MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis together with the AIA Group's audited consolidated financial information as of and for each of the three fiscal years ended 30 November 2009 and as of and for the six months ended 31 May 2010, and the unaudited financial information for the six months ended 31 May 2009 and the accompanying notes thereto, which is set forth in the Accountant's Report included as Appendix I to this prospectus. The Accountant's Report has been prepared in order to achieve dual compliance with IFRS and HKFRS. The basis of preparation is set forth in note 2 to the Accountant's Report.

BUSINESS OVERVIEW

We are a leading life insurance organisation in the Asia Pacific region that traces its roots in the region back more than 90 years. We provide individuals and businesses with products and services for their evolving insurance, protection, savings, investment and retirement needs. As of 31 May 2010, we had approximately 24,500 employees serving the holders of more than 23 million of our in-force policies and more than 10 million participating members of our clients for group life, medical, credit life coverage and pension products. As of 31 May 2010, our tied agency force consisted of more than 309,000 agents. We have also developed our other distribution channels, particularly bancassurance and direct marketing, to create a multi-channel distribution platform. We derive substantially all of our revenues from our 15 geographical markets across the Asia Pacific region.

Financial Overview of Our Business

We measure the scale of our business using a key performance indicator we refer to as total weighted premium income ("TWPI"), which provides a volume measure of transactions undertaken in the reporting period that have the potential to generate profits for our shareholders. TWPI consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums across all lines of business except our corporate pension business and includes deposits and contributions for contracts that are accounted for as deposits in accordance with our accounting policies. We apply a weighting of 10% to single premiums because such weighting makes the value of a single premium sale broadly equivalent to the same dollar amount of first year premiums. In this manner, TWPI provides an indication of longer term business volumes by taking into account changes in the mix of regular and single premium business. There are two key drivers of TWPI, namely the persistency of the renewal premiums generated by our in-force portfolio and our new business.

We measure the profitability of our business using operating profit. IFRS does not define operating profit but recognises that an entity may elect to disclose the results of its operating activities. We believe that the presentation of operating profit enhances the understanding and comparability of our performance and that of our operating segments. In particular, trends can be more clearly identified without the fluctuating effects of non-operating item, many of which are largely dependent on market factors. In 1H 2010, we recorded operating profit of US$1,134 million, compared with US$923 million for 1H 2009, US$1,781 million for FY 2009, US$1,869 million for FY 2008 and US$1,692 million for FY 2007. The definition of operating profit is set forth in "— Basis of Presentation — Operating Profit and Operating Profit After Tax Attributable to Shareholders of AIA Group Limited" in this section.

We evaluate our financial results on a geographical market basis. Our business provides traditional life, investment-linked and universal life, A&H, and group insurance products to customers in our geographical markets. Our reporting segments are categorised as follows: (i) each Key Market; (ii) combined results for Other Markets; and (iii) our Corporate and Other reporting segment. Our Key Markets consist of the individual results of: Hong Kong (including Macau); Thailand; Singapore (including Brunei); Malaysia; China and Korea. The Other Markets segment consists of the combined results of: Australia, the Philippines, Indonesia, Vietnam, Taiwan and New Zealand, and our interest in our joint venture in India. The results attributable to our interest in our joint venture in India are not reflected in TWPI, ANP or NBP for our Other Markets reporting segment because we account for this interest using the equity method of accounting, and its results are reflected in our Selected Results of Operations within the line item "Share of loss from associates." For further details see notes 2.4 and 15 to the Accountant's Report set forth in Appendix I to this prospectus. The Corporate and Other segment includes our corporate functions, shared services, and elimination of intra-group transactions.

Business scale (TWPI)

In 1H 2010, we had TWPI of US$6,022 million, compared with US$5,330 million in 1H 2009, US$11,632 million in FY 2009, US$12,203 million in FY 2008 and US$11,358 million in FY 2007. TWPI increased by 13.0% between 1H 2009 and 1H 2010.

We believe our business is well diversified with no more than 25% of TWPI attributable to any one geographical market in each of FY 2008, FY 2009, 1H 2009 and 1H 2010.

We experienced the highest growth in TWPI between FY 2007 and 1H 2010 in our Other Markets segment, which includes markets where the demand for insurance products is growing rapidly, such as Indonesia and Vietnam, and more mature markets, such as Australia, where we have grown our offering of group protection products targeted at corporate customers.

	Year ended 30 November			Six months ended 31 May	
	2007	**2008**	**2009**	**2009**	**2010**
				Unaudited	
			(in US$ millions)		
Hong Kong	2,845	2,916	2,861	1,285	1,340
Thailand	2,164	2,351	2,373	1,072	1,222
Singapore	1,514	1,641	1,524	717	796
Malaysia	667	727	707	342	390
China	806	934	1,018	469	519
Korea	2,178	2,268	1,759	827	989
Other Markets	1,184	1,366	1,390	618	766
Total	**11,358**	**12,203**	**11,632**	**5,330**	**6,022**

New business (ANP) — FY 2009 onwards

Since FY 2009, we have measured our new business using ANP which consists of 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. Single premiums are weighted by 10% in the same manner as for TWPI, because such weighting makes the value of a single premium sale broadly equivalent to the same dollar amount of first year premiums.

In 1H 2010, we recorded ANP of US$887 million, compared with US$773 million in 1H 2009 and US$1,878 million in FY 2009. Between 1H 2009 and 1H 2010, ANP increased by 14.7%. Historically, our new business have tended to be stronger in the second half of our fiscal year.

	Year ended 30 November	Six months ended 31 May	
	2009	2009	2010
		Unaudited	
	(in US$ millions)		
Hong Kong	387	130	165
Thailand	372	156	181
Singapore	162	60	82
Malaysia	108	54	61
China	188	79	92
Korea	340	146	146
Other Markets(1)	321	148	160
Total(2)	**1,878**	**773**	**887**

(1) ANP for Other Markets in FY 2009 and 1H 2009 excludes new business of PT. Asuransi AIA Indonesia which we disposed in October 2009.

(2) ANP excludes new business of our corporate pension business and personal lines and motor insurance.

New business (NBP) — FY 2007 to FY 2009

Prior to the introduction of ANP in FY 2009, we measured our new business using NBP, which comprise first year premiums (without annualisation) and 10% of single premiums, before reinsurance ceded. NBP was US$2,456 million in FY 2007, compared with US$2,347 million in FY 2008 and US$1,841 million in FY 2009. Single premiums are weighted by 10% for the same reasons as in the computation of TWPI and ANP.

	Year ended 30 November		
	2007	2008	2009
	(in US$ millions)		
Hong Kong	571	461	374
Thailand	311	342	349
Singapore	235	234	151
Malaysia	89	100	96
China	199	179	183
Korea	757	709	330
Other Markets(1)	294	322	358
Total	**2,456**	**2,347**	**1,841**

(1) NBP has been presented excluding NBP in respect of PT. Asuransi AIA Indonesia which we disposed in October 2009. If we had included new business of PT. Asuransi AIA Indonesia, NBP would have been US$2,484 million in FY 2007, US$2,377 million in FY 2008 and US$1,852 million in FY 2009.

Operating profit/(loss) before tax

Our individual local operating units are significant businesses in their own right, with Hong Kong, Thailand, and Singapore, each generating more than US$300 million of operating profit before tax in FY 2009.

In 1H 2010, we recorded operating profit before tax of US$1,134 million, compared with US$923 million in 1H 2009, US$1,781 million in FY 2009, US$1,869 million in FY 2008 and $1,692 million in FY 2007. Between 1H 2009 and 1H 2010 operating profit before tax grew by 22.9%.

The historical financial information included in the Accountant's Report set forth in Appendix I to this prospectus represents our consolidated results. These results are discussed in "— Results of Operations" in this section.

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions)				
Hong Kong	408	590	698	367	423
Thailand	401	424	358	184	243
Singapore	326	266	316	135	200
Malaysia	97	117	138	67	69
China	122	85	89	62	56
Korea	269	281	81	71	91
Other Markets	168	187	189	90	114
Corporate and Other	(99)	(81)	(88)	(53)	(62)
Total	**1,692**	**1,869**	**1,781**	**923**	**1,134**

Major Factors Affecting Our Financial Condition and Results of Operations

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

Economic Conditions and Demographic Fundamentals in the Asia Pacific Region

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

Fluctuations in Market Interest Rates and Credit Risk

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

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

Fluctuations in Equity Markets

Fluctuations in equity markets may affect our investment returns and sales of many of our investment-linked and universal life insurance products. Our exposure to equity markets is significantly less than our exposure to debt markets, with equity securities representing only 7.7% of the total carrying value of other policyholder and shareholder financial investments as of 31 May 2010. Other policyholder and shareholder financial investments accounted for 21.8% of the total carrying value of our equity securities as of 31 May 2010. In general, the investment risk in respect of investments held to back investment-linked contracts is borne by holders of our investment-linked insurance products, such as variable universal life insurance products, whereas the investment risk associated with investments held by participating funds is shared between our policyholders and our shareholders. The investment risk in respect of fixed universal life products is borne by our shareholders.

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

Fluctuations in Foreign Exchange Rates

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

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

At a local operating unit level, foreign exchange rate risk could arise from transactions denominated in currencies that are different from the functional currency of the operating unit. For example, despite a significant increase in annuity surrenders in Korea in the fourth quarter of FY 2008, we chose to maintain our investment in a portfolio of U.S. dollar denominated assets originally held to back the annuity business, thereby creating a temporary currency mismatch that resulted in an underlying currency exposure to U.S. dollars in our Korean operating unit. For more financial information regarding this increase in annuity surrenders in FY 2008 and its impact on our reported results, see "— Segmental Information — Korea" in this section.

In addition, there have been significant fluctuations in the exchange rate between the Korean Won and U.S. dollar between FY 2007 and FY 2009. The average exchange rate of Korean Won to U.S. dollar depreciated from Korean Won 929.37 to 1.00 U.S. dollar in FY 2007 to Korean Won 1,047.12 to 1.00 U.S. dollar in FY 2008 and further depreciated to Korean Won 1,287.00 to 1.00 U.S. dollar in FY 2009, which has had an adverse impact on our reported financial results. The average exchange rate of Korean Won to U.S. dollar has since appreciated to Korean Won 1,146.79 to 1.00 U.S. dollar in 1H 2010.

Regulatory Environment

We are subject to the regulatory oversight of a number of financial services, insurance, securities and related regulators, as described in the section headed "Supervision and Regulation" in this prospectus. These regulators have broad authority over our business, including our capital requirements, where we are authorised to operate and our ability to enter certain new lines of business, expand our operations, offer new products, enter into distribution arrangements and declare dividends. These regulators oversee our operations in each of the geographical markets in which we operate and, as a result of this broad and diverse oversight, we are occasionally subject to overlapping, conflicting and/or increased regulation. Our efforts to comply with changes in regulations may lead to increased operating and administrative expenses. In addition, pursuant to the insurance laws, rules and regulations of the various geographical markets in which we operate, we are restricted to a specified range of investment activities. These restrictions may limit our ability to diversify investment risks and improve returns on our investment portfolio, thereby affecting our results of operations as well as liquidity and solvency positions. Furthermore, we are subject to the tax regime of each geographical market in which we operate. If the tax regime, or the application of the tax regime to us, changes, our tax liabilities in each of these geographical markets could also change materially.

Customer Sentiment and Policyholder Behaviour

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

For example, the decline in Asian and global equity markets in 2H 2008 resulted in lower demand for our investment-linked and universal life contracts, while demand for protection-based contracts increased in some of our Key Markets. Customers may also perceive particular value in universal life contracts with guaranteed features at times of low market interest rates and consequently policy lapses may be lower than expected.

Claims Experience

Our reported financial results are affected by our claims experience, which may vary from the assumptions that we make both when we design and price our products and when we calculate our insurance contract liabilities. Claims experience varies over time and from one type of product to another, and may be impacted by specific events and changes in macroeconomic conditions, population demographics, mortality, morbidity and other factors.

Product Mix and Multi-Channel Distribution

We design and distribute a broad range of traditional life, investment-linked and universal life, A&H and group insurance products. The performance of our operating units, and the revenue we generate, are affected by our ability to deliver the most suitable products to our targeted customer segments through multiple distribution channels in each of our Key Markets on a timely basis. Our ability to expand and build alternative distribution channels, including bancassurance, direct marketing and IFA/brokerage channels, may affect the performance of our operating units.

Competition in Our Geographical Markets

Competition may negatively affect our business and future business prospects by reducing our market share in the geographical markets in which we operate, decreasing our margins and spreads, increasing our policy acquisition costs and operating expenses and reducing the growth of our customer base. Our competitors include insurance companies, mutual fund companies, banks and investment management firms.

Revenues, Expenses and Profitability

We derive our revenues primarily from:

- insurance premiums from the sale of life insurance policies and annuity contracts, as well as A&H insurance products;

- policy fees for our investment-linked and universal life insurance products; and

- investment returns from our investment portfolio.

Our expenses consist primarily of:

- the change in insurance and investment contract liabilities;

- insurance and investment contract benefits and claims paid to policyholders;

- commission and other acquisition expenses;

- operating expenses, including employee salaries and benefits, information technology, advertising, marketing, training, rental, depreciation and amortisation;

- investment management expenses and finance costs; and

- restructuring and separation costs.

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

- our ability to design and distribute products and services that meet market needs and are delivered on a timely basis;

- our ability to manage persistency. Maintaining a high level of persistency is important to our financial results, as a large block of in-force policies provides us with regular revenues in the form of renewal premiums. In addition, our ability to convert first year premiums into renewal premiums — thereby increasing the number of in-force policies — is an important factor affecting our financial condition and results of operations, as well as the long-term growth of our revenues and profitability;

- our ability to price our insurance products at a level that enables us to earn a margin over the cost of providing benefits and the expense of acquiring new policies and administering those products. The adequacy of our product pricing is, in turn, primarily a function of:
  - our mortality and morbidity experience on individual and group insurance;
  - the adequacy of our methodology for underwriting insurance policies and establishing reserves for future policyholder benefits and claims; and
  - the extent to which our actual expenses and investment performance meet our assumptions;
- our ability to actively manage our investment portfolio to earn an acceptable return while managing liquidity, credit and duration risks in our asset and policy portfolios through asset-liability management; and
- our ability to control expenses in order to maintain the target margins for our insurance products.

BASIS OF PRESENTATION

The AIA Group was formed following the combination of the branches and subsidiaries of AIA, our chief operating subsidiary, with certain of the Asia Pacific life insurance operations of the AIG Group. AIA Group Limited is the parent company of the AIA Group. For more information, see the section headed "Our History and Reorganisation" in this prospectus. The AIA Group reorganisation and business combinations arising from transfers of interests in entities that are under the common control of AIG throughout all periods presented in this section have been accounted for as if they had occurred at the beginning of the earliest period presented. Accordingly, this section presents the results of operations of the AIA Group as if it had been in existence throughout the period from 1 December 2006 to date. See note 1 to the Accountant's Report set forth in Appendix I to this prospectus.

We have also identified certain accounting policies that are significant to the preparation of our financial information. These significant accounting policies, which are important for the understanding of our financial condition and results of operations, are set forth in more detail in the Accountant's Report set forth in Appendix I to this prospectus.

Operating Profit and Operating Profit After Tax Attributable to Shareholders of AIA Group Limited

Operating profit and operating profit after tax attributable to shareholders of AIA Group Limited are key measures of the performance of each of our reportable segments, as well as at the AIA Group level.

Our operating profit is stated before tax and excludes the following non-operating items: (i) investment experience (which consists of realised gains and losses, foreign exchange gains and losses, impairments and unrealised gains and losses on investments held at fair value through profit or loss); (ii) investment income related to investment-linked contracts (consisting of dividends, interest income and rental income); (iii) investment management expenses related to investment-linked contracts; (iv) corresponding changes in insurance and investment contract liabilities in respect of investment-linked contracts and participating funds and changes in third-party interests in consolidated investment funds resulting from the above; (v) policyholders' share of tax relating to changes in insurance and investment contract liabilities; and (vi) other significant items we consider to be non-operating income and expenses. IFRS recognises that an entity may elect to disclose in its financial statements the results of operating activities or a similar line item, even though this term is not defined in IFRS.

