurance business and to carry on reinsurance business for life insurance in Thailand. This licence was issued on 1 October 1938.
- Private Fund Licence for providing provident fund management services. This licence was issued on 14 December 2000.
- Securities Brokerage (Limited Broker Dealer and Underwriter) Licence for selling investment-linked products. This licence was issued on 20 September 2007.

AIA (Non-Life) Thailand:

- Foreign Business Licence for undertaking AIA Thailand’s principal business activities in Thailand as a non-Thai company. This licence was issued on 21 July 2004.
- General Insurance for Personal Accident and Health Insurance Licence for selling personal accident and health insurance in Thailand. This licence was issued on 31 March 2000.

Regulatory Authorities in Thailand

The OIC Thailand is an independent government body which operates within the Ministry of Finance of Thailand. The OIC Thailand is charged with reviewing the financial standing of insurers operating within the Thai market and, in particular, their compliance with capital requirements. The OIC Thailand also plays an important role in the development of the insurance industry as a whole in Thailand, as it directly controls the number of insurers, the types of products, the policy wording that an insurer may offer to customers and the premium that an insurer may charge.

The Office of the Securities and Exchange Commission of Thailand is responsible for licensing companies that deal in securities and also for regulating products and schemes involving investment in securities, such as provident fund schemes.

The Department for Business Development is part of the Ministry of Commerce of Thailand and has responsibility for granting foreign business licences to non-Thai companies to allow them to conduct business operations in Thailand.

Capital Requirements

A branch office of a life or non-life foreign insurer must maintain assets in Thailand of not less than the amount of the capital funds required and in accordance with the types, procedures and conditions as prescribed pursuant to relevant Thai regulations. In addition, life insurers are required to maintain capital funds at the greater of 2% of their insurance reserve or 50 million Thai Baht, and

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non-life insurers are required to maintain capital funds at the greater of 10% of total net premiums received in the previous calendar year or 30 million Thai Baht.

Reserve and Asset Management Requirements

The OIC Thailand requires a life insurance company to allocate a portion of its premium income to an insurance reserve for policies that remain in-force. A non-life insurance company is required to allocate reserves equivalent to: (i) the amount of covered risks for the remaining period of the insurance policies; and (ii) estimated potential claims compensation. In addition, an insurance company (both life and non-life) may be required to allocate reserves for other activities as prescribed by the OIC Thailand. The insurance reserve may consist of a mixture of different classes of assets. The assets in the insurance reserve must match the insurer's liabilities as they come due over the duration of its policies. The types of assets that a life insurance company must place in its insurance reserve, and the rules, conditions and basis for assessing the value of assets placed in the insurance reserve are regulated by the OIC Thailand.

Statutory Deposit

Thai regulations require every life insurer to place a security deposit with the OIC Thailand of not less than 20 million Thai Baht, which may consist of a mix of cash and certain types of bonds, treasury bills and similar specified instruments. Non-life insurers are also required to place a security deposit with the OIC Thailand of not less than 3.5 million Thai Baht for each type of insurance business they undertake (for example, fire insurance, marine and transportation insurance) which may consist of a mix of cash and certain types of bonds, treasury bills and similar specified instruments.

Under the Life Insurance Act of Thailand, Non Life Insurance Act of Thailand and relevant bankruptcy laws of Thailand, in the event that an insurer goes bankrupt, policyholders entitled to receive payment under their insurance policies have preferential rights to the assets placed with the OIC Thailand as a security deposit and have the right to receive payment from such assets as secured creditors.

Statutory Fund

Life insurance companies are required to contribute to a central life insurance fund intended to compensate policyholders in the event that an insurer is declared bankrupt or has its licence revoked. The OIC Thailand requires insurers to make payments twice a year into this central life insurance fund. The current amount payable is 0.1% of the premium income received in the six months prior to the payment date.

Non-life insurers are also required to contribute to a central fund to compensate policyholders in the event of bankruptcy or revocation of an insurer's licence. The OIC Thailand requires non-life insurers to make payments twice a year into this central non-life insurance fund. The current amount payable is 0.25% of premium income received in the six months prior to the payment date.

Reinsurance

When a life insurance company wishes to cede its insurance liability under a policy by entering into a reinsurance treaty, it may only reinsure in respect of the net amount at risk that is outstanding on the policy as of each anniversary of the policy during its term.

The OIC Thailand requires that a certain percentage of risks written by an insurer in Thailand must be retained domestically, either by cession to a domestic reinsurer licensed by the OIC Thailand or by the insurer itself retaining the risk.

A copy of every reinsurance treaty that a life insurance company enters into must be submitted to the OIC Thailand within 30 days from the date of its execution. Insurers should also inform the OIC

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Thailand in the event a reinsurance treaty is amended or terminated and provide details of the same. The OIC Thailand may, if it deems appropriate, request a life insurance company to submit the reinsurer's annual report or an auditor's report as to the reinsurer's financial and business condition in the previous year.

Regulation of Products

Insurance policies, including their related documents and endorsements, must be in the form approved by the OIC Thailand. The use of non-approved policy documentation may result in policyholders having the option to terminate the policy with a full refund of premiums or to continue to benefit under the policy as written (or as amended by the order of the OIC Thailand).

The premium rates for an insurance policy are also subject to the approval of the OIC Thailand. A notification issued by the OIC Thailand sets out the factors that it will take into account in determining premium rates.

The OIC Thailand prohibits all insurers from underwriting policies denominated in currencies other than Thai Baht.

Restrictions on Foreign Insurers

Expansion of the branch office network of a foreign insurer in Thailand is restricted pursuant to the Life Insurance Act of Thailand and the Non Life Insurance Act of Thailand. Consequently, a foreign insurer currently may not open additional branch offices in Thailand.

Restrictions on Dividends and Profit Remittances

Pursuant to the Life Insurance Act of Thailand, the calculation of profits for the purpose of paying dividends of a life insurance company requires the prior approval of the OIC Thailand. Although profit remittances by a branch office of a foreign life insurance to its head office are not, in practice, regarded as a dividend payment, it is a possibility that the OIC Thailand may interpret the Life Insurance Act of Thailand to impose the foregoing approval requirement on the profit remittances of a branch office of a foreign life insurance company to its head office. In addition, while there are no formal limitations on profit remittances by the Thai branch of a foreign insurer on a strict interpretation of the Life Insurance Act of Thailand, the approval of the Bank of Thailand is required for profit remittances to outside of Thailand. In practice, the Bank of Thailand will typically consult with the OIC Thailand before permitting a Thai insurer of the Thai branch of a foreign insurer to make any remittances to outside of Thailand.

Financial Reporting Requirements

A life insurance company and a non-life insurance company are required to prepare and submit interim quarterly and audited annual financial statements to the OIC Thailand in respect of both its branch offices and operations as a whole. A branch office of a foreign life insurance company and a foreign non-life insurance company must comply with the additional requirement of submitting an annual report of its parent company within five months of the end of the parent company's fiscal year. In addition, a certified actuarial report must be submitted annually by all insurers.

REGULATORY FRAMEWORK — SINGAPORE

Overview

AIA Singapore is regulated by the Monetary Authority of Singapore ("MAS") as a registered direct insurer under the Insurance Act, Chapter 142 of Singapore (the "Insurance Act of Singapore") in respect of both life insurance business and general insurance business. The MAS regulates and

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supervises registered insurers in Singapore. The insurance regulatory framework consists mainly of the Insurance Act of Singapore and its related regulations, as well as the relevant notices, guidelines, circulars and practice notes issued by the MAS. The MAS has issued several consultation papers with proposals to make amendments to certain aspects of the insurance regulatory framework (including the Insurance Act of Singapore), which, if implemented, may affect the contents of this section. This section sets out a broad overview of the main regulations applicable to registered insurers in the conduct of their insurance business, and does not address the regulatory framework applicable to insurance intermediaries (whether or not agents or employees of registered insurers) whether in respect of life or non-life policies.