In general, the investment risk in respect of investments held to back our investment-linked contracts is borne by policyholders. This means that any increase or decrease in the value of investments held to back many of these contracts is matched by the same movement in insurance and investment contract benefits, and there is no impact to our reported results, except with respect to the asset management and other fees which we earn, that are based on the account balances of these contracts.

As benefits related to investment-linked contracts are based on the investment return on the invested assets underlying such contracts, including them in our presentation of net insurance and investment contract benefits would subject our reported results to significant fluctuations due to market volatility, such as those observed in FY 2008, which may adversely affect an investor's ability to evaluate our period-to-period operating results. For these reasons we choose to exclude the effects of investment-linked contracts from the presentation of net insurance and investment contract benefits, as this is consistent with the basis on which we measure our operating profit.

While these excluded non-operating items are significant components in our profit, we believe that the presentation of operating profit enhances the understanding and comparability of our performance and that of our operating segments. In particular, trends can be more clearly identified without the fluctuating effects of these non-operating items, many of which are largely dependent on market factors.

Operating profit after tax attributable to shareholders of AIA Group Limited is stated after deducting non-controlling interests.

Operating profit and operating profit after tax attributable to shareholders of AIA Group Limited are provided as additional information to assist in the comparison of business trends in different reporting periods on a consistent basis, and enhance overall understanding of our current financial performance and prospects for the future. Operating profit and operating profit after tax attributable to shareholders of AIA Group Limited form part of our results of operations presented in accordance with IFRS, but should not be considered a substitute for or superior to net profit or net profit attributable to shareholders of AIA Group Limited presented in accordance with IFRS. In addition, our calculation of operating profit and operating profit after tax attributable to shareholders of AIA Group Limited may be different from the calculation used by other companies, and therefore comparability may be limited. See notes 2.2, 5 and 7 to the Accountant's Report set forth in Appendix I to this prospectus.

Net Profit Attributable to Shareholders of AIA Group Limited

Net profit attributable to shareholders of AIA Group Limited is stated after deducting taxes and non-controlling interests.

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial information requires selecting accounting policies and making estimates and assumptions that affect items reported in the consolidated income statement, consolidated statement of financial position, other primary statements and notes to the consolidated financial information. Critical accounting policies are considered to be those where a diverse range of accounting treatments is permitted by IFRS and significant judgments and estimates are required. For more information regarding our significant accounting policies, see note 2 to the Accountant's Report set forth in Appendix I to this prospectus.

Product Classification

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

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

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

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

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

For contracts with an explicit account balance, such as universal life and investment-linked contracts, insurance contract liabilities represent the accumulation value, which represents premiums received and investment returns credited to the policy less deductions for mortality and morbidity costs and expense charges. Significant judgment is exercised in making appropriate estimates of gross profits, which are also regularly reviewed by us.

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

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

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

Deferred Policy Acquisition and Origination Costs

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

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

DAC for universal life and investment-linked contracts is amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. Estimated gross profits include expected amounts for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. The interest rate used to compute the present value of estimates of expected gross profits is based on our estimate of the investment performance of the assets held to match these liabilities. Estimates of gross profits are revised regularly. Deviations of actual results from estimated experience are reflected in our earnings. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favourable investment performance, previously expensed acquisition costs are reversed, not exceeding the amount initially deferred.

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

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

Liability Adequacy Testing

We evaluate the adequacy of our insurance and investment contract liabilities at least annually. Liability adequacy is assessed by portfolio of contracts in accordance with our manner of acquiring, servicing and measuring the profitability of our insurance contracts. We perform liability adequacy testing separately for each geographical market in which we operate.

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

For universal life and investment contracts, DAC, net of unearned revenue liabilities, is compared to estimated gross profits. If a deficiency exists, the DAC asset is written down.

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

Financial Investments

Financial Investments at Fair Value Through Profit or Loss

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

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

Available for Sale Financial Assets

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

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

Fair Values of Financial Assets

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

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

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

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment regularly. This requires the exercise of significant judgment. A financial investment is impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the investment. We recognised impairment losses in respect of available for sale debt securities of nil in FY 2007, US$142 million in FY 2008, US$67 million in FY 2009, of which US$31 million was recognised in 1H 2009, and US$1 million in 1H 2010.

Definition of KPIs

TWPI provides an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for our shareholders. TWPI consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums across all lines of business, except our corporate pension business, and includes deposits and contributions for contracts that are accounted for as deposits in accordance with our accounting policies. We apply a factor of 10% to single premiums because such weighting makes the value of a single premium sale broadly equivalent to the same dollar amount of first year premiums. As such, it provides an indication of longer term business generation by taking into account changes in the mix of regular and single premium business. TWPI is measured before reinsurance ceded.

Beginning in FY 2009, we measured new business using annualised new premiums or ANP, which consist of 100% of annualised first year premiums and 10% of single premiums (referred to as "weighted single premiums"), before reinsurance ceded. Prior to FY 2009, we measured new business using new business premiums, or NBP, which consisted of first year premiums (without annualisation) and 10% of single premiums, before reinsurance ceded. Single premiums are weighted by 10%, in the same manner as for TWPI, because such weighting makes the value of single premium sales broadly equivalent to the same dollar amount of first year premiums. New business generated by our corporate pension business is not included in ANP or NBP.

Investment income is one of the key drivers of our profitability, and affects to a significant extent our ability to meet our obligations in respect of the policies we issue and offer attractive returns to our policyholders and shareholders. Investment income has been presented excluding investment income related to investment-linked contracts, as investment income from these contracts is not attributable to our shareholders. Investment income includes interest, dividend and rental income.

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

Operating profit measures our ability to generate earnings from our operations before tax expense, and is a key measure of the underlying profitability of our operations.

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

Net profit attributable to shareholders of AIA Group Limited, consisting of profit for the year after tax and deducting non-controlling interests, measures our profitability, including non-operating items.

Our expense ratio measures our ability to manage our cost base as we grow our business. Our expense ratio is calculated as operating expenses as a percentage of TWPI.

Operating margin measures the operating profitability of our business relative to the volume of the business we generate. Operating margin is calculated as operating profit as a percentage of TWPI.

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

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

KEY PERFORMANCE INDICATORS

Overview

We measure our performance using the key indicators set forth in the table below. All references to Indonesia in this discussion of KPIs refer to PT. AIA FINANCIAL, our ongoing operations in Indonesia, following the disposal of our 60% interest in PT. Asuransi AIA Indonesia in October 2009.

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions, except ratios)				
TWPI	11,358	12,203	11,632	5,330	6,022
New business — ANP[1][3]	N/A	N/A	1,878	773	887
New business — NBP[2][3]	2,456	2,347	1,841	N/A	N/A
Investment income[4]	2,706	3,144	3,059	1,496	1,718
Operating expenses	962	1,089	981	467	525
Operating profit	1,692	1,869	1,781	923	1,134
Operating profit after tax[5]	1,270	1,588	1,438	747	899
Net profit[4]	1,914	408	1,754	966	1,057
Ratios:					
Expense ratio	8.5%	8.9%	8.4%	8.8%	8.7%
Operating margin	14.9%	15.3%	15.3%	17.3%	18.8%
Operating return on allocated equity	13.7%	15.1%	12.0%	13.1%[6]	13.2%[6]
Net return on equity	14.7%	3.7%	14.7%	19.0%[6]	13.4%[6]

(1) Beginning in FY 2009, we measured our new business using ANP, which consists of 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. ANP excludes new business of our corporate pension business and personal lines and motor insurance, as well as new business of PT. Asuransi AIA Indonesia which we disposed in October 2009. We believe that for the AIA Group, ANP is comparable to NBP as there is a strong correlation between ANP and NBP in many of our markets where premiums are collected on an annual basis. ANP and NBP begin to deviate when there is a higher proportion of regular monthly mode premiums, which tends to be more prevalent in our developed markets of Hong Kong, Singapore and Korea.

(2) Prior to FY 2009, we measured our new business using NBP, which consists of 100% first year premiums (without annualisation) and 10% of single premiums, before reinsurance ceded. NBP has been presented excluding the NBP in respect of PT. Asuransi AIA Indonesia which we disposed in October 2009. If we had included the business of PT. Asuransi AIA Indonesia, NBP would have been US$2,484 million in FY 2007, US$2,377 million in FY 2008, and US$1,852 million in FY 2009.

(3) We chose to use ANP instead of NBP as a measure of new business with effect from 2009 as we take the view that (i) NBP is influenced by sales activities in the 11-month period prior to the month of activity whilst ANP provides a more immediate measure of new business activity in comparison, thus ANP better reflects the activities of any given period, (ii) ANP is a more appropriate measure when comparing the value creation of VONB and (iii) ANP is a measure known to industry analysts as similar metrics ore published by our industry peers.

(4) Excludes investment income related to investment-linked contracts.

(5) Operating profit after tax and net profit are stated after deduction of amounts attributable to non-controlling interests.

(6) The ratios of operating return on allocated equity and net return on equity for 1H 2009 and 1H 2010 have been annualised to facilitate comparison with prior periods.

Six Months Ended 31 May 2010 Compared with Six Months Ended 31 May 2009

TWPI was US$6,022 million in 1H 2010, a 13.0% increase compared with 1H 2009. We experienced TWPI growth in all of our operating segments, with an overall TWPI increase of 4.5% from 1H 2009 to 1H 2010 on a constant exchange rate basis. This was largely attributable to an improvement in persistency to 94.1% at 31 May 2010 compared with 92.5% at 31 May 2009, and an increase in new business. Our average persistency during 1H 2010 returned to a level comparable with our average persistency during 1H 2008 of 94.2%, before the AIG Events in 2008. Renewal premiums, which represented 85.4% and 85.3%, respectively, of TWPI in 1H 2010 and 1H 2009, were the largest contributor to this increase, growing on a constant exchange rate basis in all of our operating segments. In Other Markets, renewal premiums grew from 74.4% of TWPI to 80.0% of TWPI between 1H 2009 and 1H 2010. This increase was primarily due to the acquisition of significant new corporate customers in 1H 2009 on multi-year agreements in respect of group business in Australia, which increased renewal premiums substantially in 1H 2010.

New business, as measured by ANP, was 14.7% higher in 1H 2010 compared with 1H 2009, reflecting an increase in new business across most of our Key Markets. The ANP growth was driven principally by our insurance operations in Hong Kong, Thailand and Singapore. In particular, our insurance operations in Hong Kong experienced ANP growth of 27.0% over the period, driven principally by higher sales of regular premium investment-linked and traditional life insurance products. ANP grew 15.8% between 1H 2009 and 1H 2010 in Thailand, notwithstanding a temporary decline in new business sales in May 2010 due to the localised political unrest centred around Bangkok, while Singapore experienced ANP growth of 36.9% over the period, reflecting higher sales of both traditional life and investment-linked insurance products. The most significant percentage growth in new business was seen in the developing insurance markets served by our Other Markets segment, in particular, Indonesia and the Philippines, where ANP grew by 93.6% and 62.7%, respectively. Australia recorded a decline in ANP of 19.9%, which reduced the overall growth recorded by our Other Markets segment to 7.8%, reflecting Australia's strong new business generation in 1H 2009 referred to above. Excluding our operations in Australia, ANP of the remaining components of our Other Markets segment collectively grew by 58.1% between 1H 2009 and 1H 2010, driven primarily by sales of regular premium investment-linked and universal life insurance products.

Investment income, excluding investment income related to investment-linked contracts, increased 14.8% to US$1,718 million in 1H 2010 from US$1,496 million in 1H 2009 as we increased our holdings of other policyholder and shareholder financial investments by US$3,884 million over the period. The increase also reflected higher dividend income in Thailand and China, as well as higher interest income resulting from holding debt securities with longer maturities in Korea.

Operating expenses increased 12.4% to US$525 million in 1H 2010 from US$467 million in 1H 2009, partly due to the effects of the appreciation of most of the local currencies in the Asia Pacific region, other than the Renminbi and the Hong Kong dollar, against the U.S. dollar and an increase in strategic initiative expenses. On a constant exchange rate basis, operating expenses increased 7.5% over the period. Our expense ratio was 8.8% and 8.7% in 1H 2009 and 1H 2010, respectively, as expenses increased in line with the growth in TWPI.

Operating profit increased 22.9% to US$1,134 million in 1H 2010 compared with US$923 million in 1H 2009, reflecting the effects of local currency appreciation against the U.S. dollar in most of our Key Markets, particularly in Korea, Singapore, Thailand and Malaysia. On a constant exchange rate basis, operating profit grew 15.0%, mainly due to an increase in investment income and a decrease in commission and other acquisition expenses, which more than offset the increase in operating expenses. Our results in 1H 2010 benefited from a net reserve release of US$18 million as we updated other provisions to reflect current expectations of our liabilities in Singapore. The profitability of each of our geographical markets is discussed in greater detail in "— Segmental Information" in this section.

Our operating margin increased to 18.8% in 1H 2010 from 17.3% in 1H 2009, reflecting the improvement in operating profit. Operating return on allocated equity remained stable between the periods, whereas our net return on equity decreased to 13.4% in 1H 2010 from 19.0% in 1H 2009 due to the effects of an increase in the average total equity attributable to shareholders of AIA Group Limited in 1H 2010 compared with 1H 2009, resulting from a significant increase in fair value and foreign currency translation reserves during 2H 2009. Our total equity attributable to shareholders of AIA Group Limited grew to US$16,547 million as of 31 May 2010, compared with US$11,449 million as of 31 May 2009.

Net profit attributable to shareholders of AIA Group Limited was US$1,057 million in 1H 2010 compared with US$966 million in 1H 2009, reflecting higher operating profit, offsetting the decrease in non-operating investment return to US$265 million in 1H 2010 from US$345 million in 1H 2009. Excluding the effects of restructuring and separation costs and securities lending, from which we largely withdrew by 30 November 2009, our operating profit and net profit attributable to shareholders of AIA Group Limited was US$1,152 million and US$1,075 million, respectively, in 1H 2010, compared with US$974 million and US$1,025 million, respectively, in 1H 2009. Securities lending is described in further detail in the section headed "Business — Investments — Our Investment Portfolio — Securities Lending" in this prospectus.

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

TWPI was US$11,632 million in FY 2009 compared with US$12,203 million in FY 2008. The 4.7% decrease between FY 2008 and FY 2009 was influenced by foreign currency movements; on a constant exchange rate basis, TWPI increased by 1.1% over the period. Renewal premiums represented 84.1% of TWPI in FY 2009 compared with 80.5% in FY 2008. Of the geographical markets in which we operate, the most significant impact of local currency depreciation was in Korea, where the average Korean Won exchange rate depreciated against the U.S. dollar by 22.9% between FY 2008 and FY 2009, from 1,047.12 Korean Won to 1.00 U.S. dollar in FY 2008 to 1,287.00 Korean Won to 1.00 U.S. dollar in FY 2009.

New business, as measured by NBP, was US$1,841 million in FY 2009 compared with US$2,347 million in FY 2008. The decrease was largely attributable to the AIG Events in 2008 which significantly reduced sales in a number of our major geographic markets, particularly in Korea and Indonesia, where our operations were branded AIG, and to a lesser extent in Hong Kong and Singapore. We believe that the decline also reflected lower customer confidence as a result of the global economic crisis and the significant decline in Asian and global equity markets in 2H 2008, which adversely affected demand for investment-linked and universal life insurance products. In particular, NBP for investment-linked and universal life insurance products fell 59.6% between FY 2008 and FY 2009. Our new business in FY 2008 reflected a strong 1H 2008 when a more favorable economic outlook prevailed in Asia.

Our NBP was US$1,841 million in FY 2009 as compared with our ANP of US$1,878 million. The difference between the two new business measures reflects the effect of annualising first year premiums on regular monthly premium policies in the calculation of ANP, whereas NBP reflects the nominal value of the monthly premiums actually received in the first year of the policy. This distinction has the greatest impact in markets where we have a greater proportion of monthly premium-paying policyholders.

Investment income, excluding investment income related to investment-linked contracts, decreased 2.7% to US$3,059 million in FY 2009 from US$3,144 million in FY 2008, mainly due to lower dividend income and a small decline in interest income from securities lending. We largely completed our withdrawal from securities lending by 30 November 2009.

Our expense ratio decreased to 8.4% in FY 2009 compared with 8.9% in FY 2008, due to expense reductions from operational efficiency initiatives, notwithstanding further investment in strategic initiatives, such as broadening of our distribution capability, which increased by 148.0% from US$25 million in FY 2008 to US$62 million in FY 2009.

Despite growth in most of our geographical markets, operating profit decreased 4.7% to US$1,781 million in FY 2009 compared with US$1,869 million in FY 2008, due to the effects of the depreciation of most of the currencies in the Asia Pacific region, other than the Renminbi and the Hong Kong dollar, against the U.S. dollar. On a constant exchange rate basis, the decrease in operating profit was 0.3% over the period. Factors affecting the profitability of each of our geographical markets are discussed in greater detail in "—Segmental Information" in this section.

Our operating margin was unchanged at 15.3% in FY 2008 and FY 2009. Operating return on allocated equity declined to 12.0% in FY 2009 compared with 15.1% in FY 2008, primarily reflecting the growth of our equity base, and the absence of significant dividend distributions in FY 2009.

Net profit attributable to shareholders of AIA Group Limited increased by 329.9% to US$1,754 million in FY 2009 compared with US$408 million in FY 2008, driven in part by the increase in non-operating investment return to a net gain of US$665 million in FY 2009 compared with a net loss of US$2,412 million in FY 2008. The increase in non-operating investment return in FY 2009 compared with FY 2008 contributed to a significant improvement in our net profit attributable to shareholders of AIA Group Limited and our net return on equity, which increased to 14.7% in FY 2009 compared with 3.7% in FY 2008. Our withdrawal from securities lending was largely completed by 30 November 2009, and, after excluding the effects of securities lending, we recorded non-operating investment return of a net gain of US$802 million in FY 2009, compared with a net loss of US$2,325 million in FY 2008. Excluding the effects of restructuring and separation costs and securities lending, operating profit was US$1,886 million in FY 2009 and US$1,885 million in FY 2008, and the corresponding net profit attributable to shareholders of AIA Group Limited was US$1,996 million and US$511 million in FY 2009 and FY 2008, respectively. Securities lending is described in further detail in the section headed "Business — Investments — Our Investment Portfolio — Securities Lending" in this prospectus.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

TWPI was US$12,203 million in FY 2008, a 7.4% increase compared with FY 2007. This increase was as a result of an increase in renewal premiums, which represented 80.5% of TWPI in FY 2008, compared with 78.1% in FY 2007. TWPI grew in all of our operating units, led by Korea, which grew at 4.1%, or 17.3% on a constant exchange rate basis, and our Other Markets segment, where TWPI grew by 15.5%, or 12.7% on a constant exchange rate basis. Within our Other Markets segment, TWPI for Australia and Indonesia increased 33.2% and 20.3% respectively, or 28.2% and 24.2%, respectively, on a constant exchange rate basis.

New business, as measured by NBP, was US$2,347 million in FY 2008 compared with US$2,456 million in FY 2007. NBP was stronger in 1H 2008 compared with 2H 2008, as new business activity in 2H 2008 was adversely impacted by the AIG Events and as the global financial crisis became more acute during that period. Both events severely affected NBP of investment-linked and universal life insurance products and standalone A&H insurance products, each of which decreased by 12.2% between FY 2007 and FY 2008. The adverse trend in NBP for investment-linked and universal life insurance products was particularly apparent in Hong Kong, where we experienced a 31.1% decrease over the period. Notwithstanding this trend, NBP in respect of traditional life insurance products grew 3.9% over the period, with higher sales reported in most of our Key Markets. NBP in FY 2008 also benefited from a 70.9% increase in new business in respect of group insurance products as we continued to develop our corporate solutions proposition, particularly in Australia and China.

Investment income, excluding investment income related to investment-linked contracts, increased 16.2% to US$3,144 million in FY 2008 from US$2,706 million in FY 2007, largely reflecting an increase in interest income.

Our expense ratio increased to 8.9% in FY 2008 compared with 8.5% in FY 2007, principally due to the effect of recapturing a portfolio of business previously reinsured to another company in the AIG Group and costs associated with strategic initiatives in certain geographical markets primarily associated with expanding our multi-channel distribution capability. The recapture, described in "— Segmental Information — Hong Kong — Year Ended 30 November 2008 Compared with Year Ended 30 November 2007" in this section, was effective from 1 March 2008 and increased our operating expense ratio related to such business. Overall, the recapture was beneficial to us in generating non-operating income in FY 2008 of US$447 million.

Operating profit increased 10.5% to US$1,869 million in FY 2008 from US$1,692 million in FY 2007. This was primarily due to increases in renewal premiums and investment income, which collectively grew at a faster rate than our expense base, as well benefiting from higher surrender fee income as we experienced a significant increase in policy surrenders in certain of our geographical markets following the AIG Events and the significant declines in the global capital markets during the fourth quarter of FY 2008, which more than offset the acceleration of DAC amortisation relating to these surrendered policies. The reinsurance recapture also had a beneficial effect on our operating profit.

Net profit attributable to shareholders of AIA Group Limited decreased 78.7% to US$408 million in FY 2008 from US$1,914 million in FY 2007. This decrease was principally the result of the adverse non-operating investment return of US$2,412 million caused by declines in market values compared with a net gain of US$837 million in FY 2007, partially offset by the increase in operating profit, a US$447 million gain arising on the reinsurance recapture, and the release of a withholding tax provision of US$275 million on the clarification of a tax treaty. Excluding the effects of securities lending, we recorded non-operating investment return of a net loss of US$2,325 million in FY 2008 compared with a net gain of US$837 million in FY 2007. Excluding the effects of restructuring and separation costs and securities lending, operating profit was US$1,885 million in FY 2008 and US$1,692 million in FY 2007, and the corresponding net profit attributable to shareholders of AIA

Group Limited was US$511 million and US$1,914 million in FY 2008 and FY 2007, respectively. Securities lending is described in further detail in the section headed "Business — Investments — Our Investment Portfolio — Securities Lending" in this prospectus.

Performance highlights are discussed in greater detail in "— Results of Operations" in this section. For our detailed financial information and related notes, see the Accountant's Report set forth in Appendix I to this prospectus.

RESULTS OF OPERATIONS

The table below provides a summary of the results of operations for the AIA Group presented on a consistent basis for the three years ended 30 November 2007, 2008 and 2009 and the six months ended 31 May 2009 and 2010. For more information on performance by each reporting segment, see "— Segmental Information" in this section. We present certain financial information on a constant exchange rate basis to facilitate a comparison of year-on-year performance without the impact of movements in the functional currencies of our operating units against the U.S. dollar, and where applicable this is explicitly stated.

Selected Results of Operations

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
			(in US$ millions)		
TWPI	**11,358**	**12,203**	**11,632**	**5,330**	**6,022**
New business — ANP(1)	**N/A**	**N/A**	**1,878**	**773**	**887**
New business — NBP(2)	**2,456**	**2,347**	**1,841**	**N/A**	**N/A**
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	8,817	10,361	10,173	4,762	5,150
Investment income(3)	2,706	3,144	3,059	1,496	1,718
Total revenue(3)	**11,523**	**13,505**	**13,232**	**6,258**	**6,868**
Net insurance and investment contract benefits(4)	7,636	8,704	8,678	4,059	4,496
Commission and other acquisition expenses	947	1,563	1,648	731	660
Operating expenses	962	1,089	981	467	525
Investment management expenses and finance costs(5)	286	252	123	65	45
Total expenses(4) (5)	**9,831**	**11,608**	**11,430**	**5,322**	**5,726**
Share of loss from associates	—	(28)	(21)	(13)	(8)
Operating profit	**1,692**	**1,869**	**1,781**	**923**	**1,134**
Tax on operating profit	(411)	(274)	(338)	(175)	(230)
Operating profit after tax	1,281	1,595	1,443	748	904
Less: amounts attributable to non-controlling interests	(11)	(7)	(5)	(1)	(5)
Operating profit after tax attributable to shareholders of AIA Group Limited	**1,270**	**1,588**	**1,438**	**747**	**899**
Operating profit may be reconciled to net profit attributable to shareholders of AIA Group Limited as follows:					
Operating profit	**1,692**	**1,869**	**1,781**	**923**	**1,134**
Non-operating investment return(6)	837	(2,412)	665	345	265
Changes in insurance and investment contract liabilities for policyholders' tax on operating profit	50	74	54	25	57
Gain on recapture of reinsurance from former parent company	—	447	—	—	—
Restructuring and separation costs	—	(10)	(89)	(25)	(18)
Profit/(loss) before tax	**2,579**	**(32)**	**2,411**	**1,268**	**1,438**
Tax on operating profit	(411)	(274)	(338)	(175)	(230)
Tax on non-operating items	(190)	518	(262)	(105)	(89)
Other non-operating tax items	(50)	201	(54)	(25)	(57)
Tax (expense)/credit	**(651)**	**445**	**(654)**	**(305)**	**(376)**
Net profit	1,928	413	1,757	963	1,062
Less: amounts attributable to non-controlling interests	(14)	(5)	(3)	3	(5)
Net profit attributable to shareholders of AIA Group Limited	**1,914**	**408**	**1,754**	**966**	**1,057**

(1) Beginning in FY 2009, we measured our new business using ANP, which consists of 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. ANP excludes new business of our corporate pension business and personal lines and motor insurance, as well as new business of PT. Asuransi AIA Indonesia which we disposed in October 2009.

(2) Prior to FY 2009, we measured our new business using NBP, which consists of 100% first year premiums (without annualisation) and 10% of single premiums, before reinsurance ceded. NBP has been presented excluding the NBP in respect of PT. Asuransi AIA Indonesia which we disposed in October 2009. If we had included new business of PT. Asuransi AIA Indonesia, NBP would have been US$2,484 million in FY 2007, US$2,377 million in FY 2008, and US$1,852 million in FY 2009.

(3) Excludes investment income related to investment-linked contracts.

(4) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds and changes in policyholders' tax and investment income related to investment-linked contracts.

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

(6) Non-operating investment return consists of investment experience, investment income related to investment-linked contracts, investment management expenses related to investment-linked contracts, corresponding changes in insurance and investment contract liabilities for investment-linked contracts and participating funds and changes in third-party interests in consolidated investment funds.

Selected Balance Sheet Information

	As of 30 November			As of 31 May
	2007	2008	2009	2010
	(in US$ millions)			
Assets				
Financial investments	70,630	55,324	73,480	78,313
Deferred acquisition and origination costs	10,044	10,047	10,976	11,227
Assets — other than the above	7,518	6,638	6,203	6,198
Total assets	**88,192**	**72,009**	**90,659**	**95,738**
Liabilities				
Insurance and investment contract liabilities	63,666	57,056	71,035	73,793
Borrowings	1,461	661	688	682
Obligations under securities lending and repurchase agreements	5,395	2,718	284	670
Liabilities — other than the above	4,179	2,656	3,693	3,986
Total liabilities	**74,701**	**63,091**	**75,700**	**79,131**
Equity				
Issued share capital and shares yet to be issued, share premium and other reserves	699	1,434	1,848	1,847
Retained earnings	9,431	9,494	11,223	12,280
Allocated equity	**10,130**	**10,928**	**13,071**	**14,127**
Amounts reflected in other comprehensive income	3,310	(2,020)	1,837	2,420
Total equity attributable to shareholders of AIA Group Limited	**13,440**	**8,908**	**14,908**	**16,547**
Non-controlling interests	51	10	51	60
Total equity	**13,491**	**8,918**	**14,959**	**16,607**
Total liabilities and equity	**88,192**	**72,009**	**90,659**	**95,738**

Six Months Ended 31 May 2010 Compared with Six Months Ended 31 May 2009

Discussion of Selected Results of Operations

Our operating profit during 1H 2010 was US$1,134 million, which was 22.9%, or 15.0% on a constant exchange rate basis, higher than that achieved in 1H 2009 of US$923 million, while average persistency improved to 93.8% during 1H 2010 compared with 90.4% during 1H 2009.

TWPI

The table below sets forth an analysis of TWPI by premium type and by product line for the periods indicated.

	Six months ended 31 May 2009			
	TWPI	Renewal premium	First year premium	Single premium
		Unaudited (in US$ millions)		
TWPI includes:				
Traditional life insurance(1)	3,183	2,856	311	140
Investment-linked and universal life insurance	1,114	917	178	188
Standalone A&H insurance	624	503	122	2
Individual life insurance (including riders)(2)	4,921	4,276	611	330
Group insurance(3)	409	271	135	40
Total	**5,330**	**4,547**	**746**	**370**

	Six months ended 31 May 2010			
	TWPI	Renewal premium	First year premium	Single premium
		(in US$ millions)		
TWPI includes:				
Traditional life insurance(1)	3,502	3,122	370	120
Investment-linked and universal life insurance	1,231	978	224	289
Standalone A&H insurance	743	611	131	2
Individual life insurance (including riders)(2)	5,476	4,711	725	411
Group insurance(3)	546	434	104	76
Total	**6,022**	**5,145**	**829**	**487**

(1) Includes TWPI in respect of incidental personal lines and motor insurance of US$12 million in 1H 2009 and US$15 million in 1H 2010.

(2) Excludes unit-deducting riders for which no premiums are received.

(3) Includes insured corporate pension schemes.

The table below sets forth quarterly TWPI and renewal premium for the periods indicated.

	Three months ended		Six months ended
	28 February 2009	31 May 2009	31 May 2009
		(US$ millions)	
TWPI	2,625	2,705	5,330
Of which Renewal premium	2,254	2,293	4,547

	Three months ended		Six months ended
	28 February 2010	31 May 2010	31 May 2010
		(US$ millions)	
TWPI	2,950	3,072	6,022
Of which Renewal premium	2,514	2,631	5,145

TWPI increased 13.0% to US$6,022 million in 1H 2010 from US$5,330 million in 1H 2009, reflecting increased average persistency and higher sales volumes. Renewal premiums continued to account for the largest proportion of TWPI, representing 85.3% and 85.4% of TWPI in 1H 2009 and 1H 2010, respectively. On a constant exchange rate basis, TWPI grew 4.5% over the period, with increases across all of our operating segments in 1H 2010, compared with 1H 2009.

TWPI attributable to traditional life insurance products increased 10.1% to US$3,502 million in 1H 2010 from US$3,183 million in 1H 2009. On a constant exchange rate basis, the increase was 3.5%, with growth across most of our Key Markets led by Thailand, Hong Kong and China. In particular, our operations in Thailand and China experienced growth in TWPI in respect of traditional life insurance products of 5.1% and 12.3%, on a constant exchange rate basis, respectively, driven by improvements in average persistency. The 6.1% increase in sales of traditional life insurance products in Hong Kong was attributable to increased renewal premiums as average persistency improved to 96.6% during 1H 2010 from 91.7% during 1H 2009, as well as the launch of a new suite of wealth management products towards the end of November 2009.

TWPI attributable to our investment-linked and universal life insurance products increased 10.5%, or 2.6% on a constant exchange rate basis, to US$1,231 million in 1H 2010 from US$1,114 million in 1H 2009. On a constant exchange rate basis, this mainly reflects increases in Hong Kong, Indonesia (through our continuing wholly-owned business in Indonesia, PT. AIA FINANCIAL) and Singapore of 2.9%, 20.2% and 14.3%, respectively, partially offset by a 5.3% decrease in Korea and the disposal of our joint venture business in Indonesia, PT. Asuransi AIA Indonesia, in October 2009.

TWPI in respect of standalone A&H insurance products increased 18.9% to US$743 million in 1H 2010 from US$624 million in 1H 2009. On a constant exchange rate basis, the increase was 5.5%. The increase in standalone A&H insurance premiums was primarily driven by renewal premiums, led by our operating units in Korea and Australia at 6.9% and 23.0%, respectively, on a constant exchange rate basis. Korea, representing 52.7% of our standalone A&H insurance business in 1H 2010, is our largest market for standalone A&H insurance products. The increase in our operations in Australia reflects customer retention following the strong growth in new business in FY 2009. For further details, see "— Other Markets — Year ended 30 November 2009 compared with year ended 30 November 2008" in this section.