AIA Singapore is also included by the CPF Board as an insurer under the CPF Investment Scheme, where CPF monies may, subject to certain conditions, be used by CPF members to purchase investment-linked insurance policies issued by AIA Singapore if such policies are also included under the CPF Investment Scheme.

Licence held by AIA Singapore

AIA Singapore is a branch of AIA and is a registered direct insurer under the Insurance Act of Singapore. AIA Singapore holds a composite licence to carry on both life insurance business and general insurance business. In particular, AIA Singapore may carry on any of the following activities in Singapore relating to both life insurance and general insurance:

- (a) the receipt of proposals for policies;
- (b) the issuing of policies; and
- (c) the collection or receipt of premiums on insurance policies.

An insurer in Singapore must pay a prescribed annual fee.

Exempt Status of AIA Singapore

Exempt financial adviser

As a company registered under the Insurance Act of Singapore, AIA Singapore, is an exempt financial adviser under the Financial Advisers Act, Chapter 110 of Singapore (the “Financial Advisers Act of Singapore”) in relation to (a) advising others (other than advising on corporate finance within the meaning of the Securities and Futures Act, Chapter 289 of Singapore (the “Securities and Futures Act of Singapore”)), either directly, through publications or writings, or by issuing or promulgating research analyses or research reports, concerning life policies other than contracts of reinsurance (the “FAA life policies”) and (b) arranging of any contract of insurance in respect of the FAA life policies. As an exempt financial adviser, AIA Singapore is subject to certain conduct of business and other requirements applicable under the Financial Advisers Act of Singapore and its related regulations, notices, guidelines, practice notes and information papers.

Exempt from the requirement to hold a capital markets services licence

As a company registered under the Insurance Act of Singapore, AIA Singapore is exempt under Section 99(1)(d) of the Securities and Futures Act of Singapore from the requirement to hold a capital markets services licence in respect of fund management for the purpose of carrying out insurance business. On 30 September 2005, AIA Singapore notified the MAS of its commencement of business in respect of dealing in securities and fund management. However, as AIA Singapore is exempt under Section 99(1)(d) only in respect of fund management for the purpose of carrying out insurance business, it has commenced business under that Section only in respect of fund management for the purpose of carrying out insurance business. As an exempt person, AIA Singapore is subject to MAS’

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supervisory powers under the Securities and Futures Act of Singapore. Whilst conduct of business requirements (other than certain filing requirements) are not specifically imposed under the Securities and Futures Act of Singapore on registered insurers who carry on activities regulated under that Act, the MAS has circulated draft amendments to the Securities and Futures (Licensing and Conduct of Business) Regulations that propose to apply certain regulations under the Securities and Futures (Licensing and Conduct of Business) Regulations to registered insurers who are exempt from holding a capital markets services licence in respect of their business in any regulated activity under the Securities and Futures Act (that is, fund management for the purpose of carrying out insurance business) as those provisions apply to the holder of a capital markets services licence.

Supervisory Powers of the Monetary Authority of Singapore

Under the Insurance Act of Singapore, the MAS has, among other things, the power to impose conditions on a registered insurer and may add to, vary or revoke any existing conditions of registration. In addition, the MAS may issue such directions as it may consider necessary for carrying into effect the objects of the Insurance Act of Singapore and may also issue such directions to an insurer as it may consider necessary where it is satisfied that the affairs of the insurer are being conducted in a manner likely to be detrimental to the public interest or the interests of the policy owners or prejudicial to the interests of the insurer. The MAS is also empowered to cancel the registration of an insurer on certain grounds.

Capital Requirements

A registered insurer is required at all times to maintain a minimum level of paid-up ordinary share capital. A registered insurer is also required at all times to satisfy its capital adequacy requirement, which is that its financial resources must not be less than the greater of:

- (a) the sum of:
 - (i) the aggregate of the total risk requirement of all insurance funds established and maintained by the insurer under the Insurance Act of Singapore; and
 - (ii) where the insurer is incorporated in Singapore, the total risk requirement arising from the assets and liabilities of the insurer that do not belong to any insurance fund established and maintained under the Insurance Act of Singapore (including assets and liabilities of any of the insurer's branches located outside Singapore); or
- (b) a minimum amount of 5 million Singapore Dollars.

A registered insurer is required to immediately notify the MAS when it becomes aware that it has failed, or is likely to fail, to comply with the capital adequacy requirement described above, or that a financial resources warning event has occurred or is likely to occur. A "financial resources warning event" means an event which results in the financial resources of the insurer being less than the higher of (i) 120% of the amount calculated in accordance with paragraph (a) under the heading "Capital Requirements"; or (ii) the minimum amount in paragraph (b) under the heading "Capital Requirements". Each of the "financial resources" of an insurer and the "total risk requirement" is determined, and assets and liabilities are valued, in accordance with the requirements of the Insurance (Valuation and Capital) Regulations 2004, the MAS Guidelines on Valuation of Policy Liabilities of General Business and the MAS Notice 319, "Valuation of Policy Liabilities of Life Business", where applicable. The MAS has the authority to direct that the insurer satisfy capital adequacy requirements other than those that the insurer is required to maintain under the relevant section of the Insurance Act of Singapore if the MAS considers it appropriate. The MAS also has the power to impose directions on the insurer, and direct the insurer to carry on its business in such manner and on such conditions as specified by the MAS in the event that it is notified of any failure or

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likely failure, or is aware of any inability, of the insurer to comply with the capital adequacy requirement described above.

Statutory Deposit

A person carrying on insurance business in Singapore as an insurer, while registered in respect of any class of insurance business, is required to have at all times in respect of that class of business a deposit (in assets of such nature as the MAS may specify) with the MAS of a value of not less than 500,000 Singapore Dollars. Subject to the approval of the MAS, a bank covenant for an equivalent amount may be provided to the MAS in lieu of the deposit.

Statutory Fund

The MAS maintains a Policy Owners' Protection Fund for the purposes of indemnifying, assisting or protecting policy owners and others who may be prejudiced by the inability of registered insurers to meet their liabilities under life policies and compulsory insurance policies issued by such insurers. For the purposes of funding the Policy Owners' Protection Fund, the MAS may impose a levy on registered insurers. Among other things, the MAS may (subject to such exceptions or restrictions as may be prescribed) secure payments to certain persons or policy owners after the beginning of a registered insurer's liquidation, and take measures to secure or facilitate the transfer of the life business of an insurer which is in liquidation or in financial difficulties, or part of that business, to another registered insurer or to secure the issue by another registered insurer to the policy owners of life policies in substitution of their existing policies. The MAS has sought feedback on proposed amendments to the Policy Owners' Protection Fund schemes, and has announced that the Policy Owners' Protection Fund schemes will be revised, with the intention to implement these changes in 2011.

Asset Management

The MAS Notice 104, "Use of Derivatives for Investment of Insurance Fund Assets", provides, among other things, that insurers are only permitted to enter into or effect derivative transactions for the purposes of hedging and efficient portfolio management. In addition, insurers are prohibited from taking uncovered positions in derivatives.

The MAS Notice 105, "Appointment of Custodian and Fund Manager", requires a registered insurer to file with the MAS, a list of all assets of all insurance funds established and maintained under the Insurance Act of Singapore by the insurer where documents evidencing titles are kept by custodians for the insurer as at the end of that accounting period or a nil return where the registered insurer as at the end of the accounting period does not have such insurance fund assets or has not as yet established and maintained insurance funds for its policies, to, among other things, exercise due care and diligence when appointing overseas custodians, and to notify the MAS prior to the appointment of a fund manager or revocation of such appointment.

The MAS Notice 317, "Asset Management of Life Insurance Funds", sets out the basic principles that govern the oversight of the asset management process of life insurance funds. It requires, among other things, the board of directors of an insurer carrying on life business to establish an investment committee and sets out the duties of the investment committee and prescribes that the board of directors is responsible for establishing investment policies and further prescribes the main elements that must be incorporated in the investment policy of an insurer carrying on life insurance business.

The MAS Notice 320, "Management of Participating Life Insurance Business", requires an insurer which has established or will be establishing a participating fund to put in place an internal governance policy on the management of its participating life insurance business. The insurer shall, among other things, ensure that the participating fund is managed in accordance to the rules and guiding principles of the internal governance policy.

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Separate Accounts Requirement

Every registered insurer is required to establish and maintain a separate insurance fund (a) for each class of insurance business carried on by the insurer that (i) relates to Singapore policies and (ii) relates to offshore policies; (b) in the case of a direct insurer registered to carry on life insurance business, for its investment-linked policies and for its non-investment-linked policies; and (c) if, in the case of a direct insurer registered to carry on life insurance business, no part of the surplus of assets over liabilities from the insurer's non-participating policies is allocated by the insurer by way of bonus to its participating policies, in respect of its non-investment-linked policies (i) for its participating policies and (ii) for its non-participating policies.

The MAS Notice 101, "Maintenance of Insurance Funds", the MAS Notice 313, "Basis for Establishing Separate Funds for Participating and Non-participating Policies", and the MAS Guidelines on Implementation of Insurance Fund Concept provide further guidance and requirements on, among other things, the establishment and maintenance of insurance funds and the segregation of the assets of registered insurers in Singapore as required under the Insurance Act of Singapore. The Insurance Act of Singapore also prescribes requirements relating to, among other things, withdrawals from the insurance funds, and insurance funds comprising wholly or partly of participating policies.

The solvency requirement in respect of an insurance fund must at all times be such that the "financial resources" of the fund are not less than the "total risk requirement" of the fund. A registered insurer is required to immediately notify the MAS when it becomes aware that it has failed, or is likely to fail, to comply with the fund solvency requirement. Each of the "financial resources" of an insurance fund and its "total risk requirement" is determined, and assets and liabilities are valued, in accordance with the requirements of the Insurance (Valuation and Capital) Regulations 2004, the MAS Guidelines on Valuation of Policy Liabilities of General Business and the MAS Notice 319, "Valuation of Policy Liabilities of Life Business", where applicable. The MAS has the authority to direct that the insurer satisfy fund solvency requirements other than those that the insurer is required to maintain under the relevant section of the Insurance Act of Singapore if the MAS considers it appropriate. The MAS also has the power to impose directions on the insurer, and direct the insurer to carry on its business in such manner and on such conditions as specified by the MAS in the event that it is notified of any failure or likely failure, or is aware of any inability, of the insurer to comply with the fund solvency requirement described above.

All receipts of the insurer properly attributable to the business to which an insurance fund relates (including the income of the fund) shall be paid into that fund, and the assets in the insurance fund shall apply only to meet such part of the insurer's liabilities and expenses as is properly so attributable (excluding certain levies).

Reinsurance

The MAS Notice 114, "Reinsurance Management Strategy", sets forth the guiding principles relating to the oversight of the reinsurance management process of insurers and includes the principle that the board of directors and senior management of an insurer should develop, implement and maintain a reinsurance management strategy appropriate to the operations of the insurer to ensure that the insurer has sufficient capacity to meet obligations as they fall due. In addition, the MAS has issued the MAS Guidelines on Risk Management Practices for Insurance Business – Core Activities, which provide further guidance on risk management practices in general, relating to, among other things, reinsurance management.

The MAS Notices 208 and 316, "Financial Reinsurance", impose certain requirements in respect of financial reinsurance for insurers registered to carry on general business and life business respectively. These include mandatory requirements on, among other things, prudent management oversight, accounting treatment, disclosure and reporting obligations, guidelines on transfers of

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insurance risk and (for direct life insurers) approval requirements before, among other things, entering into financial reinsurance contracts.

Regulation of Products

A direct insurer registered to carry on life business may only issue a life policy or a long-term accident and health policy if the premium chargeable under the policy is in accordance with rates fixed with the approval of an appointed actuary or, where no rates have been so fixed, is a premium approved by the actuary.

An insurer is required under the MAS Notice 302, “Product Development and Pricing”, to exercise prudent management oversight on the pricing and development of insurance products and investment-linked policy sub-funds, and to, before offering certain new products, either obtain the approval of, or notify, the MAS, as the case may be. Such request for approval or notification shall include information on, among other things, the tables of premium rates. In addition, the MAS has issued the MAS Guidelines on Risk Management Practices for Insurance Business – Core Activities, which provide further guidance on risk management practices in general, relating to, among other things, product development and pricing.

There are also mandatory requirements and non-mandatory standards which would apply under MAS Notice 307, “Investment-Linked Life Insurance Policies” to investment-linked life insurance policies relating to, among other things, disclosure, investment guidelines, borrowing limits and operational practices. Registered insurers are required to provide for a free-look period for life policies, and accident and health policies with a duration of one year or more.

Market Conduct Standards

The MAS Notice 306, “Market Conduct Standards for Life Insurers Providing Financial Advisory Services As Defined under the Financial Advisers Act” imposes certain requirements on direct life insurers which provide financial advisory services under the Financial Advisers Act of Singapore relating to, among other things, training and competency requirements, prohibition against subsidised loans to representatives out of life insurance funds, establishing a compliance unit, taking disciplinary action against representatives for misconduct, and allocation/non-allocation of income and expenses to the life insurance funds. The MAS Notice 318, “Market Conduct Standards for Direct Life Insurer as a Product Provider” also imposes certain requirements on direct life insurers as product providers of life policies relating to, among other things, standards of disclosure and restrictions on the sales process and the replacement of life policies.

The MAS Notice 211, “Minimum and Best Practice Training and Competency Standards for Direct General Insurers” requires direct general insurers to only enter into insurance contracts arranged by agents or staff with requisite registration and minimum qualification requirements (unless exemptions apply), and requires direct general insurers to ensure that staff of certain agents who sell or provide sales advice on the insurers’ products are adequately trained and that front-end operatives meet the qualification requirements (unless exemptions apply) before they are allowed to provide sales advice on or sell general insurance products or handle claims. Non-mandatory best practice standards apply to direct general insurers to implement training and competency plans for front-end operatives. The MAS Guidelines on Market Conduct Standards and Service Standards for Direct General Insurers set out the standards of conduct expected of direct general insurers as product providers of insurance policies.

In respect of health insurance products, direct insurers must ensure, among other things, that any individual employed by them or who acts as their insurance agent or representative pass the examination requirements specified in the MAS Notice 117, “Training and Competency Requirement: Health Insurance Module” (unless exemptions apply) and are prohibited from accepting business in respect of any health insurance product from any individual whom they employ or who acts as their

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insurance agent and who has not met such requirements. The MAS Notice 120, “Disclosure and Advisory Process Requirements for Accident and Health Insurance Products” sets out both mandatory requirements and best practice standards on the disclosure of information and provision of advice to insureds for accident and health policies and life policies that provide accident and health benefits.

The MAS Notice 320, “Management of Participating Life Insurance Business”, requires a direct life insurer to comply with certain disclosure requirements for product summaries, and annual bonus updates, in relation to its participating policies.

Various industry codes of practice also apply to insurers, including codes/guidelines issued by the Life Insurance Association of Singapore and the General Insurance Association of Singapore.

In addition, there are rules in the Insurance Act of Singapore and the relevant regulations, notices, guidelines and circulars relating to the granting of loans, advances and credit facilities by insurers, which insurers have to comply with if they conduct such activities.