TWPI in respect of group insurance products grew by 33.3%, or 15.5% on a constant exchange rate basis, between 1H 2010 and 1H 2009. This increase was largely due to a 60.3% increase in renewal premiums, or 41.1% on a constant exchange rate basis. This growth was principally driven by our operations in Australia, where renewal premiums increased 225.3%, or 149.1% on a constant exchange rate basis, as a number of significant new corporate accounts acquired in FY 2009 were retained through multi-year insurance arrangements.

New business — ANP

The table below sets forth an analysis of ANP by product line and reporting segment for the periods indicated.

	Three months ended		Six months ended	Three months ended		Six months ended
	28 February 2009	31 May 2009	31 May 2009	28 February 2010	31 May 2010	31 May 2010
		(Unaudited)				
			(US$ millions)			
ANP includes:						
Traditional life insurance[(1)]	107	160	267	148	159	307
Investment-linked and universal life insurance[(1)]	61	80	141	124	137	261
Standalone A&H insurance[(2)]	64	72	136	58	58	116
Riders	33	41	74	36	38	73
Individual life insurance (including riders)[(3)]	265	353	618	366	392	757
Group	90	65	155	71	58	130
Total[(4)]	**355**	**418**	**773**	**437**	**450**	**887**

	Three months ended		Six months ended	Three months ended		Six months ended
	28 February 2009	31 May 2009	31 May 2009	28 February 2010	31 May 2010	31 May 2010
		(Unaudited)				
			(US$ millions)			
ANP by reporting segment:						
Hong Kong	53	77	130	77	88	165
Thailand	67	89	156	95	86	181
Singapore	21	39	60	32	50	82
Malaysia	23	31	54	28	33	61
China	37	42	79	44	48	92
Korea	68	78	146	76	70	146
Other Markets	86	62	148	85	75	160
of which:						
Australia	62	33	95	44	33	77
Philippines	6	7	13	11	10	21
Indonesia	10	12	22	21	20	41
Taiwan	5	5	10	5	6	11
Vietnam	2	4	6	3	4	7
New Zealand	1	1	2	1	2	3
Total[(3)(4)]	**355**	**418**	**773**	**437**	**450**	**887**

(1) ANP for traditional life insurance, and investment-linked and universal life insurance have been presented exclusive of their respective riders.

(2) ANP for standalone A&H insurance has been presented inclusive of riders.

(3) Excludes unit-deducting riders for which no premiums are received.

(4) Excludes ANP in respect of our corporate pension business, and personal lines and motor insurance, as well as new business of PT. Asuransi AIA Indonesia which we disposed in October 2009.

New business — Corporate pension

The table below sets forth new contributions generated by our corporate pension business for the periods indicated.

	Six months ended 31 May	
	2009	2010
	Unaudited (in US$ millions)	
Corporate pension — new contributions	430	162

New business, as measured by ANP, increased 14.7%, or 3.1% on a constant exchange rate basis, to US$887 million in 1H 2010 compared with US$773 million in 1H 2009, with increases reported in all of our reporting segments, on a constant exchange rate basis, except Korea and Other Markets. In Korea, ANP decreased 15.7%, on a constant exchange rate basis, between 1H 2009 and 1H 2010, reflecting, among other factors, increased regulation affecting our direct marketing channel as well as our decision to re-price our universal life insurance products in FY 2009. Within our Other Markets segment, the decrease in ANP was led by Australia, where ANP in 1H 2009 reflected a US$77 million contribution from two large corporate customers, in respect of our group insurance product, compared to an ANP contribution of US$48 million from those accounts in 1H 2010. The factors affecting new business of each of our geographical markets are discussed in greater detail in "— Segmental Information" in this section.

ANP in respect of traditional life insurance products, excluding riders, increased 15.2% between 1H 2009 and 1H 2010, led mainly by improved sales of regular premium policies in Singapore and China. In Singapore, the increase reflected our renewed focus on more affluent consumers, whereas the increase in China was mainly attributable to improved productivity of our tied agency force.

ANP in respect of investment-linked and universal life insurance products, excluding riders, of US$261 million in 1H 2010 was 84.6% higher compared with 1H 2009. The growth in ANP was mainly attributable to higher sales of investment-linked insurance products in Hong Kong and Indonesia, and higher sales of universal life insurance products in Thailand. The increase in Hong Kong was mainly attributable to the launch of a new suite of investment-linked products towards the end of FY 2009, whereas the growth in Indonesia was principally driven by increased sales through our bancassurance partners.

ANP in respect of standalone A&H insurance products, including riders, was US$116 million in 1H 2010 compared with US$136 million in 1H 2009. The decrease of 14.7% was mainly led by lower sales of regular premium products, particularly in Korea, as we re-priced certain products and focused on margins instead of new business volumes. In particular, in Korea, we decided to close our long term cancer protection products to new customers in the latter part of FY 2009. Moreover, increased regulatory restrictions over direct marketing in Korea led to a decrease in ANP generated from our direct marketing channel.

Riders mainly comprise A&H riders attached to our traditional life and investment-linked and universal life insurance products. ANP in respect of riders remained steady at US$73 million in 1H 2010 compared with US$74 million in 1H 2009.

ANP in respect of group insurance products decreased 16.3% to US$130 million in 1H 2010 compared with US$155 million in 1H 2009. This was principally because new business in respect of group insurance products in Australia were very strong in 1H 2009. Australia represents 47.1% of our group insurance business in 1H 2010 measured in terms of TWPI.

We offer corporate pension products to customers in Hong Kong, Thailand and Indonesia, as well as through our joint venture in India. New business in relation to our corporate pension business are measured in terms of new contributions. New contributions to our corporate pension business, excluding those in respect of our joint venture in India, decreased to US$162 million in 1H 2010 from US$430 million in 1H 2009, reflecting the acquisition of the assets of a significant scheme in FY 2009. Total assets under management of our corporate pension business, excluding those in respect of our joint venture in India, grew by 14.9% to US$6,475 million as of 31 May 2010, compared with US$5,636 million as of 31 May 2009.

Net Premiums, Fee Income and Other Revenues

	Six months ended 31 May	
	2009	**2010**
	Unaudited (in US$ millions)	
Premiums, fee income and other revenues	4,905	5,376
Premiums ceded to reinsurers	(143)	(226)
Total	**4,762**	**5,150**

Premiums, fee income and other revenues increased 9.6% to US$5,376 million in 1H 2010 from US$4,905 million in 1H 2009. In particular, our operations in Thailand and Singapore experienced the highest increases in sales among our Key Markets in 1H 2010. Premiums ceded to reinsurers increased to US$226 million in 1H 2010 from US$143 million in 1H 2009, reflecting the growth in our group insurance business in Australia, as we bought relatively more reinsurance in respect of our protection products.

Investment Income

	Six months ended 31 May	
	2009	**2010**
	Unaudited (in US$ millions)	
Investment income(1)		
Interest income	1,397	1,561
Dividend income	64	122
Rental income	35	35
Total	**1,496**	**1,718**

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

Investment income, as defined above, which comprises interest, dividends and rental income, increased 14.8% to US$1,718 million in 1H 2010 from US$1,496 million in 1H 2009, largely due to an increase in the average invested assets over the period.

Interest income increased to US$1,561 million in 1H 2010 from US$1,397 million in 1H 2009, mainly reflecting a US$3,141 million increase in holdings of debt securities in respect of other shareholder and policyholder financial investments between FY 2009 and 1H 2010 and an increase in the holding of debt securities with longer maturities in Korea.

Dividend income increased to US$122 million in 1H 2010 from US$64 million in 1H 2009, principally as a result of higher dividends from our holdings of equity securities in Thailand and China.

Net Insurance and Investment Contract Benefits

	Six months ended 31 May	
	2009	2010
	Unaudited (in US$ millions)	
Net insurance and investment contract benefits[1]		
Insurance contract benefits	2,626	2,820
Net change in insurance and investment contract liabilities	1,548	1,839
Insurance and investment contract benefits	4,174	4,659
Insurance and investment contract benefits ceded	(115)	(163)
Total	**4,059**	**4,496**

(1) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds and changes in policyholders' tax and investment income related to investment-linked contracts.

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

Net insurance and investment contract benefits (on a basis consistent with the table above) increased 11.6% to US$4,659 million in 1H 2010 from US$4,174 million in 1H 2009, largely reflecting the increase in net premiums and fee income resulting from growth in sales of traditional life and standalone A&H insurance products, as well as the appreciation of local currencies against the U.S. dollar in most of our Key Markets.

Insurance and investment contract benefits ceded increased to US$163 million in 1H 2010 from US$115 million in 1H 2009, corresponding to the increase in premiums ceded to reinsurers as described in "— Results of Operations — Six Months Ended 31 May 2010 Compared with Six Months Ended 31 May 2009 — Net Premiums, Fee Income and Other Revenues" in this section.

Commission and Other Acquisition Expenses

	Six months ended 31 May	
	2009	2010
	Unaudited (in US$ millions)	
Commission and other acquisition expenses		
Commission and other acquisition expenses incurred	798	933
Deferral and amortisation of acquisition costs	(67)	(273)
Total	**731**	**660**

Commission and other acquisition expenses incurred increased 16.9% to US$933 million in 1H 2010 from US$798 million in 1H 2009. This increase was principally the result of our increased efforts to support the growth in new business during the period.

Deferral and amortisation of acquisition costs increased to US$273 million in 1H 2010 compared with US$67 million in 1H 2009, partly attributable to an increase in average persistency from 90.4% during 1H 2009 to 93.8% during 1H 2010, which was comparable to our average persistency before the AIG Events in 2008. In addition, the rate of amortisation of DAC was lower in 1H 2010 compared with 1H 2009, particularly in relation to DAC for investment-linked and universal life contracts, as the gross profit expected to be realised over the life of these contracts have increased reflecting the recovery in equity capital market valuations in the Asia Pacific region.

Operating Expenses

	Six months ended 31 May	
	2009	2010
	Unaudited (in US$ millions)	
Operating expenses		
Operating expenses excluding strategic initiative expenses	447	491
Strategic initiative expenses	20	34
Total	**467**	**525**

Operating expenses were 12.4% higher in 1H 2010 compared with 1H 2009, mainly due to the effects of the appreciation of most of the currencies in the Asia Pacific region, other than the Renminbi and the Hong Kong dollar, against the U.S. dollar, which affected most of our operating segments with the exception of Hong Kong and China, and an increase in strategic initiative expenses. On a constant exchange rate basis, operating expenses increased 7.5% over the period.

Strategic initiative expenses, which consist of expenses relating to enhancing our growth initiatives, such as distribution capability and operational efficiency and are approved by our Strategic Initiative Office, increased to US$34 million in 1H 2010 from US$20 million in 1H 2009. This increase was mainly attributable to a group-wide programme to enhance the capabilities of our finance and investment management function, which involved the implementation of new IT systems and upgrades of our existing infrastructure. In addition, the geographical scope of our Strategic Initiative Office was expanded in 2H 2009 to include our operations in Korea and certain components of Other Markets, in particular the Philippines, following the implementation of our reorganisation as set forth in the note 1 of the Accountant's Report included in Appendix I of this prospectus.

Investment Management Expenses and Finance Costs

	Six months ended 31 May	
	2009	2010
	Unaudited (in US$ millions)	
Investment management expenses and finance costs[(1)]		
Investment management expenses	33	41
Finance costs	32	4
Total	**65**	**45**

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

Investment management expenses increased to US$41 million in 1H 2010 from US$33 million in 1H 2009, principally as a result of an increase in the amount of invested assets over the period. The total carrying value of other policyholder and shareholder financial investments increased to US$49,250 million as of 31 May 2010 from US$45,366 million as of 30 November 2009, reflecting the net increase in investments arising from purchases less sales and maturities, as well as an increase in market values over the period.

Finance costs decreased significantly to US$4 million in 1H 2010 from US$32 million in 1H 2009, primarily due to our withdrawal from securities lending in FY 2009. Finance costs in respect of securities lending were nil in 1H 2010 compared with US$26 million in 1H 2009.

Operating Profit

Operating profit grew 22.9% to US$1,134 million in 1H 2010 compared with US$923 million in 1H 2009, reflecting the effects of local currency appreciation against the U.S. dollar in most of our Key Markets, particularly in Korea, Singapore, Thailand and Malaysia. On a constant exchange rate basis, operating profit grew 15.0%, with improvement experienced across most of our Key Markets. This increase is largely attributable to higher investment income as our holdings of financial investments increased during the period and a decrease in commission and other acquisition expenses, which more than offset the increase in operating expenses. In addition, our financial results in 1H 2010 benefited from net reserve release of US$18 million as we updated other provisions to reflect current expectations of our liabilities in Singapore, as discussed above.

Excluding the effects of restructuring and separation costs and securities lending, operating profit was US$1,152 million in 1H 2010 and US$974 million in 1H 2009. There was no impact from securities lending on operating profit in 1H 2010 as our withdrawal from securities lending was largely completed by 30 November 2009. Securities lending is described in further detail in the section headed "Business — Investments — Our Investment Portfolio — Securities Lending" in this prospectus.

Tax on Operating Profit

We operate in 15 principal jurisdictions, each with its own tax regime, and the change in the tax expense (or credit) from one year to the next is affected by changes in the mix of income by jurisdiction. The tax expense on operating profit in 1H 2010 of US$230 million was largely in line with the effective tax rate in FY 2009, excluding the impact of tax and regulatory changes. The tax expense for 1H 2010 reflected the issue of a new accounting standard by the Ministry of Finance of the People's Republic of China on the accounting for insurance contracts in December 2009, which had a consequential impact on the computation of income taxes for our China insurance operations, where the effective tax rate on operating profit increased to 30% from 19% between 1H 2009 and 1H 2010.

Profit Before Tax

Profit before tax increased to US$1,438 million in 1H 2010 from US$1,268 million in 1H 2009, primarily due to an improvement in operating profit which more than offset the effects of lower non-operating investment return. Profit before tax increased in all of our reporting segments, with the exception of China and our Corporate and Other segment, where profit/loss before tax was affected by decreases in non-operating investment return reflecting declines in asset prices and foreign exchange movements during the period.

Non-operating investment return was US$265 million in 1H 2010 compared with US$345 million in 1H 2009, which reflected significant increases in equity capital market valuations in 1H 2009 compared with a decline in equity capital market valuations in 1H 2010.

The improvement in profit before tax was also attributable to lower impairment losses in respect of available for sale debt securities as we experienced impairment losses of US$1 million in 1H 2010 compared with US$31 million of impairment losses in 1H 2009.

Income Tax

	Six months ended 31 May	
	2009	2010
	Unaudited (in US$ millions)	
Current income tax	134	296
Deferred income tax on temporary differences	171	80
Tax expense	**305**	**376**
Of which:		
Tax expense attributable to shareholders' profit	259	306
Tax expense attributable to policyholders' returns	46	70
Total	**305**	**376**

Our tax expense has two components: the tax charged on shareholders' profits of US$306 million in 1H 2010 compared with US$259 million in 1H 2009, and the tax that we bear on behalf of policyholders of US$70 million in 1H 2010 compared with US$46 million in 1H 2009. The tax charged on shareholders' profits and the tax expense attributable to policyholders' returns was US$376 million in 1H 2010, compared with US$305 million in 1H 2009.

The tax expense attributable to shareholders' profit for the period increased, largely reflecting the increase in the tax on operating profit in 1H 2010. Tax attributable to policyholders' returns reflects gains and losses that do not directly relate to our net profit attributable to shareholders of AIA Group Limited.

Net Profit attributable to shareholders of AIA Group Limited

Net profit attributable to shareholders of AIA Group Limited grew to US$1,057 million in 1H 2010 compared with US$966 million in 1H 2009, reflecting the improvement in operating profit as described above, which more than offset the decrease in non-operating investment return of US$265 million in 1H 2010 from US$345 million in 1H 2009.

Excluding the effects of restructuring and separation costs and securities lending, net profit attributable to shareholders of AIA Group Limited was US$1,075 million, compared with US$1,025 million in 1H 2009. There was no impact from securities lending on net profit attributable to shareholders of AIA Group Limited in 1H 2010 as our withdrawal from securities lending was largely completed by 30 November 2009. Securities lending is described in further detail in the section headed "Business — Investments — Our Investment Portfolio — Securities Lending" in this prospectus.

Discussion of Selected Balance Sheet Information

Assets

Our total assets grew 5.6% to US$95,738 million as of 31 May 2010 from US$90,659 million as of 30 November 2009, primarily reflecting net amounts invested in the period.