Risk Management and Fit and Proper Person

Broadly, the MAS has issued risk management guidelines applicable to insurers specifically and to financial institutions generally which would apply to registered insurers.

Under the MAS Guidelines on Fit and Proper Criteria, the following persons, among others, are required to be “fit and proper” persons: a substantial shareholder of a registered insurer, a principal officer or director of a registered insurer, a person having effective control of a registered insurer, a person having control of a registered insurer, and an exempt financial institution and its representatives in relation to activities regulated by the MAS under the Financial Advisers Act of Singapore and the Securities and Futures Act of Singapore. Broadly, the MAS will take into account the following criteria in considering whether a person is fit and proper: (i) honesty, integrity and reputation; (ii) competence and capability; and (iii) financial soundness. The principal officer of a registered insurer must also be approved by the MAS prior to his appointment as such.

Anti-money Laundering

Registered life insurers must comply with anti-money laundering and countering the financing of terrorism requirements under the MAS Notice 314, “Prevention of Money Laundering and Countering the Financing of Terrorism – Life Insurers” and relevant guidelines and legislation.

Financial Reporting Requirements

The Insurance (Accounts and Statements) Regulations 2004 sets forth various reporting requirements and prescribes the form in which the relevant statements of account and other statements of a registered insurer are to be made.

A registered insurer is required to file, among other things, the following with the MAS (i) for each quarter and each accounting period, statements for each insurance fund established and maintained under the Insurance Act of Singapore, (ii) the reports by an actuary on his investigation of policy liabilities and on the prospective test of the financial condition of each insurance fund established and maintained under the Insurance Act of Singapore, each in respect of its life insurance business, (iii) the report by an actuary on his investigation of policy liabilities in respect of its general insurance business, (iv) statements on the fund solvency requirement and capital adequacy requirement, (v) an auditor’s report and supplementary report (if any); and (vi) any other information the MAS may require for the discharge of its functions under the Insurance Act of Singapore.

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In the case of a company incorporated or established outside Singapore, the financial audit need not extend beyond the business for which an insurance fund is maintained under the Insurance Act of Singapore. A registered insurer incorporated outside Singapore is required to file with the MAS for each financial year, in respect of the insurer's global business operations, a statement of the financial position of the insurer as at the end of that financial year.

In addition, the MAS Notice 306, "Market Conduct Standards for Life Insurers Providing Financial Advisory Services As Defined under the Financial Advisers Act" and the MAS Notice 318, "Market Conduct Standards for Direct Life Insurer as a Product Provider" require direct life insurers to submit information on their businesses to the MAS annually or (in the case of MAS Notice 306) a nil return.

Actuaries

A registered insurer carrying on life and general business is also required, for each accounting period, to have an investigation made by an actuary approved by the MAS into (i) the financial condition of its life insurance business by, among other things, conducting "stress testing", and (ii) for its general business, its liabilities in respect of insurance policies. Actuaries must be approved by the MAS. A direct life insurer shall appoint an actuary who is responsible for, among other things, reporting to the principal officer of a direct life insurer on various matters including matters which in the actuary's opinion have a material adverse effect on the financial condition of the insurer in respect of its life insurance business. In the event a direct life insurer fails to take appropriate steps to rectify any matter reported by the actuary to its principal officer within a reasonable time, the actuary is required to immediately send a copy of his report to the MAS.

The MAS Notice 312, "Stress Testing on Financial Condition of Direct Life Insurer", requires a direct life insurer to conduct stress testing to assess the impact of various risks on the insurer's financial condition. The stress tests are to be conducted by the insurer's appointed actuary in accordance with the requirements of the Notice, and the stress test reports are to be lodged with the MAS and deliberated on by the board of directors and senior management of the insurer (taking into account the requirements of the Notice), with any minutes of deliberations and recommendations of the board to be extracted and submitted to the MAS.

MAS Directions Following the AIG Events

Since October 2008, the 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. As a regulated entity, AIA has various discussions with the MAS. The discussions with the MAS in relation to the lifting of the directions after listing of our Shares have been favourable as MAS takes further comfort that AIA Singapore intends to become a locally incorporated subsidiary of AIA in the foreseeable future.

REGULATORY FRAMEWORK – MALAYSIA

Overview

AIA's Malaysian subsidiaries American International Assurance Bhd and AIA Takaful International Bhd (a wholly-owned subsidiary of American International Assurance Bhd) are regulated by Bank Negara Malaysia (the central bank of Malaysia) and the Ministry of Finance. American International Assurance Bhd carries on life and general insurance businesses of Malaysia and is licensed under the Insurance Act 1996. AIA Takaful International Bhd is a company registered under the Takaful Act 1984 and holds a Takaful operator licence to carry out Takaful business in currencies other than ringgit.

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Licences held by American International Assurance Bhd and AIA Takaful International Bhd

American International Assurance Bhd was granted a composite licence to carry on life and general insurance business in Malaysia on 30 May 2008.

AIA Takaful International Bhd was granted Malaysia's first International Takaful operator licence on 15 September 2008 to carry out family solidarity and general Takaful businesses in currencies other than ringgit. An International Takaful operator licence also means AIA Takaful International Bhd may engage in Takaful business in other countries, provided that such other countries' local requirements are complied with. AIA Malaysia, along with its joint-venture partner Alliance Bank Malaysia Berhad (on a 70:30 equity participation basis), received an approval for a new Family Takaful licence from Bank Negara Malaysia on 1 September 2010. The Family Takaful company is expected to be operational in the first quarter of 2011.

Bank Negara Malaysia and Industry Associations

Bank Negara Malaysia is a statutory body established under the Central Bank of Malaysia Act 1958. Insurance business in Malaysia is regulated pursuant to two key pieces of legislation, the Insurance Act 1996 which governs conventional insurance business, and the Takaful Act 1984 which governs Takaful business. Bank Negara Malaysia is responsible for administering both the Insurance Act 1996 and the Takaful Act 1984 and for regulating the conventional insurance and Takaful industries. As a regulator, Bank Negara Malaysia has broad powers, which include the power to examine the documents, directors, employees and agents of an insurer, issue guidelines, circulars or notices relating to the insurance industry, make regulations with the approval of the Finance Minister, direct an insurer or Takaful operator to submit new products for review, recall any product offered, compensate consumers who have suffered losses, modify the terms and conditions of any product offered, impose additional capital charges and publish details of corrective actions taken against an insurer.

American International Assurance Bhd is a member of the Life Insurance Association of Malaysia and the General Insurance Association of Malaysia. AIA Takaful International Bhd is a member of the Malaysian Takaful Association. The Life Insurance Association of Malaysia, General Insurance Association of Malaysia and Malaysian Takaful Association are self-regulated bodies. Resolutions and circulars issued by these associations are binding on the member insurance companies.

Capital Requirements

Bank Negara Malaysia has recently introduced a risk-based capital framework aimed at improving the risk management practices of insurers. Under the risk-based capital framework, insurers are required to maintain a capital adequacy level that is commensurate with their risk profiles. Each insurer is required to determine the adequacy of the capital available in its insurance and shareholders' fund to support the total capital required by the insurer. This will serve as a key indicator of the insurer's financial resilience and will be used to determine any supervisory interventions by Bank Negara Malaysia.

Under the risk-based capital framework guideline, the board of directors and senior management of an insurer are also expected to identify, monitor and control risks which are not adequately addressed under the framework. An insurer is also expected to actively manage its capital adequacy by taking into account the potential impact of its business strategies on its risk profile and overall financial resilience.

With the introduction of the risk-based capital framework, insurers are now exempted from solvency margin requirements under the Insurance Act 1996.