The table below sets forth our financial investments by asset class as of the dates indicated.

	As of 30 November 2009				As of 31 May 2010			
	Policyholder and shareholder		Investment-linked	Total	Policyholder and shareholder		Investment-linked	Total
	Other policyholder and shareholder	Participating funds			Other policyholder and shareholder	Participating funds		
	(in US$ millions)							
Financial investments includes:								
Debt securities								
Available for sale	37,722	—	—	37,722	40,853	—	—	40,853
At fair value through profit or loss	944	11,809	1,726	14,479	954	12,174	1,853	14,981
Total debt securities	38,666	11,809	1,726	52,201	41,807	12,174	1,853	55,834
Equity securities								
Available for sale	62	—	—	62	77	—	—	77
At fair value through profit or loss	2,827	2,209	11,080	16,116	3,719	2,493	11,105	17,317
Total equity securities	2,889	2,209	11,080	16,178	3,796	2,493	11,105	17,394
Loans and receivables	3,598	942	108	4,648	3,346	1,144	74	4,564
Derivative financial instruments	213	240	—	453	301	220	—	521
Total financial investments	**45,366**	**15,200**	**12,914**	**73,480**	**49,250**	**16,031**	**13,032**	**78,313**

All debt and equity securities are carried at fair value and, consequently, the values reported in our financial information reflect current market values as of the end of each reporting period. The carrying value of our financial investments increased to US$78,313 million as of 31 May 2010 compared with US$73,480 million as of 30 November 2009, as more funds were invested given the improvement in the outlook for capital markets in the Asia Pacific region during 1H 2010 and reflecting our increase in new business.

Financial investments held in respect of other policyholder and shareholder (shown in the column "Other policyholder and shareholder" in the table above), which consist mainly of fixed income debt securities, increased to US$49,250 million as of 31 May 2010 compared with US$45,366 million as of 30 November 2009. The US$3,884 million increase over the period reflects further investment of new funds, particularly in governments bonds and investment-grade corporate bonds, as well as an increase in the carrying value of debt securities during 1H 2010 as a result of the appreciation of local currencies in the region, particularly the Thai Baht, Korean Won and Malaysian Ringgit, against the U.S. dollar. The market value of our available for sale debt securities increased over the period, which is reflected in the increase in our fair value reserve to US$2,092 million as of 31 May 2010 from US$1,528 million as of 30 November 2009.

Financial investments held in respect of participating funds (shown in the column "Participating funds" in the table above) increased to US$16,031 million as of 31 May 2010 from US$15,200 million as of 30 November 2009, with growth experienced in both our debt and equity investment portfolios.

Financial investments backing investment-linked contracts (shown in the column "Investment-linked" in the table above), which comprise mainly equity securities, increased to US$13,032 million as of 31 May 2010 compared with US$12,914 million as of 30 November 2009, reflecting the increase in sales of investment-linked insurance products during the period. In general, the investment risk in respect of assets related to our investment-linked contracts is borne by the customers of our investment-linked insurance products, and does not affect our net profit attributable to shareholders of AIA Group Limited, except for asset management fees earned on account balances, as described above in "— Results of Operations — Six Months Ended 31 May 2010 Compared with Six Months Ended 31 May 2009 — Net insurance and investment contract benefits" in this section.

We held debt securities with a carrying value of US$55,834 million as of 31 May 2010 compared with US$52,201 million as of 30 November 2009. Consistent with prior periods, government bonds and bonds issued by government agencies comprised a substantial portion of our fixed income debt portfolio, representing 50.6% of our debt securities as of 31 May 2010 compared with 49.6% as of 30 November 2009. Investment-grade corporate bonds and investment-grade structured securities accounted for 46.2% of debt securities as of 31 May 2010, compared with 47.1% as of 30 November 2009.

Our equity securities had a carrying value of US$17,394 million as of 31 May 2010, compared with US$16,178 million as of 30 November 2009. The increase in carrying value was largely attributable to the investment of new funds, offset by a small decline in asset prices. Equity securities held in respect of investment-linked contracts accounted for 63.8% of our overall holdings of equity securities as of 31 May 2010, compared to 68.5% as of 30 November 2009.

Our loans and receivables outstanding were US$4,564 million as of 31 May 2010 compared with US$4,648 million as of 30 November 2009, reflecting decreases in term deposits of US$60 million and mortgage loans on residential real estate in Malaysia of US$51 million, respectively, during 1H 2010.

Liabilities

	As of	
	30 November 2009	**31 May 2010**
	(in US$ millions)	
Insurance and investment contract liabilities	71,035	73,793
Borrowings	688	682
Obligations under securities lending and repurchase agreements	284	670
Liabilities — other than the above	3,693	3,986
Total liabilities	**75,700**	**79,131**

Total liabilities increased 4.5% to US$79,131 million as of 31 May 2010 compared with US$75,700 million as of 30 November 2009, mainly due to higher insurance and investment contract liabilities and an increase in obligations under repurchase agreements.

Insurance contract liabilities increased by US$2,526 million during 1H 2010, reflecting the growth in the in-force portfolio, accretion of interest and investment returns on participating funds, whereas investment contract liabilities increased by US$232 million, reflecting net deposits and withdrawals and fees and expenses charged against account balances.

Our borrowings, which comprise mainly bank overdrafts and a term loan facility financing AIA Central, our group headquarters building in Hong Kong, remained largely unchanged at US$682 million as of 31 May 2010 compared with US$688 million as of 30 November 2009. Our capital base is comprised solely of shareholders' equity and we had no structural borrowings consisting of senior or subordinated debt, hybrid capital, loan notes or commercial paper outstanding as of 31 May 2010.

Obligations under securities lending and repurchase agreements increased to US$670 million as of 31 May 2010 from US$284 million as of 30 November 2009, as we increased our participation in repurchase activities during 1H 2010. We undertook no securities lending in 1H 2010, having largely withdrawn from securities lending during FY 2009.

Liabilities other than insurance and investment contract liabilities, borrowings and obligations under securities lending and repurchase agreements increased to US$3,986 million as of 31 May 2010 from US$3,693 million as of 30 November 2009, mainly reflecting an increase in deferred and current tax liabilities.

Equity

Total equity attributable to shareholders of AIA Group Limited increased 11.0% to US$16,547 million as of 31 May 2010 from US$14,908 million as of 30 November 2009. This increase was primarily due to the growth in retained earnings and increases in the fair value reserve and foreign exchange reserve, which together contributed to an increase of US$583 million, reflecting increases in the fair value of our portfolio of financial investments classified as available for sale and local currency appreciation against the U.S. dollar over the period.

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

Discussion of Selected Results of Operations

TWPI

The table below sets forth an analysis of TWPI by premium type and by product line for the periods indicated.

	Year ended 30 November 2008			
	TWPI	Renewal premium	First year premium	Single premium
	(in US$ millions)			
TWPI includes:				
Traditional life insurance[1]	7,073	6,371	682	194
Investment-linked and universal life insurance	3,000	1,849	923	2,283
Standalone A&H insurance	1,426	1,077	349	5
Individual life insurance (including riders)[2]	11,499	9,297	1,954	2,482
Group insurance[3]	704	529	166	93
Total	**12,203**	**9,826**	**2,120**	**2,575**

	Year ended 30 November 2009			
	TWPI	Renewal premium	First year premium	Single premium
	(in US$ millions)			
TWPI includes:				
Traditional life insurance[1]	6,983	6,154	787	420
Investment-linked and universal life insurance	2,423	1,963	403	565
Standalone A&H insurance	1,349	1,089	260	5
Individual life insurance (including riders)[2]	10,755	9,206	1,450	990
Group insurance[3]	877	573	293	101
Total	**11,632**	**9,779**	**1,743**	**1,091**

(1) Includes TWPI in respect of incidental personal lines and motor insurance of US$29 million in FY 2008 and US$27 million in FY 2009.

(2) Excludes unit-deducting riders for which no premiums are received.

(3) Includes insured corporate pension schemes.

The table below sets forth quarterly TWPI and renewal premium for the periods indicated.

	Three months ended				Year ended
	29 February 2008	31 May 2008	31 August 2008	30 November 2008	30 November 2008
			(US$ millions)		
TWPI	2,996	3,111	3,110	2,986	12,203
Of which Renewal premium	2,363	2,434	2,491	2,539	9,827

	Three months ended				Year ended
	28 February 2009	31 May 2009	31 August 2009	30 November 2009	30 November 2009
			(US$ millions)		
TWPI	2,625	2,705	3,047	3,255	11,632
Of which Renewal premium	2,253	2,293	2,519	2,714	9,779

TWPI decreased 4.7% between FY 2009 and FY 2008, influenced by foreign currency movements. On a constant exchange rate basis, TWPI increased 1.1% over the period led by a 5.0% increase in renewal premiums. Renewal premiums contributed 84.1% to our TWPI in FY 2009, an increase from 80.5% in FY 2008.

TWPI attributable to traditional life insurance products decreased 1.3% to US$6,983 million in FY 2009 from US$7,073 million in FY 2008. This decrease was influenced by foreign currency movements; on a constant exchange rate basis, TWPI increased by 2.9% over the period, with renewal premiums remaining steady at 0.7%, on a constant exchange rate basis, as persistency improved to an average of 93.4% during 2H 2009 from 90.4% during 1H 2009. Overall, traditional life insurance products accounted for 60.0% of TWPI in FY 2009, compared with 58.0% in FY 2008, as we focused on providing protection-based products to our customers, particularly in Hong Kong and Singapore, given the continued economic uncertainties during FY 2009.

TWPI attributable to investment-linked and universal life insurance products decreased 19.2% to US$2,423 million in FY 2009 from US$3,000 million in FY 2008. Despite a 12.9% decrease of TWPI on a constant exchange rate basis, which reflected the fall in demand for single premium products as a result of the economic uncertainty during FY 2009, most of our Key Markets experienced increases in renewal premiums for investment-linked and universal life insurance products.

TWPI attributable to standalone A&H insurance products decreased 5.4% to US$1,349 million in FY 2009 from US$1,426 million in FY 2008, but increased 6.4% on a constant exchange rate basis. In particular, our renewal premiums increased 1.1%, or 13.6% on a constant exchange rate basis, from US$1,077 million in FY 2008, to US$1,089 million in FY 2009, growing on a constant exchange rate basis in all of our reporting segments.

TWPI attributable to group insurance products continued an upward trend from FY 2008, increasing by 24.5% to US$877 million in FY 2009 from US$704 million in FY 2008. On a constant exchange rate basis the increase was 31.9%, led by our operations in China and Other Markets which grew at 49.3% and 77.4%, respectively, between FY 2008 and FY 2009. Our operations in Australia, part of our Other Markets reporting segment, continued to experience strong growth in group insurance products, with TWPI for this product line increasing 88.6%, on a constant exchange rate basis, driven by the acquisition of a number of large new corporate accounts during FY 2009. Australia represented 45.3% of our total TWPI attributable to group insurance products in FY 2009 compared with 33.2% in FY 2008.

New business — ANP

The table below sets forth an analysis of ANP by product line and reporting segment for the periods indicated:

	Three months ended		Six months ended	Three months ended		Six months ended	Year ended
	28 February 2009	31 May 2009	31 May 2009	31 August 2009	30 November 2009	30 November 2009	30 November 2009
		(Unaudited)		(US$ millions)			
ANP includes:							
Traditional life insurance(1)	107	160	267	246	203	449	716
Investment-linked and universal life insurance(1)	61	80	141	115	174	289	430
Standalone A&H insurance(2)	64	72	136	77	67	144	280
Riders	33	41	74	45	44	89	163
Individual life insurance (including riders)(3)	265	353	618	483	488	971	1,589
Group insurance	90	65	155	68	66	134	289
Total(4)	**355**	**418**	**773**	**551**	**554**	**1,105**	**1,878**

	Three months ended		Six months ended	Three months ended		Six months ended	Year ended
	28 February 2009	31 May 2009	31 May 2009	31 August 2009	30 November 2009	30 November 2009	30 November 2009
		(Unaudited)		(US$ millions)			
ANP by reporting segment:							
Hong Kong	53	77	130	131	126	257	387
Thailand	67	89	156	101	115	216	372
Singapore	21	39	60	52	50	102	162
Malaysia	23	31	54	27	27	54	108
China	37	42	79	57	52	109	188
Korea	68	78	146	98	96	194	340
Other Markets	86	62	148	85	88	173	321
of which:							
Australia	62	33	95	47	49	96	191
Philippines	6	7	13	10	8	18	31
Indonesia	10	12	22	16	20	36	58
Taiwan	5	5	10	5	5	10	20
Vietnam	2	4	6	5	4	9	15
New Zealand	1	1	2	2	2	4	6
Total(3)(4)	**355**	**418**	**773**	**551**	**554**	**1,105**	**1,878**

(1) ANP for traditional life insurance, and investment-linked and universal life insurance have been presented exclusive of their respective riders.

(2) ANP for standalone A&H insurance has been presented inclusive of riders.

(3) Excludes unit-deducting riders for which no premiums are received.

(4) Excludes ANP in respect of our corporate pension business, and personal lines and motor insurance, as well as new business of PT. Asuransi AIA Indonesia which we disposed in October 2009.

New business — NBP

	Year ended 30 November 2008		
	First year premium	Single premium	NBP[(1)]
	(in US$ millions)		
NBP includes:			
Traditional life insurance	682	194	698
Investment-linked and universal life insurance	923	2,283	1,129
Standalone A&H insurance	349	5	349
Individual life insurance (including riders)[(2)]	1,954	2,482	2,176
Group insurance[(3)]	166	93	171
Total	**2,120**	**2,575**	**2,347**

	Year ended 30 November 2009		
	First year premium	Single premium	NBP[(1)]
	(in US$ millions)		
NBP includes:			
Traditional life insurance	787	420	824
Investment-linked and universal life insurance	403	565	456
Standalone A&H insurance	260	5	261
Individual life insurance (including riders)[(2)]	1,450	990	1,541
Group insurance[(3)]	293	101	300
Total	**1,743**	**1,091**	**1,841**

(1) NBP excludes new business of PT. Asuransi AIA Indonesia which we disposed in October 2009. If we had included the NBP in respect of PT. Asuransi AIA Indonesia, NBP would have been US$2,377 million in FY 2008 and US$1,852 million in FY 2009.

(2) Excludes unit-deducting riders for which no premiums are received.

(3) Includes insured corporate pension schemes.

We began measuring new business activity using ANP in FY 2009. ANP grew 42.9% from US$773 million in 1H 2009 to US$1,105 million in 2H 2009, with increases experienced across all of our reporting segments, with the exception of Malaysia where ANP was US$54 million in both 1H 2009 and 2H 2009.

Notwithstanding the trend in ANP, overall new business as measured by NBP declined by 21.6%, or 14.7% on a constant exchange rate basis, from US$2,347 million in FY 2008 to US$1,841 million in FY 2009.

NBP in respect of traditional life insurance products grew by 18.0%, or 23.3% on a constant exchange rate basis between FY 2008 and FY 2009, reflecting strong growth in sales of first year premiums and weighted single premiums. The growth in first year premiums was particularly evident in Hong Kong (growth of US$135 million or 141.6%) and China (growth of US$21 million or 27.0% on a constant exchange rate basis). The growth in weighted single premiums was led by Singapore (US$14 million or 467.6% on a constant exchange rate basis) and China (US$12 million or 2,733.0% on a constant exchange rate basis).

However, the growth in NBP in respect of traditional life insurance products was more than offset by the 59.6% decline in NBP in respect of our investment-linked and universal life insurance products which decreased from US$1,129 million in FY 2008 to US$456 million in FY 2009. In our experience, customers are reluctant to commit to such products at times of economic uncertainty and capital market volatility. The fall in first year premiums for investment-linked and universal life insurance products was led by Hong Kong (decrease of US$183 million or 64.1%), Korea (decrease of US$262 million or 51.0% on a constant exchange rate basis), and Other Markets (decrease of US$77 million or 53.7% on a constant exchange rate basis). With improving economic conditions at the end of 2009, we experienced an increase in sales of investment-linked and universal life insurance products in 2H 2009.