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Reserve Requirements

The risk-based capital framework requires the appointed or signing actuary of an insurer to determine the required amount of policy reserves for the insurance liabilities of the insurer's general business to ensure that such insurance liabilities are at the required level. With respect to liabilities arising from an insurer's life insurance business, the determination of the required amount of policy reserves is based on prescribed actuarial methodologies.

Separate Accounts Requirements

An insurer is required to establish and maintain separate insurance funds for its policies. An insurer is required to pay into the applicable insurance fund all money received in respect of policies of a class to which the insurance fund relates, keep the assets of its insurance fund separate from its other assets and maintain assets of equivalent or higher value than the liabilities of that insurance fund. An insurer may apply the assets of an insurance fund only to meet such of its liabilities and expenses as are properly attributable to that insurance fund.

An insurer may withdraw from an insurance fund where there is a surplus of assets over liabilities at the end of a fiscal year. For a life insurance fund, upon the actuarial valuation and recommendation by the appointed actuary, the life insurer may allocate a part of the surplus attributable to participating and non-participating policies by way of a bonus paid to participating policies and for transfer out of that life insurance fund to the shareholders' fund.

Asset Management

An insurer's investment of an insurance fund in foreign assets is currently capped by Bank Negara Malaysia at 10% of each insurance fund. Bank Negara Malaysia has also imposed other investment guidelines relating to the investment of an insurer's assets.

Reinsurance

A licensed insurer's reinsurance arrangements must be consistent with sound insurance principles. The general principles to be observed in a reinsurance arrangement are the appropriateness of retention level, security of reinsurers, spread of reinsurers and appropriateness of reinsurance treaties. An insurer is required both to design its reinsurance programme in line with its exposure and portfolio of business, taking into account, among other things, its insurance risk profile and the concentration of its business and to ensure that its reinsurance arrangements provide adequate protection for all classes of business underwritten to enable it to pay its liabilities as they come due.

In placing reinsurance in respect of general insurance, an insurer must accord priority to local reinsurers up to such local reinsurers' full retention capacity before securing reinsurance support from foreign insurers.

Regulation of Products

All life insurers are required to adhere to the prescribed minimum content requirements for product design, proposal form, nomination form, life policy contract, marketing materials, sales illustrations, policy information statements and annual statements as set out by Bank Negara Malaysia. All insurers are also required to be transparent with respect to their products and to make relevant disclosures on products to policyholders.

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Shariah Law in respect of AIA Takaful International Bhd

The general operational framework of a Takaful operator is similar to that of a conventional insurer. In addition, a Takaful operator is required to comply with applicable Shariah laws, which means that the operations of a Takaful operator would be consistent with principles of Islamic laws applicable to its business.

The Shariah authority of Malaysia in Islamic Finance is the Shariah Advisory Council. The Shariah Advisory Council was established by Bank Negara Malaysia and is the Shariah authority referred to by local courts and arbitrators in disputes involving Shariah issues in Islamic banking, finance and Takaful cases. The resolutions passed by the Shariah Advisory Council on the interpretation of Shariah law and principles are applicable to all Islamic financial institutions, including Takaful operators.

Each Takaful operator is required to establish a Shariah committee. The Shariah committee shall consist of a minimum of three members approved by Bank Negara Malaysia. The main duties and responsibilities of the Shariah committee are:

- to advise the board of directors of the Takaful operator on Shariah matters in its business operation;
- to endorse Shariah compliance manuals and relevant documents;
- to assist and advise related parties on Shariah matters; and
- to provide written Shariah opinions.

An effective Shariah compliance review processes is required to be in place during the pre- and post-launch stages of any new product offering.

Restrictions on Foreign Insurers

An insurer must be licensed under the Insurance Act 1996 in order to carry on insurance business. A licensed foreign insurer must maintain in Malaysia a surplus of assets over liabilities of an amount not less than the requirement for the minimum amount of paid-up share capital of a licensed local insurer which is RM100 million.

Financial Reporting Requirements

In general, insurers are required to submit each of the following to Bank Negara Malaysia within a specified timeframe: (a) audited annual accounts; (b) an auditor's report and certificate; (c) an appointed actuary's report and certificate; (d) a report on the action taken by the board of directors on the auditor's report; (e) the board of directors' report on its operations; and (f) quarterly returns of each fiscal year. Bank Negara Malaysia has also issued guidelines which require an insurer to submit additional reports which, among other things, relate to such insurer's investments, claims, reinsurance, solvency and capital adequacy.

Bank Negara Malaysia Requirements Following the AIG Events

In connection with AIA Malaysia's adoption of a risk based capital framework in Malaysia, Bank Negara Malaysia, by a letter dated 26 August 2010, lifted the requirement outlined in its letter of 16 September 2008 that requested AIA Malaysia to obtain the prior written approval of Bank Negara Malaysia in relation to the following:

- (1) payment of dividends (interim and/or final) to its shareholders;

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- (2) extension of credit facilities to related-parties within the AIG Group (which for these purposes is understood also to include members of the AIA Group);
- (3) guarantees or undertaking given to/on behalf of related parties within the AIG Group (which for these purposes is understood to include members of the AIA Group); or
- (4) any other related-party transactions, excluding any transaction in the ordinary course of AIA Malaysia's business relating to insurance policies, reinsurance cessions and claims.

REGULATORY FRAMEWORK – CHINA

Overview

AIA's branches and sub-branches in China are primarily regulated by the CIRC, which was established in 1998 and authorised by the China State Council to regulate and supervise the insurance industry in China.

Licences Held by AIA's China Branches and Sub-Branches

AIA currently holds nine insurance business permits and nine business licences in different locations of China. AIA has a branch in each of Beijing, Guangdong, Shanghai, Shenzhen and Jiangsu. Within the Guangdong province, AIA has a sub-branch in each of Foshan, Jiangmen and Dongguan and within the Jiangsu province, AIA has a central sub-branch in Suzhou.

The insurance business permits of these branches and sub-branches were issued by the CIRC and the business licences were issued by the relevant local Administrations for Industry and Commerce. These permits and licences allow AIA's branches and sub-branches in China to provide individual and group life insurance products (including endowment, whole or term life insurance), investment linked products, participating insurance products, universal life products, A&H products and pension products. An insurer is required to obtain approval from the CIRC and the State Administration of Foreign Exchange for conducting any businesses related to foreign exchange denominated insurance.

The CIRC and the State Administration for Industry and Commerce

The principal law regulating the insurance industry in China is the Insurance Law of the People's Republic of China (中華人民共和國保險法), passed by the Standing Committee of the National People's Congress and amended on 28 October 2002 and 28 February 2009 respectively, with a view to standardizing insurance activities, protecting legitimate rights and interests of parties to insurance activities, strengthening supervision and administration of the insurance industry, maintaining social economic order and social public interests and promoting the sound development of insurance business in China. In order to reflect the changes in the PRC insurance industry, significant amendments have been made to the version of PRC Insurance Law effective on 1 October 2009, including but not limited to: (i) providing more protection for policyholders, such as imposing restrictions on the termination of insurance policies by insurance companies, limiting an insurance company's ability to exonerate itself from claims and benefit payments and defining the procedures and time limits to facilitate claims settlement for the insured; (ii) stipulating that, where the object of a property and casualty insurance contract is transferred, the transferee shall succeed to the rights and obligations of the insured specified in the property and casualty insurance contract; (iii) broadening the investment channels for insurance funds, including bank deposits, bonds, stocks, securities investment funds, real estate and other channels as provided by the State Council; and (iv) eliminating the requirement of giving priority to reinsurers incorporated in the PRC when an insurance company seeks reinsurance. Key regulations that govern foreign insurers include the Management Provisions on Insurance Companies of the People's Republic of China (中華人民共和國保險公司管理規定), Management Provisions on Foreign Invested Insurance Companies of the People's Republic of China

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(中華人民共和國外資保險公司管理條例) and the Detailed Rules on Management Provisions on Foreign Invested Insurance Company of the People's Republic of China (中華人民共和國外資保險公司管理條例實施細則).