NBP in respect of standalone A&H insurance products decreased 25.3%, or 15.8% on a constant exchange rate basis, mainly attributable to our Korean operations. The results of our Korean operations were severely affected in 1H 2009 by their association with the AIG brand as well as by the effects of the depreciation of the Korean Won against the U.S. dollar.

NBP in respect of our group insurance products grew from US$171 million in FY 2008, to US$300 million in FY 2009, an increase of 76.0%, or 86.6% on a constant exchange rate basis, led by our Other Markets segment, largely driven by Australia, where our operations acquired two significant corporate accounts in 1H 2009.

Net Premiums, Fee Income and Other Revenues

	Year ended 30 November	
	2008	2009
	(in US$ millions)	
Premiums, fee income and other revenues	10,753	10,504
Premiums ceded to reinsurers	(392)	(331)
Total	**10,361**	**10,173**

Premiums, fee income and other revenues decreased 2.3% to US$10,504 million in FY 2009 from US$10,753 million in FY 2008. The decrease was primarily due to the effect of the depreciation of most of the currencies in the Asia Pacific region, other than the Renminbi and the Hong Kong dollar, against the U.S. dollar.

Premiums ceded to reinsurers amounted to US$331 million in FY 2009 compared with US$392 million in FY 2008. This primarily reflects a reduction in amounts ceded to reinsurers by our Hong Kong segment as the reinsurance recapture discussed further in "— Factors Affecting Certain of our Geographical Markets in 2008" below took place at the start of the second quarter of FY 2008 (with the result that such premiums were ceded only for the first quarter of FY 2008), partially offset by an increase in amounts ceded to reinsurers by our Other Markets segment, reflecting the growth in our Group business product line in FY 2009.

On a constant exchange rate basis, net premiums, fee income and other revenues increased 4.0%, consistent with a 5.0% increase on a constant exchange rate basis in renewal premiums, which represent a substantial portion of our premium income.

Investment Income

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

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

Investment income, as defined above, consisting of interest, dividends and rental income, decreased marginally to US$3,059 million in FY 2009 from US$3,144 million in FY 2008. A significant proportion of our assets are invested in fixed income government securities and investment grade corporate bonds.

Interest income fell to US$2,870 million in FY 2009 from US$2,900 million in FY 2008, mainly due to a reduction in interest income from securities lending to US$23 million in FY 2009 from US$102 million in FY 2008. Our withdrawal from securities lending was largely completed by 30 November 2009.

Dividend income decreased to US$122 million in FY 2009 from US$181 million in FY 2008 due to lower yields from our equity portfolio principally resulting from a reduction in dividends in response to challenging economic conditions in FY 2009.

Net Insurance and Investment Contract Benefits

	Year ended 30 November	
	2008	2009
	(in US$ millions)	
Net insurance and investment contract benefits[1]		
Insurance contract benefits	5,402	5,375
Net change in insurance and investment contract liabilities	3,550	3,554
Insurance and investment contract benefits	8,952	8,929
Insurance and investment contract benefits ceded	(248)	(251)
Total	**8,704**	**8,678**

(1) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds and changes in policyholders' tax and investment income related to investment-linked contracts.

Net insurance and investment contract benefits (on a basis consistent with the table above) was stable between FY 2008 and FY 2009. The increase in surrender activity that we saw in the fourth quarter of FY 2008 abated in most geographical markets during FY 2009. For further details see "— Significant Events Affecting 2009" in this section.

Commission and Other Acquisition Expenses

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

Commission and other acquisition expenses incurred decreased to US$1,855 million in FY 2009 from US$2,269 million in FY 2008 due to lower sales activity in 1H 2009, compared with FY 2008 and 2H 2009, following the AIG Events in the latter part of FY 2008.

Deferral and amortisation of acquisition costs decreased to US$207 million from US$706 million, mainly reflecting lower commission and other acquisition expenses incurred, as discussed above.

Operating Expenses

	Year ended 30 November	
	2008	2009
	(in US$ millions)	
Operating expenses		
Operating expenses excluding strategic initiative expenses	1,064	919
Strategic initiative expenses	25	62
Total	**1,089**	**981**

Operating expenses excluding strategic initiative expenses decreased 13.6% to US$919 million in FY 2009 from US$1,064 million in FY 2008, primarily due to active control of day-to-day operational expenses, reductions based on operational efficiency initiatives undertaken in FY 2008 and the beneficial effects of foreign exchange. In addition, our operating expenses in FY 2008 included certain period specific items, which are discussed in greater detail for each segment in "— Segmental Information" in this section.

Strategic initiative expenses, which consist of expenses relating to enhancing our growth initiatives, such as distribution capability and operational efficiency and other initiatives administered by our Strategic Initiative Office, increased 148.0% between FY 2008 and FY 2009, and represented 6.7% of our total operating expenses in FY 2009 compared with 2.3% in FY 2008.

Investment Management Expenses and Finance Costs

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

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

Investment management expenses and finance costs decreased significantly to US$73 million and US$50 million, respectively, in FY 2009 from US$93 million and US$159 million, respectively, in FY 2008, principally resulting from our withdrawal from securities lending which was largely completed during FY 2009 and lower finance costs due to a reduction in interest rates in relation to a term loan financing AIA Central, our group headquarters building in Hong Kong. Finance costs relating to securities lending decreased to US$39 million in FY 2009 from US$109 million in FY 2008.

Operating Profit

Operating profit fell 4.7% to US$1,781 million in FY 2009 compared with US$1,869 million in FY 2008, despite an improvement in operating profit in local currency terms in most of our reporting segments. This decrease was mainly due to the effects of the depreciation of local currencies against the U.S. dollar, in particular the depreciation of the Korean Won. On a constant exchange rate basis, operating profit decreased 0.3% over the period.

Our operating profit was adversely affected by weaker performance of our operations in Korea and Thailand, which reported operating profit of US$81 million and US$358 million in FY 2009 compared with US$281 million and US$424 million, respectively, in FY 2008. Factors affecting the profitability of our Korean and Thailand operations are discussed in greater detail in "— Segmental Information" in this section.

Excluding the effects of restructuring and separation costs, and securities lending, operating profit was US$1,886 million in FY 2009, compared with US$1,885 million in FY 2008. Securities lending is described in further detail in the section headed "Business — Investments — Our Investment Portfolio — Securities Lending" in this prospectus.

Tax on Operating Profit

The AIA Group operates in 15 principal jurisdictions, each with its own tax regime, and the change in the tax expense (or credit) from one year to the next is affected by changes in the mix of income by jurisdiction.

Our weighted average corporate tax rate on operating profit increased to 19% in FY 2009 from 15% in FY 2008, reflecting the impact of the change in the mix of income by jurisdiction and because our tax expense for FY 2008 reflected the benefit of a tax credit arising from changes in tax laws in Malaysia and a reduction in the corporate tax rate in Korea.

Profit Before Tax

Profit before tax increased significantly to US$2,411 million in FY 2009 compared with a loss before tax of US$32 million in FY 2008, mainly reflecting stable operating profit and the recovery in equity markets which led to a strong positive non-operating investment return.

Non-operating investment return improved to a net gain of US$665 million in FY 2009 from a net loss of US$2,412 million in FY 2008. The improvement in non-operating investment return principally reflected net fair value gains of US$533 million on our holdings of Thai equity securities.

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

Income Tax

	Year ended 30 November	
	2008	**2009**
	(in US$ millions)	
Current income tax	401	321
Deferred income tax temporary differences	(846)	333
Tax (credit)/expense	**(445)**	**654**
Of which:		
Tax (credit)/expense attributable to shareholders' profit	(355)	517
Tax (credit)/expense attributable to policyholders' returns	(90)	137
Total	**(445)**	**654**

Our tax expense has two components: the tax charged on shareholders' profits of US$517 million in FY 2009 compared with a tax credit of US$355 million in FY 2008, and the tax that we bear on behalf of policyholders of US$137 million in FY 2009 compared with a tax credit of US$90 million in FY 2008.

The tax on shareholders' profits for FY 2009 reflected factors affecting the tax charge on operating profit discussed above, whereas the tax credit in FY 2008 included the effects of a release of a provision for withholding tax of US$275 million, as described in Note 10 to the Accountant's Report set forth in Appendix 1 to this prospectus. Tax attributable to policyholders' returns reflects gains and losses that do not directly relate to our net profit attributable to shareholders of AIA Group Limited.

Net Profit attributable to shareholders of AIA Group Limited

Net profit attributable to shareholders of AIA Group Limited increased by 329.9% to US$1,754 million in FY 2009 compared with US$408 million in FY 2008. This increase largely reflected the after-tax effect of a significant improvement in non-operating investment return of US$403 million in FY 2009 compared with a loss after tax of US$1,894 million in FY 2008. Included in net profit attributable to shareholders of AIA Group Limited is US$89 million of non-operating restructuring and separation costs in FY 2009, compared with US$10 million in FY 2008.

Excluding the effects of restructuring and separation costs, and securities lending, net profit attributable to shareholders of AIA Group Limited was US$1,996 million in FY 2009, compared with US$511 million in FY 2008. Securities lending is described in further detail in the section headed "Business — Investments — Our Investment Portfolio — Securities Lending" in this prospectus.

Significant Events Affecting FY 2009

During FY 2009 we largely withdrew from securities lending. Please refer to the section headed "Business — Investments — Our Investment Portfolio — Securities Lending" in this prospectus for more details regarding securities lending. We earned interest income and fees from securities lending of US$23 million, and incurred finance costs consisting of interest expense on our related obligations of US$39 million and recorded net realised losses on disposal of US$137 million in FY 2009. During FY 2008, we earned interest income and fees of US$102 million and incurred finance costs of US$109 million, with realised losses of US$87 million, including impairment losses of US$52 million. In FY 2007, we earned interest income and fees from securities lending of US$145 million and incurred finance costs of US$143 million. The lower interest income and finance costs in FY 2009 reflected the gradual winding-down of securities lending during the year. As of 30 November 2009, we had largely ceased all securities lending and had repaid all obligations under agreements related to securities lending, whereas as of 30 November 2008, we held financial investments with a carrying value of US$1,480 million and cash of US$160 million in connection with securities lending and had obligations in respect of securities lending of US$1,963 million. The balance of US$284 million as of 30 November 2009 shown in the line item "Obligations under securities lending and repurchase agreements" in "— Results of Operations — Selected Balance Sheet Information" in this section is entirely in respect of our outstanding repurchase agreements which are described further in Note 30 to the Accountant's Report set forth in Appendix I to this prospectus. The cumulative effect of securities lending was a loss of US$153 million in FY 2009 and a loss of US$93 million in FY 2008, resulting in a cumulative loss of US$246 million over FY 2008 and FY 2009. Excluding the effects of securities lending, our operating profit was US$1,797 million in FY 2009 and US$1,875 million in FY 2008, and net profit attributable to shareholders of AIA Group Limited was US$1,907 million in FY 2009 and US$501 million in FY 2008.

During the fourth quarter of FY 2008, we experienced a significant increase in surrender activity following the AIG Events, while our month-on-month persistency, measuring the proportion of our customers who continue to pay their premiums, declined significantly before recovering moderately to 89.3% in November 2008, compared with 93.9% in December 2007. Surrenders peaked at over US$250 million in September 2008. Persistency has since recovered during FY 2009, reaching 95.1% in November 2009, above the level at the start of FY 2008, with surrenders of less than US$75 million in both October and November 2009. ANP has also increased significantly in 2H 2009, and was higher in 1H 2010 compared with 1H 2009.

During FY 2009, we entered into a strategic exclusive bancassurance joint venture in the Philippines with BPI, whereby Philamlife acquired a 51% interest in Ayala Life Assurance Inc., the life insurance subsidiary of BPI, and entered into a bancassurance distribution agreement with BPI. As the acquisition took place immediately before the end of our fiscal year, there was no impact on our results of operations in FY 2009.

In October 2009, we sold our 60% interest in PT. Asuransi AIA Indonesia, our joint venture operation in Indonesia, for US$65 million, giving rise to a loss on disposal of US$29 million before tax. We continue to operate in Indonesia through our wholly owned subsidiary, PT. AIA FINANCIAL. Both of these transactions are discussed in "— Segmental Information — Other Markets" in this section.

Discussion of Selected Balance Sheet Information

Assets

Our total assets grew 25.9% to US$90,659 million as of 30 November 2009 from US$72,009 million as of 30 November 2008, primarily reflecting a recovery in the market values of our financial investments, the majority of which are carried at fair value.

The table below sets forth our financial investments by asset class at their carrying values based on how they were accounted for as of the dates indicated.

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

All debt and equity securities are carried at fair value and, consequently, the values reported in our financial information reflect current market values as of the end of each reporting period. The carrying value of our financial investments increased to US$73,480 million as of 30 November 2009 compared with US$55,324 million as of 30 November 2008, driven by a recovery in equity markets during 2H 2009 and as credit spreads narrowed and risk-free interest rates fell.

Financial investments held to back other policyholder and shareholder liabilities (shown in the column "Other policyholder and shareholder" in the table above), which consisted mainly of fixed income debt securities, increased to US$45,366 million as of 30 November 2009 compared with US$35,801 million as of 30 November 2008. Despite disposals made during FY 2009, including the sale of US$1,840 million of debt securities previously held as collateral in respect of securities lending, impairments of US$67 million and net realised losses of US$162 million and the effects of foreign exchange, the carrying value of other policyholder and shareholder debt securities increased 25.6% to US$38,666 million, reflecting a recovery in the market values of these securities. The recovery in the market value of available for sale financial assets is reflected in the fair value reserve, which increased to a net gain of US$1,528 million as of 30 November 2009 from a net loss of US$1,565 million as of 30 November 2008.

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

Financial investments backing investment-linked contracts (shown in the column "Investment-linked" in the table above), which comprise mainly equity securities, increased to US$12,914 million as of 30 November 2009 compared with US$7,257 million as of 30 November 2008, largely reflecting the recovery in equity capital market valuations during the period. In general, the investment risk in respect of assets related to our investment-linked contracts is borne by the customers of our investment-linked insurance products, and does not affect the net profit attributable to shareholders of AIA Group Limited, except for asset management fees earned on account balances.

We held debt securities with a carrying value of US$52,201 million as of 30 November 2009 compared with US$42,323 million as of 30 November 2008, including US$1,840 million of debt securities previously held as collateral under our securities lending programme. Government bonds and bonds issued by government agencies comprised a substantial portion of our fixed income debt portfolio, representing 49.6% of our debt securities as of 30 November 2009 compared with 53.0% as of 30 November 2008. Investment-grade corporate bonds and investment-grade structured securities accounted for 47.1% of debt securities as of 30 November 2009, compared with 44.0% as of 30 November 2008.

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

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

The growth of our investment portfolio described above contributed to a decrease in cash and cash equivalents to US$3,405 million as of 30 November 2009 compared with US$4,164 million as of 30 November 2008, reflecting the gradual re-deployment of cash holdings during FY 2009.

Liabilities

	Year ended 30 November	
	2008	**2009**
	(in US$ millions)	
Insurance and investment contract liabilities	57,056	71,035
Borrowings	661	688
Obligations under securities lending and repurchase agreements	2,718	284
Liabilities — other than the above	2,656	3,693
Total liabilities	**63,091**	**75,700**

Total liabilities increased 20.0% to US$75,700 million as of 30 November 2009 compared with US$63,091 million as of 30 November 2008, mainly due to higher insurance and investment contract liabilities. The increased insurance and investment contract liabilities resulted from growth in the in-force portfolio, accretion of interest on account balances and investment returns accrued on participating funds. The increase in investment contract liabilities comprises the investment return on matching assets, net deposits and withdrawals and fees and expenses charged against account balances.

Our borrowings, which comprise mainly bank overdrafts and a term loan facility financing our group office building in Hong Kong, remained largely unchanged at US$688 million as of 30 November 2009 compared with US$661 million as of 30 November 2008. Our capital base is comprised solely of shareholders' equity and we had no structural borrowings consisting of senior or subordinated debt, hybrid capital, loan notes or commercial paper in issue as of 30 November 2009.