The CIRC oversees the China insurance market and the insurers operating in China directly as well as indirectly through its authorised regulatory bureaus in provinces, autonomous regions, municipal cities, and cities specially designated in the state plan (計劃單列市). In the locations where AIA has operation, the CIRC has authorised bureaus in Beijing, Jiangsu, Shanghai, Guangdong and Shenzhen.

Capital Requirements

The minimum registered paid-in capital of a foreign invested insurance company is RMB200 million. A similar requirement is imposed on a Chinese branch of a foreign insurance company. Both foreign invested insurance companies and Chinese branches of foreign insurance companies are required to maintain a solvency ratio that is not lower than 100%. Under relevant PRC regulations, the solvency ratio (償付能力充足率) is the ratio of actual capital (實際資本) to the minimum capital requirement (最低資本) applicable to the insurer pursuant to relevant regulations. Minimum capital requirement is defined as the amount of capital that an insurer must maintain to respond to the adverse impact of asset risks and underwriting risks on its solvency margin, while the actual capital (實際資本) is the difference between the admitted assets (認可資產) and admitted liabilities (認可負債). The CIRC requires solvency reports to be submitted quarterly, annually or as required by the CIRC. If an event that may have significant adverse impact on an insurer's solvency margin occurs or an insurer is not able to meet its solvency requirement, it is required to immediately report to the CIRC.

The CIRC classifies insurance companies into three categories based on their solvency margins:

- (i) Inadequate Solvency: insurance companies with solvency ratio of less than 100%;
- (ii) Adequate Solvency I: insurance companies with solvency ratio between 100% and 150%;
and
- (iii) Adequate Solvency II: insurance companies with solvency ratio of higher than 150%.

For an insurance company that falls within the category of Inadequate Solvency, the CIRC may take one or more of the following supervisory measures: (i) order the insurance company to increase its capital or restrict its distribution of dividends; (ii) limit the compensation and spending of directors and senior managements; (iii) impose restrictions on its advertising; (iv) restrict its establishment of new branches, limit its business scope, or order it to cease the commencement of any new business and to transfer or cede its business to other insurance companies; (v) order an auction of the insurance company's assets or restrict it from purchasing additional fixed assets; (vi) restrict the channels for the application of its insurance funds; (vii) change the person in charge and management personnel; (viii) assume control of the insurance company; and (ix) other measures as determined to be necessary by the CIRC.

The CIRC may require an insurance company that falls within the category of Adequate Solvency I to submit and implement an insolvency prevention plan, which may include a detailed plan to set up a functioning solvency risk prevention mechanism. Where an insurance company in the category of Adequate Solvency I or Adequate Solvency II experiences a significant risk of insolvency, the CIRC may order it to make a rectification, which may include imposing specific requirements on the insurance company to increase its solvency margin ratio to a specified level or other necessary supervisory measures as determined to be necessary by the CIRC.

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Reserve Requirements

The CIRC has promulgated various rules and regulations on the reserves to be established and maintained by insurers, and the reserve requirements pursuant to such rules and regulations depend on the nature and type of insurance product. Reserves that the CIRC requires a life insurer to maintain include an unearned premium reserve (未到期責任準備金), a life insurance reserve (壽險責任準備金), a long-term health insurance reserve (長期健康險責任準備金) and an insurance claims payment reserve (未決賠款責任準備金) and other reserves as required by the CIRC. The reserve amounts are generally determined with reference to, among other things, actuarial projections of future cash flow.

Statutory and Other Deposit Requirements

A foreign invested insurance company is required to deposit 20% of its registered capital and a foreign insurer's Chinese branch is required to deposit 20% of its working capital with a bank designated by the CIRC. This statutory deposit may only be used to discharge debts owed by an insurer in the event that it is put into liquidation or declared bankrupt.

A life insurer is required by the CIRC to contribute up to 1% of its total assets to an insurance protection fund, which is a non-governmental fund maintained by a state-owned fund management company. In the event any insurer is put into liquidation or declared bankrupt or deemed by the CIRC to pose material risks to the public interest and financial stability, this insurance protection fund may be used, among other things, to pay policyholders or other life insurance companies accepting life policies assigned from the insolvent life insurer.

Separate Accounts Requirement

An insurer is required to maintain assets in separate accounts for certain types of products specified by the CIRC, including participating, universal life and investment-linked products. Establishment, amalgamation, demerger and closure of investment accounts maintained in respect of investment-linked products are subject to the approval of the CIRC.

Asset Management

An insurer is required to invest its insurance funds in a stable and prudent manner. An insurer may only invest its insurance funds in bank deposits, bonds such as government bonds, financial bonds, enterprise (corporate) bonds, and convertible bonds, stocks and negotiable securities such as securities investment funds and RMB-denominated common shares listed on PRC stock exchanges, shares of unlisted commercial banks, shares of unlisted PRC joint stock and limited liability companies, infrastructure projects, real estate and other permitted investments as stipulated by the China State Council. The CIRC also sets caps on the proportion of an insurer's total investments that can be held in particular classes of assets. Such caps may be revised by the CIRC from time to time. The approvals of the CIRC and State Administration of Foreign Exchange are required if the insurer wishes to invest insurance funds denominated in foreign currencies offshore.

Reinsurance

An insurer may reinsure its liabilities within its authorised scope as stated in its insurance business permit and/or business licence. Under the PRC Insurance Law, the liability of an insurer for the maximum amount of loss that may be caused by a single insured event may not be more than 10% of the sum of paid-in capital (working capital) and the reserve revenue fund. In the event that the maximum amount of any such loss may be greater than such sum, any part exceeding the 10% limit must be reinsured. Any reinsurance arrangement between a foreign-funded insurance company (including a Chinese branch of a foreign insurer) and its affiliate is subject to the CIRC's approval. An insurer is required to implement a comprehensive risk management system and report to the CIRC annually regarding its reinsurance arrangements. An insurer may only cede its liabilities to reinsurers

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who satisfy the CIRC's credit rating requirements (as specified from time to time) or are Chinese state-owned reinsurers.

Regulation of Products

Products which are legally mandatory, newly developed, or may concern public interests are required to be reviewed and approved by the CIRC before they can be introduced to the market for sale. Terms and premium rates for all other insurance products must be filed with CIRC within seven days upon initial sales.

Insurance Agent

Insurance agents are entities or individuals entrusted by an insurer to sell insurance products on behalf of the insurer within the scope of the insurer's authorization and receive commissions from the insurer for such sales. Insurance agents include individual insurance agents, full-time institutional insurance agents and ancillary agency organisations. The insurance company is required to enter into an agency agreement with its agents stipulating the rights and obligations of the respective parties. The insurer is responsible for the actions of an insurance agent who carries out insurance business activities pursuant to terms of the agency agreement.

Anti-Money Laundering

According to the PRC Anti-Money Laundering Law (中華人民共和國反洗錢法) and other relevant regulations, financial institutions incorporated in the PRC are subject to anti-money laundering obligations, which include: (i) establishing a sound internal control system of anti-money laundering and a client identification system; (ii) properly preserving a client's identification materials and relevant transaction information and documentation; (iii) reporting to the China Anti-Money Laundering Monitoring and Analysis Center (中國反洗錢監測分析中心) any large-sum transaction or any suspicious transaction; (iv) submitting a written report to the local branch of the People's Bank of China and to the local public security bureau, if a financial institution suspects of any criminal activities; and (v) submitting anti-money laundering statements and materials to the People's Bank of China.

Financial Reporting Requirements

The CIRC requires each insurer to file with the CIRC monthly financial accounts, annual audited financial statements and annual audited solvency statements prepared in accordance with applicable Chinese laws, rules and regulations.

Information Disclosure

The CIRC issued the Information Disclosure Management Measures of Insurance Company (保險公司資訊披露管理辦法) on 26 May 2010 (the "Measures"). The Measures require that the insurers shall disclose basic information related to the company, accounting information, its risk control situation, insurance products, solvency information, substantial related transaction and major events, etc. The Measures also stipulate that annual information disclosure report shall be published before 30 April of each year on the corporate website of insurer and the newspapers specified by CIRC, and the major events and substantial related transaction shall be disclosed within ten business days on the corporate website of company.

Restrictions on Foreign Insurers

The Management Provisions on Foreign Invested Insurance Companies of the People's Republic of China (中華人民共和國外資保險公司管理條例) provides that the establishment of a foreign-funded insurance company, including the establishment of a Chinese branch of a foreign insurance company, shall be subject to the CIRC's approval. In the event that the head office of a foreign insurer who has

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a China office is dissolved, shut down or declared bankrupt in accordance with the applicable law, the CIRC will order the Chinese branch(es) of such foreign insurance company to cease carrying out new business. In addition, a Chinese branch of a foreign insurance company is required to notify the CIRC of fundamental events relating to such foreign insurance company within ten days following the occurrence of the event.

China Insurance Regulatory Notices following the AIG Events

Notices issued by the CIRC dated 19 September 2008 and 16 February 2009 ordered AIA's Shanghai branch, Guangdong branch, Jiangsu branch, Beijing branch, Shenzhen branch, Suzhou Central sub-branch, Dongguan sub-branch and Jiangmen sub-branch to:

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

We are in discussions with CIRC to establish a mutually acceptable timetable for rescission of these orders as soon as practicable.

REGULATORY FRAMEWORK – KOREA

Overview

AIA Korea, a branch of AIA-B, is primarily regulated by the Financial Service Commission of Korea (the "FSC") and the FSS. A branch office of a foreign insurer licensed by the FSC to carry on insurance business in Korea is classified as an insurance company under Korea's Insurance Business Act. A number of laws govern the insurance industry in Korea, including the Korean Commercial Act, which regulates insurance contracts, and the Insurance Business Act, which, together with subordinate rules and decrees, imposes a set of supervisory regulations that govern the authorisation, organisation, operation and asset management of insurance companies. Korea's Financial Investment Services and Capital Markets Act also regulates the sales and asset management on variable insurance by insurance companies. The detailed enforcement procedures for the Insurance Business Act, the Financial Investment Services and Capital Markets Act are set out further in subordinate legislation.

Licences held by AIA Korea

AIA Korea holds two licences, one in respect of its life insurance business and the other in respect of its asset management business with respect to variable insurance policies. The life insurance business licence was granted on 25 March 1997 while the asset management business licence was granted on 4 February 2009, superseding a 2005 licence granted under a previous regulatory regime. Pursuant to the life insurance business licence, AIA Korea is authorised under the Insurance Business Act to carry on the business of life insurance, casualty insurance, illness insurance, nursing insurance and incidental business and services related thereto. The asset management business licence, issued pursuant to the Financial Investment Services and Capital Markets Act, authorises AIA Korea to carry on asset management business related to variable life insurance. Pursuant to this licence, AIA Korea may establish and terminate investment trusts and manage investment trust assets with respect to variable insurance policies.

The FSC and FSS

The FSC is empowered with the authority to supervise financial institutions, including insurance companies, and is responsible for, among other things, supervising the soundness of operation,

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business conduct and management of financial institutions and protecting consumers of the products and services provided by financial institutions. The primary function of the FSS is to examine and to supervise financial institutions and exercise functions delegated to it by the FSC.

Capital Requirements

In respect of an insurer's capital adequacy requirement, Korea previously had a solvency margin requirement. Effective from 1 April 2009, Korea adopted a risk-based capital requirement to replace the solvency margin requirement. A two-year transition period between the two requirements is currently in place, which means that both requirements will be enforced in parallel until 31 March 2011. During this transition period, insurers have the discretion to elect which of the two requirements to comply with. From 1 April 2011, it will be mandatory for all insurers to comply with the risk-based capital requirement.

The solvency margin requirement under the Insurance Business Act is intended to ensure that insurers maintain a solvency surplus against future liabilities, and the requirement is based on the European Union solvency ratio model. In particular, all insurers, including branches of foreign insurers, must maintain net assets of equal or greater value to an amount calculated on the basis of the liabilities that they insure such that they maintain a solvency margin ratio of at least 100%.

The risk-based capital requirement was introduced pursuant to amendments to the Insurance Business Supervisory Regulation and its relevant enforcement regulations issued pursuant to the Insurance Business Act. Under this requirement, the ratio of an insurer's available capital to required capital is calculated, and the analysis of equity capital used to determine capital adequacy is expanded, to take into account market, credit, operational, insurance and interest rate risks, out of which insurance and interest risks are currently taken into consideration under the solvency margin requirement.

In the event an insurer fails to satisfy the applicable capital adequacy requirement and this poses a threat to the financial soundness of that insurer in Korea, the FSC may order the insurer to increase its capital reserves or restrict its investments in high risk securities and other assets.

Reserve Requirements

In order to satisfy the payment obligations of an insurer's policies, which include claims, reimbursements and dividends payable to policyholders, an insurer must establish and maintain a separate liability reserve in respect of each of the following: insurance premiums reserve, unexpired insurance premiums reserve, insurance claim payments reserve, dividends reserve, profit dividends reserve, dividend insurance loss maintenance reserve and reinsurance premiums reserve. However, if an insurer acquires reinsurance of its liability under an insurance contract and such reinsurance satisfies stipulated regulatory conditions, the liability reserve in respect of that insurance contract need not be maintained by the insurer.

Statutory Fund

Under the Depositor Protection Act of Korea, the Korea Deposit Insurance Corporation insures certain liabilities (the "KDIC Insured Liabilities") owed to the public in Korea by financial institutions. The KDIC Insured Liabilities of an insurer under the Depositor Protection Act of Korea include insurance premiums, surrender values and insurance claims payable by an insurer to an individual policyholder. Under the Depositor Protection Act of Korea, all insurers are required to contribute an annual insurance premium to the Korea Deposit Insurance Corporation at a rate determined pursuant to the Depositor Protection Act, up to a maximum of 0.5% of an insurer's KDIC Insured Liabilities in that year. The annual insurance premium payable by an insurer is currently 0.3% of the average of the insurer's annual premium income and liability reserve. Under the current rules, the Korea Deposit

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Insurance Corporation insures only up to a total of Korean Won 50 million per individual against each insurer.

Asset Management Regulation

Subject to certain exceptions, the Insurance Business Act provides for caps on the proportion of an insurer's total investments that can be held in particular classes of assets. Such caps may be revised by the FSC from time to time as it deems necessary.

The Insurance Business Act restricts, among other things, certain asset management transactions such as the making of speculative loans, loans for the acquisition of an insurer's securities, loans for political funds and foreign exchange and financial derivative transactions that fail to meet the requirements of the FSC.

Use of insurance funds by an insurer is subject to certain restrictions, including a general prohibition on an insurer offering its assets as security or guaranteeing debts of any other person (unless permitted under the Insurance Business Act), and a general prohibition on an insurer owning more than 15% of the voting shares of another corporation unless that corporation is a subsidiary of the insurer and the approval of the FSC has been obtained.