The marginal increase in bank borrowings was more than offset by the significant decrease in our obligations under our securities lending and repurchase agreements, which fell to US$284 million in FY 2009 compared with US$2,718 million in FY 2008, as we wound down and largely withdrew from securities lending by November 2009. We had no obligations outstanding in respect of securities lending as of 30 November 2009, compared with US$1,963 million as of 30 November 2008, and our obligations under repurchase agreements decreased to US$284 million as of 30 November 2009 compared with US$755 million as of 30 November 2008.

Liabilities — other than insurance and investment contract liabilities, borrowings and obligations under securities lending and repurchase agreements, increased to US$3,693 million compared with US$2,656 million in FY 2008, largely reflecting an increase in deferred tax liabilities of US$540 million in FY 2009.

Equity

Total equity attributable to shareholders of AIA Group increased 67.4% to US$14,908 million as of 30 November 2009 compared with US$8,908 million as of 30 November 2008. This mainly reflected an increase in retained earnings, recovery in the fair value of our available for sale financial investments and foreign exchange movements, which together contributed to an increase in other comprehensive income from a net loss of US$2,020 million as of 30 November 2008 to a net gain of US$1,837 million as of 30 November 2009.

Our equity reflects a capital contribution of US$408 million from AIG during FY 2009, primarily in relation to separation activities linked to the withdrawal from securities lending, reimbursement of other separation costs, and consideration for the sale of our investment management operations to AIG and the disposal of other entities to third parties, details of which are set forth in the section headed "Our History and Reorganisation — Our Reorganisation — Phase III — Preparation for a Public Offering or Sale" in this prospectus.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

Discussion of Selected Results of Operations

TWPI

The table below sets forth an analysis of TWPI by premium type and by product line for the periods indicated.

	Year ended 30 November 2007			
	TWPI	Renewal premium	First year premium	Single premium
		(in US$ millions)		
TWPI includes:				
Traditional life insurance(1)	6,789	6,115	662	112
Investment-linked and universal life insurance	2,763	1,455	960	3,489
Standalone A&H insurance	1,304	906	397	5
Individual life insurance (including riders)(2)	10,856	8,476	2,019	3,606
Group insurance(3)	502	398	97	73
Total	**11,358**	**8,874**	**2,116**	**3,679**

	Year ended 30 November 2008			
	TWPI	Renewal premium	First year premium	Single premium
		(in US$ millions)		
TWPI includes:				
Traditional life insurance(1)	7,073	6,371	682	194
Investment-linked and universal life insurance	3,000	1,849	923	2,283
Standalone A&H insurance	1,426	1,077	349	5
Individual life insurance (including riders)(2)	11,499	9,297	1,954	2,482
Group insurance(3)	704	529	166	93
Total	**12,203**	**9,826**	**2,120**	**2,575**

(1) Includes TWPI in respect of incidental personal lines and motor insurance of US$23 million in FY 2007 and US$29 million in FY 2008.

(2) Excludes unit-deducting riders for which no premiums are received.

(3) Includes insured corporate pension schemes.

The table below sets forth quarterly TWPI and renewal premium for the periods indicated.

	Three months ended				Year ended
	28 February 2007	31 May 2007	31 August 2007	30 November 2007	30 November 2007
			(US$ millions)		
TWPI	2,538	2,693	2,858	3,269	11,358
Of which Renewal premium	2,006	2,110	2,219	2,539	8,874

	Three months ended				Year ended
	29 February 2008	31 May 2008	31 August 2008	30 November 2008	30 November 2008
			(US$ millions)		
TWPI	2,996	3,111	3,110	2,986	12,203
Of which Renewal premium	2,363	2,434	2,491	2,539	9,827

TWPI increased 7.4% to US$12,203 million in FY 2008 from US$11,358 million in FY 2007, with increases reported across all our major product lines in FY 2008 compared with FY 2007. Renewal premiums, which increased 10.7% in FY 2008 compared with FY 2007, provided the biggest contribution to the increase in TWPI. Renewal premiums accounted for 80.5% of TWPI in FY 2008, compared with 78.1% of TWPI in FY 2007.

TWPI attributable to traditional life insurance products increased 4.2% to US$7,073 million in FY 2008 from US$6,789 million in FY 2007. On a constant exchange rate basis, the increase was 1.6%. Our operating units in Thailand, China and Singapore recorded the largest increases in traditional life insurance premiums at 8.0%, 15.1% and 7.2%, respectively. Renewal premiums for traditional life insurance products were the largest contributor to TWPI.

TWPI attributable to investment-linked and universal life insurance products increased 8.6% to US$3,000 million in FY 2008 from US$2,763 million in FY 2007. On a constant exchange rate basis, the increase was 9.8%. The operating units driving this growth were our operations in Korea and Other Markets at 16.6% and 36.9%, respectively. In particular, our operating unit in Korea experienced significant demand for investment-linked and universal life insurance products during 1H 2008. The increase in Other Markets was principally due to the expansion of the bancassurance distribution channel in Indonesia during 2008. In addition, renewal premiums for investment-linked and universal life insurance products grew 27.1% in FY 2008. This increase in renewal premiums may be due to customers with regular premium paying policies choosing to maintain their payments of regular premiums as markets declined, following a strategy of dollar cost averaging.

TWPI attributable to standalone A&H insurance products increased 9.4% to US$1,426 million in FY 2008 from US$1,304 million in FY 2007. On a constant exchange rate basis, the increase was 14.1%. The increase in standalone A&H insurance premiums was primarily driven by renewal premiums, led by our operating units in Korea, Other Markets and China at 18.0%, 46.0% and 30.7%, respectively. Our operations in Korea were the largest contributor to this increase, as it was the largest market for our standalone A&H insurance products, representing 52.9% of our standalone A&H insurance business in FY 2008. The growth of standalone A&H renewal premiums in our Korean operations was 33.8% on a constant exchange rate basis, which more than offset the impact of the depreciation of the Korean Won against the U.S. dollar in 2H 2008. Renewal premiums for standalone A&H insurance products increased 18.9% between FY 2007 and FY 2008. First year premiums for standalone A&H insurance products decreased 12.3%, with the largest decrease in premiums attributable to our operating unit in Korea, exacerbated by the depreciation of the Korean Won against the U.S. dollar offsetting first-year premium growth in other geographical markets, during the same period.

TWPI attributable to group insurance products was our fastest growing product line in FY 2008, increasing 40.4% to US$704 million from US$502 million in FY 2007. On a constant exchange rate basis, the increase was 35.5%. Our operating units in Other Markets, Singapore, Hong Kong and China had the highest growth with increases of 50.2%, 33.4%, 27.1% and 136.2%, respectively. Our operations in Australia, which are aggregated as part of our Other Markets segment, represented 33.2% of our overall group product business in FY 2008 and grew 57.8% from FY 2007 to FY 2008. The increase occurred across all premium paying modes, with renewal premiums growing at 42.2%.

New business — NBP

	Year ended 30 November 2007		
	First year premium	Single premium	NBP[(1)]
	(in US$ millions)		
NBP includes:			
Traditional life insurance	662	112	672
Investment-linked and universal life insurance	960	3,489	1,287
Standalone A&H insurance	397	5	397
Individual life insurance (including riders)[(2)]	2,019	3,606	2,356
Group insurance[(3)]	97	73	100
Total	**2,116**	**3,679**	**2,456**

	Year ended 30 November 2008		
	First year premium	Single premium	NBP[(1)]
	(in US$ millions)		
NBP includes:			
Traditional life insurance	682	194	698
Investment-linked and universal life insurance	923	2,283	1,129
Standalone A&H insurance	349	5	349
Individual life insurance (including riders)[(2)]	1,954	2,482	2,176
Group insurance[(3)]	166	93	171
Total	**2,120**	**2,575**	**2,347**

(1) NBP excludes new business of PT. Asuransi AIA Indonesia which we disposed in October 2009. If we had included the NBP in respect of PT. Asuransi AIA Indonesia, NBP would have been US$2,484 million in FY 2007 and US$2,377 million in FY 2008.

(2) Excludes unit-deducting riders for which no premiums are received.

(3) Includes insured corporate pension schemes.

New business, as measured by NBP decreased by 4.4% from US$2,456 million in FY 2007 to US$2,347 million in FY 2008. The decline was experienced across all product lines with the exception of our traditional life insurance and group insurance products, which grew by 3.9% and 70.9%, respectively, reflecting our focus on growing this area and increasing customer demand for protection in times of economic uncertainty.

NBP in respect of traditional life insurance products increased by 3.9%, largely reflecting an increase in first year premiums of 2.8%. This was led by our operating unit in Hong Kong, which recorded growth in NBP in respect of traditional life insurance products of 65.5%, principally following the launch of a new suite of protection products designed to meet consumers' needs during periods of economic uncertainty. In addition, our operating unit in Singapore experienced a shift back to demand for traditional life insurance products in 2H 2008, primarily due to the economic slowdown and the resulting decline in equity market prices, as well as investment restrictions introduced by the CPF discussed below.

NBP in respect of investment-linked and universal life insurance products declined by 12.2%, reflecting a decrease in weighted single premiums of 34.6%, and a decrease in first year premiums of 3.9%. The decline in weighted single premiums, particularly in our operating unit in Hong Kong, was primarily due to customers' reluctance to commit to new investment-linked savings products during times of uncertainty or market volatility. Sales of single premium investment-linked insurance products reached US$1,173 million, their highest level between FY 2007 and FY 2009, in our operations in Singapore, as policyholders invested savings from their CPF ordinary accounts in search of higher returns. However, in April 2008, investment restrictions introduced by the CPF on the use of funds held in CPF ordinary accounts resulted in substantially lower weighted single premiums for investment-linked insurance products in Singapore for the remainder of FY 2008.

NBP in respect of standalone A&H insurance products declined 12.2%, or 7.2% on a constant exchange rate basis. The decrease was most significant in Korea, our single largest market for standalone A&H insurance products, which experienced a decline in first year premiums of 27.7%, or 19.2% on a constant exchange rate basis. At the time, our Korean business was branded AIG Life Korea and consequently was more severely affected by the AIG Events. Notwithstanding the AIG Events, NBP in respect of standalone A&H insurance products increased in our Other Markets segment, Thailand, Singapore and Malaysia. The increase in our Other Markets segment was driven by growth in our operations in Australia, principally resulting from higher sales achieved through greater focus on the IFA channel during 2008.

NBP in respect of our group products increased from US$100 million in FY 2007 to US$171 million in FY 2008, reflecting growth in first year premiums of 74.1% and weighted single premiums of 28.1%. This was driven by our Other Markets segment, led by Australia, where premiums more than doubled on a constant exchange rate basis.

Net Premiums, Fee Income and Other Revenues

	Year ended 30 November	
	2007	2008
	(in US$ millions)	
Premiums, fee income and other revenues	9,650	10,753
Premiums ceded to reinsurers	(833)	(392)
Total	**8,817**	**10,361**

Premiums, fee income and other revenues increased 11.4% to US$10,753 million in FY 2008 from US$9,650 million in FY 2007. The increase in net premiums was primarily due to an increase in renewal premiums in all our major product lines and the continued expansion of our policyholder base. Moreover, in FY 2008, we recaptured a portfolio of business written by our in Hong Kong reporting segment which had been previously reinsured to another company in the AIG Group, as discussed further in "— Factors Affecting Certain of Our Geographical Markets in FY 2008" in this section.

Premiums ceded to reinsurers amounted to US$392 million in FY 2008 compared with US$833 million in FY 2007, reflecting the reinsurance recapture discussed above.

Investment Income

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

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

Investment income, as defined above, increased 16.2% to US$3,144 million in FY 2008 from US$2,706 million in FY 2007, with Hong Kong, Thailand and Singapore recording increases of 26.4%, 18.0% and 14.5%, respectively.

Net Insurance and Investment Contract Benefits

	Year ended 30 November	
	2007	2008
	(in US$ millions)	
Net insurance and investment contract benefits[1]		
Insurance contract benefits	4,555	5,402
Net change in insurance and investment contract liabilities	3,734	3,550
Insurance and investment contract benefits	8,289	8,952
Insurance and investment contract benefits ceded	(653)	(248)
Total	**7,636**	**8,704**

(1) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds and changes in policyholders' tax and investment income related to investment-linked contracts.

Insurance and investment contract benefits (on a basis consistent with the table above) increased 14.0% to US$8,704 million in FY 2008 from US$7,636 million in FY 2007, with Hong Kong, Thailand and Singapore recording increases of 37.0%, 9.0% and 11.1%, respectively. The increase in insurance and investment contract benefits (on a basis consistent with the table above) was largely due to the reinsurance recapture in Hong Kong described below in "— Factors Affecting Certain of Our Geographical Markets in FY 2008" in this section, growing in-force portfolios across all our geographical markets and higher interest and dividends credited to policyholders in FY 2008. However, there was an increase in policy surrenders in the fourth quarter of FY 2008. Total surrenders in FY 2008 amounted to US$1,283 million, of which US$663 million arose in the fourth quarter. This may be due to local customers' sentiment being affected by the general economic downturn and the AIG Events in the fourth quarter of 2008 in certain geographical markets, as demonstrated by our persistency ratios. The persistency of our overall in-force policies declined from 93.9% at the start of FY 2008 before the AIG Events, to end the year at 89.3%. By the end of FY 2009, our persistency had improved to 95.1%, above the levels we experienced at the beginning of FY 2008.

Insurance and investment contract liabilities ceded decreased 62.0% to a recovery of US$248 million in FY 2008 from a recovery of US$653 million in FY 2007, primarily due to the reinsurance recapture described below in "— Factors Affecting Certain of Our Geographical Markets in FY 2008" in this section.

Commission and Other Acquisition Expenses

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

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

Deferral and amortisation of acquisition costs decreased 47.1% to US$706 million in FY 2008 from US$1,335 million in FY 2007. The decrease was mainly attributable to a significant increase in amortisation of acquisition costs, partly in relation to DAC for investment-linked and universal life contracts, as a result of adverse market conditions prevailing in 2H 2008.

Operating Expenses

	Year ended 30 November	
	2007	2008
	(in US$ millions)	
Operating expenses		
Operating expenses excluding strategic initiative expenses	962	1,064
Strategic initiative expenses	—	25
Total	**962**	**1,089**

Our operating expenses excluding strategic initiative expenses increased 10.6% to US$1,064 million in FY 2008 from US$962 million in FY 2007, which was principally driven by the reinsurance recapture described below in "— Factors Affecting Certain of Our Geographical Markets in FY 2008" in this section and higher employee benefit expenses. Costs of strategic initiatives in FY 2008 include costs associated with expansion of distribution channels, optimisation of back-office support functions and increasing our agency and customer services infrastructure in China to 127 centres in FY 2008 from 104 centres in FY 2007.

Investment Management Expenses and Finance Costs

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

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

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

Operating Profit

As a result of the foregoing, operating profit increased 10.5% to US$1,869 million in FY 2008 from US$1,692 million in FY 2007. As discussed above, the increase in operating profit was primarily due to growth in renewal premiums and increased investment income, which collectively increased at a faster rate than our expense base and the impact of the increased level of surrenders in the fourth quarter of FY 2008, as well as the beneficial effect of the reinsurance recapture in Hong Kong described below in "Factors Affecting Certain of Our Geographical Markets in FY 2008" in this section.

Excluding the effects of restructuring and separation costs, and securities lending, from which we withdrew in FY 2009, our operating profit was US$1,885 million in FY 2008, compared with US$1,692 million in FY 2007. Restructuring and separation costs, and securities lending, had no significant net impact on our operating profit for FY 2007. Securities lending is described in further detail in the section headed "Business — Investments — Our Investment Portfolio — Securities Lending" in this prospectus.

Tax on Operating Profit

We operate in 15 principal jurisdictions, each with its own tax regime, and the change in the tax expense (or credit) from one year to the next is affected by changes in the mix of income by jurisdiction.

Our weighted average corporate tax rate on operating profit decreased to 15% in FY 2008 from 24% in FY 2007. This reflected the impact of the change in the mix of income by jurisdiction together with a tax credit relating to a change in tax law in Malaysia, the effects of a reduction in the corporate tax rate in Korea and tax savings from consolidating our tax filing in China. In Korea, a change in the corporate tax rate to 22% with effect from 2012 was announced in FY 2008, enabling us to reduce our deferred tax liabilities accordingly.