Reinsurance

Pursuant to the Insurance Business Supervisory Regulation issued pursuant to the Insurance Business Act, an insurer will be given credit for the purposes of its solvency margin and risk-based capital calculations only for ceded reinsurance covering a maximum of 50% of its total insurance liabilities. Any reinsurance ceded by an insurer in excess of 50% will be disregarded in calculating its capital requirements. In addition, insurers are required to give notice to the FSS within one month after execution of every reinsurance treaty with a term that exceeds one year where the reinsurance treaty determines reinsurance premiums with reference to an expected rate of investment return, or the reinsurance treaty provides for a limitation of the reinsurer's liability.

Regulation of Products

Any new product (including its terms, introduction to the market and premium rates and their calculation methods) is subject to ex ante or ex post review by the FSS ("Process for File & Use" or "Use & File", depending on the product). In addition, an insurer must disclose on its internet website certain information, including a summary of its products, insurance terms, applicable interest rates and, in relation to the premium rates of variable insurance products, the calculation method for such rates and information on any designated accounts for such variable insurance products.

Restrictions on Korean branches of Foreign Insurers

In the event that the head office of a Korean branch of a foreign insurer is closed due to a merger or transfer of business in its home jurisdiction, is subject to suspension or revocation of its insurance licence by any foreign financial supervisory agency on grounds of illegal conduct or unfair business practices, or suspends its insurance business or ceases to operate, the insurance licence of that insurer's Korea branch may be revoked.

A branch of a foreign insurer must hold assets located in Korea equivalent to the liability reserve sufficient to fulfil all insurance contracts written in Korea. If the amount of assets located in Korea held by the branch of a foreign insurer is determined to be insufficient based on the annual audited accounts, the assets must be supplemented through an injection of capital within 60 calendar days. In the event an insurer is instructed to remedy any deficiency following a decision of the FSS in consultation with the FSC, remedial action must be taken within 30 calendar days.

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Financial Reporting Requirement

An insurer is required to close its books on 31 March of each year and submit its financial statements, including supplementary statements, audit reports, a statement of repaid funds and a statement of interest on funds, to the FSC within three months.

SUMMARY OF SUPERVISION AND REGULATION IN OTHER GEOGRAPHICAL MARKETS

In addition to the regulatory framework of our six Key Geographical Markets discussed above, regulatory oversight also applies to our operations in our Other Geographical Markets. The insurance businesses of our local operating units in Vietnam, Taiwan, Australia, New Zealand, Indonesia, India, the Philippines, Macau and Brunei are respectively subject to the regulation of the Ministry of Finance of Vietnam, the Insurance Bureau of the Financial Supervisory Commission of Taiwan, the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority, the Ministry of Economic Development of New Zealand, the Insurance Bureau of Bapepam-LK of Indonesia, the Insurance Regulatory and Development Authority of India, the Insurance Commissioner of the Philippines, the Macau Monetary Authority through its Insurance Supervisory Department and the Brunei Ministry of Finance.

The operations of the AIA Group in our Other Geographical Markets are subject to their respective relevant local insurance regulatory requirements, including requirements with respect to solvency, asset management, financial reporting and reinsurance. We have been duly licensed in each of the Other Geographical Markets by the relevant regulatory authorities.

OTHER REGULATORY CONSIDERATIONS

As a result of our relationship with AIG and pursuant to the terms of the AIG Framework Agreement, we will need to continue to comply with applicable U.S. laws, rules and regulations including:

- The Foreign Corrupt Practices Act of 1977, as amended (the “FCPA”), which makes it unlawful for AIG, as a U.S. listed parent company, to authorise, direct or turn a blind eye to bribes by a foreign subsidiary to non-U.S. government officials to obtain, direct or retain business or secure an improper advantage. The FCPA also imposes two requirements with respect to books and records of any foreign subsidiary whose financial statements are consolidated in those of a U.S. listed parent. Under the FCPA, AIG and its consolidated subsidiaries, including the Company, must make and keep books, records, and accounts that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company and its subsidiaries. In addition, AIG and its consolidated subsidiaries must devise and maintain a system of internal accounting controls sufficient to provide reasonable assurance that all transactions are executed in accordance with management’s authorization and recorded in conformity with generally accepted accounting principles.
- Economic and trade sanctions regulations administered by the Office of Foreign Assets Control (the “OFAC”), a division of the U.S. Treasury Department. OFAC sanctions are directed at certain individuals, entities and jurisdictions. Although most OFAC sanctions programmes apply to U.S. persons (corporate entities and individuals), the OFAC sanctions applicable to Cuba and North Korea apply more broadly to all persons “subject to the jurisdiction of the United States.” This phrase is defined to include entities “owned or controlled” by a U.S. person. “Owned or controlled” is not specifically defined. For OFAC sanctions applicable to Burma, Iran and Sudan, U.S. parent company liability is triggered if the U.S. parent facilitates or approves the activity of its foreign subsidiaries and, therefore, the subsidiary has certain compliance responsibilities in order to avoid triggering that liability. In addition, the U.S. Government has brought claims against U.S. companies when their

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foreign subsidiaries have deliberately structured transactions that would be prohibited by OFAC in a manner designed to mask their origin or destination.

- The Export Administration Regulations prohibit passive and active compliance with unsanctioned boycotts, and these U.S. anti-boycott regulations apply to AIG's foreign subsidiaries or affiliates under its de facto control.
- U.S. criminal and civil anti-money laundering laws prohibit AIG and its subsidiaries from engaging in money laundering and terrorist financing activities, and AIG could be held liable under those laws for the illegal activities of its subsidiaries, including its non-US subsidiaries

In order for AIG to comply with the above, we will need to continue to take actions including but not limited to the maintenance of books and records in line with the requirements of the FCPA and implementing additional procedures to monitor compliance with anti-money laundering rules and other applicable laws and regulations. In addition, we will need to adhere, to the extent applicable, with restrictions under TARP, including with respect to expense management, lobbying and executive compensation.

AIG is a U.S. public company subject to the periodic reporting requirements of the U.S. Exchange Act as well as the Sarbanes-Oxley Act of 2002. AIG is also listed on the NYSE and must comply with the NYSE's listing rules. Since AIG has certain public reporting obligations with respect to its equity ownership stake in AIA, we have agreed to certain reporting obligations in order to facilitate such periodic reporting requirements. The obligations of the Company with respect to these financial reporting obligations will progressively decrease as AIG's shareholding in the Company is reduced below the thresholds of 50%, 20%, 10% and 5%.

Although we are not directly subject to U.S. listing rules, as a result of our relationship with AIG and AIG's on-going compliance obligations with respect to the above laws and regulations, we will need to continue to monitor our compliance with several U.S. federal and state laws. In addition, we will be required to comply with AIG's compliance policies and procedures pursuant to the AIG Framework Agreement for so long as AIG has an Indicia of Control. The existence or absence of a de facto (or negative) control relationship will be assessed by AIG after consideration of all relevant facts and circumstances, including, AIG's percentage ownership of our Shares, AIG's representation on the Board and any relevant continuing contractual arrangements between the AIG Group or the FRBNY, on the one hand, and the AIA Group, on the other hand. After the Global Offering, we will continue to be subject to the compliance and informational reporting requirements set forth in the AIG Framework Agreement as a result of AIG's board representation and significant ownership stake (immediately following the Global Offering and assuming the Offer Size Adjustment Option and the Over-allotment Option are not exercised, AIG's wholly-owned subsidiary, AIA Aurora LLC, is expected to retain 51.4% of our Shares and voting rights. For additional information concerning these arrangements, see the sections headed "Our Relationship With The AIG Group — Certain Shareholder Arrangements — The AIG Framework Agreement" and "Risk Factors — Risks Relating to our Relationship with the AIG Group — Due to our relationship with AIG we will need to comply with certain U.S. laws that may impose liability, restrictions and costs on us that our competitors are not subject to" in this prospectus.

We do not require the approval of any U.S. regulator to conduct the Global Offering.