Profit/loss Before Tax

Profit before tax fell 101.2% to a loss of US$32 million in FY 2008 compared with a profit of US$2,579 million in FY 2007. This significant deterioration was primarily driven by an adverse non-operating investment return arising from a decrease in the market value of our investment portfolio in FY 2008 of US$2,412 million compared with a gain of US$837 million in FY 2007. This loss in FY 2008 was partially offset by a US$447 million gain on settlement of the reinsurance recapture in Hong Kong. For more information, see "— Factors Affecting Certain of Our Geographical Markets in FY 2008" in this section.

Income Tax

	Year ended 30 November	
	2007	2008
	(in US$ million)	
Current income tax	464	401
Deferred income taxes on		
Temporary differences	187	(571)
Release of withholding tax provision	—	(275)
Tax expense/(credit)	**651**	**(445)**
Of which:		
Tax expense/(credit) attributable to shareholders' profits	581	(355)
Tax expense/(credit) attributable to policyholders' returns	70	(90)
Total	**651**	**(445)**

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

Excluding the release of the withholding tax provision, we had a deferred income tax credit of US$571 million in FY 2008 compared with a deferred income tax charge of US$187 million in FY 2007, reflecting a decline in the market value of our investments and the impact of the factors set forth above, which affected our weighted average corporate tax rate.

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

Net Profit attributable to shareholders of AIA Group Limited

Net profit attributable to shareholders of AIA Group Limited decreased 78.7% to US$408 million in FY 2008 from US$1,914 million in FY 2007. The decline was primarily due to a negative non-operating investment return of US$2,412 million caused by declining market values, of which US$87 million was attributable to our securities lending, which was partially offset by the increase in operating profit after tax attributable to shareholders of AIA Group Limited, a US$447 million gain arising on the reinsurance recapture in Hong Kong and the release of the provision for withholding tax of US$275 million discussed above.

Excluding the effects of restructuring and separation costs and securities lending, net profit attributable to shareholders of AIA Group Limited was US$511 million in FY 2008, compared with US$1,914 million in FY 2007. Restructuring and separation costs, and securities lending, had no significant impact on our net profit attributable to shareholders of AIA Group Limited for FY 2007. Securities lending is described in further detail in the section headed "Business — Investments — Our Investment Portfolio — Securities Lending" in this prospectus.

Significant Events During Fourth Quarter FY 2008

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

The AIG Events had a significant impact on our results of operations in FY 2008, particularly in the following areas:

- A decline in new business production of single premium investment-linked and universal life insurance products, especially in Hong Kong and Singapore. New business improved in 2H 2009 compared with 1H 2009, as demonstrated by growth in first year premiums and single premiums products, when compared with 1H 2009, in most of our geographical markets. Trends in each of our geographical markets in FY 2009 are discussed in greater detail in "— Segmental Information" in this section.

- A short-term increase in surrender fee income as such income more than offset the accelerated amortisation of DAC on the surrendered policies. In particular, annuity surrenders in Korea, which operated under the AIG brand during that period, were US$1,023 million in FY 2008, compared with US$250 million in FY 2007. Surrender trends have improved in FY 2009 and 1H 2010 with the average persistency of our overall in-force policies increasing to 93.4% during 2H 2009 compared with 91.4% during 2H 2008.

- We accelerated a planned reorganisation and retrenchment programme resulting in restructuring and separation costs of US$10 million being recognised in FY 2008. This reduced our headcount by approximately 200 and contributed to an improvement in our expense ratio to 8.4% in FY 2009 from 8.9% in FY 2008, despite a 148.0% increase in spending on strategic initiatives during the year.

Factors Affecting Certain of Our Geographical Markets in FY 2008

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

Our operating unit in Singapore experienced strong growth in investment-linked and universal life insurance products in FY 2007 and 1H 2008. In 2H 2008, our operating unit in Singapore experienced a shift back to demand for traditional life insurance products, primarily due to the economic slowdown and the resulting decline in equity market prices, as well as the changes to the regulations relating to the CPF. Sales of single premium investment-linked insurance products reached US$1,173 million, their highest level between FY 2007 and FY 2009, in our operations in Singapore, as policyholders reinvested savings from their CPF ordinary account in search of higher returns. In April 2008, a change in CPF regulations introduced restrictions on the use of CPF ordinary accounts, thereby resulting in substantially lower sales of single premium investment-linked insurance products for the remainder of FY 2008. New business improved during FY 2009 as demonstrated by growth in first year premiums and sales of single premium products between 1H 2009 and 2H 2009, as described in "— Segmental Information — Singapore — Year Ended 30 November 2009 Compared with Year Ended 30 November 2008" in this section.

Operating expenses for our China business increased 35.4% to US$172 million in FY 2008 from US$127 million in FY 2007 due to increased headcount from an expansion of our operations and an increase in our agency and customer services infrastructure to 127 centres in FY 2008 from 104 centres in FY 2007. This contributed to the growth in TWPI from our branch network in China to over US$1 billion in FY 2009. Performance of our operations in China during FY 2009 is discussed further in "— Segmental Information — China — Year Ended 30 November 2009 Compared with Year Ended 30 November 2008" in this section.

Discussion of Selected Balance Sheet Information

Assets

Our total assets as of 30 November 2008 were US$72,009 million, compared with US$88,192 million as of 30 November 2007. This decrease primarily reflected the decline in market value of our financial investments, the majority of which were carried at fair value.

The table below sets forth our financial investments by asset class and type of business as of the dates indicated.

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

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

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

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

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

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

Our available for sale equity securities had a carrying value of US$87 million as of 30 November 2008, compared with US$2,520 million as of 30 November 2007. Our available for sale equity securities during this period consisted solely of shares in AIG, which were carried at fair value and decreased reflecting the significant decline in AIG’s share price during FY 2008.

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

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

Cash and cash equivalents increased to US$4,164 million as of 30 November 2008 from US$2,583 million as of 30 November 2007, as we significantly increased our cash holdings in response to adverse conditions in both debt and equity markets in the fourth quarter of 2008.

Liabilities

	Year ended 30 November	
	2007	2008
	(in US$ millions)	
Insurance and investment contract liabilities	63,666	57,056
Borrowings	1,461	661
Obligations under securities lending and repurchase agreements	5,395	2,718
Liabilities — other than the above	4,179	2,656
Total liabilities	**74,701**	**63,091**

Our total liabilities as of 30 November 2008 were US$63,091 million, compared with US$74,701 million as of 30 November 2007. This decrease primarily reflected lower insurance and investment contract liabilities, lower borrowings and obligations in respect of securities lending, and a reduction in "Liabilities — other than the above".

The decrease in insurance and investment contract liabilities to US$57,056 million as of 30 November 2008 from US$63,666 million as of 30 November 2007 was principally due to the movement in liabilities related to our investment-linked contracts, which comprised the investment return on the matching assets, net deposits or withdrawals, fees charged against account balances and the effects of foreign exchange translation.

The decrease in borrowings to US$661 million as of 30 November 2008 from US$1,461 million as of 30 November 2007 was mainly due to the repayment of loans to subsidiaries of AIG as long-term notes matured.

Our obligations under securities lending and repurchase agreements each decreased from US$3,814 million and US$1,581 million, respectively, as of 30 November 2007, to US$1,963 million and US$755 million, respectively, as of 30 November 2008. This decrease largely reflected lower securities lending to related parties and third parties, and because we had lower amounts payable in respect of repurchase agreements. The decrease in "Liabilities — other than the above" was principally due to a decrease in deferred tax liabilities.

Equity

Our total equity attributable to shareholders of AIA Group Limited was US$8,908 million as of 30 November 2008, compared with US$13,440 million as of 30 November 2007. This decrease is primarily related to the decrease in the fair value and foreign currency translation reserves, offsetting an increase in issued share capital and shares yet to be issued, share premium, and other reserves. Issued share capital, shares yet to be issued, share premium, and other reserves increased to US$1,434 million in FY 2008 from US$699 million in FY 2007, primarily due to a capital injection from the AIG Group of US$731 million. The decrease in the fair value reserve of US$4,534 million was mainly due to unrealised movements in the fair value of available for sale financial investments, including our holdings of AIG shares. The decrease in the foreign currency translation reserve of US$796 million was due to a strengthening of the U.S. dollar in FY 2008. Retained earnings increased by US$63 million for FY 2008, consisting of net profit attributable to shareholders of AIA Group Limited of US$408 million, less dividends paid of US$346 million.

SEGMENTAL INFORMATION

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

Hong Kong

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions, except ratios)				
TWPI	2,845	2,916	2,861	1,285	1,340
New business — ANP(1)	N/A	N/A	387	130	165
New business — NBP(2)	571	461	374	N/A	N/A
Investment income(3)	607	767	779	387	421
Operating expenses	133	183	163	81	83
Operating profit	408	590	698	367	423
Operating profit after tax attributable to shareholders of AIA Group Limited	368	568	653	346	399
Allocated segment equity (at period end)	2,646	3,573	4,164	3,931	4,578
Net capital in/(out) flow(4)	(7)	684	(30)	3	3
Ratios:					
Expense ratio	4.7%	6.3%	5.7%	6.3%	6.2%
Operating margin	14.3%	20.2%	24.4%	28.6%	31.6%
Operating return on allocated equity	15.5%	18.3%	16.9%	18.4%(5)	18.3%(5)

(1) Beginning in FY 2009, we measured new business using ANP, which consists of 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. ANP excludes new business of our corporate pension business and personal lines and motor insurance.

(2) Prior to FY 2009, we measured our new business using NBP, which consists of 100% first year premiums (without annualisation) and 10% of single premiums, before reinsurance ceded.

(3) Excludes investment income related to investment-linked contracts.

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

(5) Operating return on allocated equity in 1H 2009 and 1H 2010 have been annualised to facilitate comparison with prior periods.

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions)				
TWPI includes:					
Renewal premium	2,274	2,455	2,487	1,161	1,181
First year premium	482	414	357	117	155
Weighted single premium	89	47	17	7	4
Total TWPI	2,845	2,916	2,861	1,285	1,340

Six Months Ended 31 May 2010 Compared with Six Months Ended 31 May 2009

Hong Kong is our largest geographical market based on TWPI and accounted for 22.3% of our total TWPI in 1H 2010. Hong Kong is also our largest market for investment-linked insurance products based on TWPI. TWPI grew 4.3% from 1H 2009 to 1H 2010, largely due to an increase in new business over the period.

Renewal premiums, which accounted for 88.1% of TWPI in 1H 2010 compared with 90.3% of TWPI in 1H 2009, remained steady at US$1,161 million and US$1,181 million in 1H 2009 and

1H 2010, respectively, notwithstanding an improvement in average persistency from 91.7% during 1H 2009 to 96.6% during 1H 2010. The improvement in average persistency during 1H 2010 was partly offset by the effects of maturities in our in-force portfolio, while surrenders remained in line with expectation.

New business, as measured by ANP, was US$165 million in 1H 2010, compared with US$130 million in 1H 2009. The increase of 27.0% between 1H 2009 and 1H 2010 was principally driven by higher sales of regular premium investment-linked and traditional life insurance products during the period. We launched a new suite of investment-linked products towards the end of FY 2009 and this contributed to higher sales of investment-linked insurance products, with first year premiums for such products growing by 74.5% in 1H 2010 compared with 1H 2009.

Investment income (excluding investment income related to investment-linked contracts) was US$421 million in 1H 2010 compared with US$387 million in 1H 2009. This increase was mainly due to an increase in the average size of the investment portfolio over the respective periods. The carrying value of debt and equity securities attributable to other policyholder and shareholder financial investments was US$12,674 million and US$909 million, respectively, as of 31 May 2010, compared with US$12,069 million and US$609 million, respectively, as of 30 November 2009.

Operating expenses and our expense ratio remained stable between 1H 2010 and 1H 2009, while operating profit grew 15.3% to US$423 million in 1H 2010 compared with US$367 million in 1H 2009, notwithstanding the beneficial effects of higher policy surrender fee income recorded in 1H 2009 of US$23 million. The increase in operating profit in 1H 2010 was primarily due to the higher investment income, as described above, and a US$6 million increase in the operating profit generated by our corporate pension business, AIA-PT. AIA-PT contributed operating profit of US$22 million in 1H 2010 compared with US$16 million in 1H 2009, and would have generated ANP of US$31 million in 1H 2010 compared with US$65 million in 1H 2009, if its new contributions were measured using ANP.

The improvement in operating profit led to a corresponding increase in operating profit after tax attributable to shareholders of AIA Group Limited, which was 15.3% higher in 1H 2010 compared with 1H 2009, and an improvement in operating margin to 31.6% in 1H 2010 from 28.6% in 1H 2009.

Operating return on allocated equity remained relatively unchanged despite the increase in operating profit after tax, due to the retention of capital in our principal insurance business in Hong Kong. This is evidenced by the increase in the allocated segment equity to US$4,578 million as of 31 May 2010 from US$3,931 million as of 31 May 2009.

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

TWPI in Hong Kong accounted for 24.6% of our total TWPI in FY 2009, with more than US$2,400 million of renewal premiums in both FY 2009 and FY 2008. Traditional life insurance and investment-linked insurance products represented 51.8% and 38.5%, respectively, of total TWPI generated in the Hong Kong reporting segment during FY 2009 compared with 46.6% and 43.8%, respectively, in FY 2008.

Renewal premiums accounted for 86.9% of TWPI in FY 2009, compared with 84.2% of TWPI in FY 2008, as average persistency improved to 95.8% during 2H 2009 compared with 93.1% during 2H 2008.

New business, as measured by NBP, was US$374 million in FY 2009, compared with US$461 million in FY 2008. First year premiums and weighted single premiums decreased, largely driven by a decline in sales of investment-linked insurance products in 1H 2009, which more than offset higher sales of traditional life insurance products. Sales of investment-linked insurance products improved significantly in 2H 2009, with growth in first year premiums and weighted single premiums of 68.2% and 48.4%, respectively, compared with 1H 2009. First year premiums in respect of traditional life insurance products also increased by 138.4% in 2H 2009 compared with 1H 2009 following the launch of an enhanced regular savings product with critical illness benefits.

Investment income (excluding investment income related to investment-linked contracts) grew 1.6% to US$779 million in FY 2009 from US$767 million in FY 2008, due to an increase in the average size of the investment portfolio following the recapture of an intra-group reinsurance arrangement in March 2008 and positive results of operations in FY 2009. For more information regarding the recapture see "— Segmental Information — Hong Kong — Year Ended 30 November 2008 Compared with Year Ended 30 November 2007" in this section.

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

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

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

Operating return on allocated equity decreased to 16.9% in FY 2009 from 18.3% in FY 2008, despite the increase in operating profit after tax attributable to shareholders of AIA Group Limited, due to the retention of surplus capital in our principal insurance business in Hong Kong. Allocated segment equity increased to US$4,164 million as of 30 November 2009, from US$3,573 million as of 30 November 2008, after a dividend remittance to the Corporate and Other segment of US$20 million from our corporate pension business.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

TWPI increased 2.5% to US$2,916 million in FY 2008 from US$2,845 million in FY 2007. This increase was primarily driven by growth in renewal premiums as a result of stable persistency, partially offset by lower first year and new business.

New business, as measured by NBP, was US$461 million in FY 2008, compared with US$571 million in FY 2007. This decrease was principally due to lower sales in 2H 2008. NBP of our operations in Hong Kong was stronger in 1H 2008 compared with 2H 2008, as demand during 2H 2008 was affected by the AIG Events. We introduced a new suite of protection products in FY 2008, which increased the sales of our traditional life insurance products. As a result, TWPI for traditional life insurance products increased to US$1,359 million in FY 2008, from US$1,333 million in FY 2007, with first year premiums increasing by 69.3%, from US$56 million in FY 2007 to US$96 million in FY 2008. Sales of investment-linked and universal life insurance products decreased significantly in 2H 2008.

In FY 2008, we also recaptured a portfolio of reinsurance business which had previously been reinsured to another company in the AIG Group. The recapture had no impact on TWPI since this is stated before the effects of ceded reinsurance but resulted in a gain of US$447 million arising on the recapture, which is not reflected in operating profit before and after tax because of its one-time nature. The gain arose because the fair value of financial assets received on recapture exceeded the insurance and investment contract liabilities, deferred acquisition and origination costs and the recapture fee of US$190 million.

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

Operating expenses increased 37.6% to US$183 million in FY 2008 from US$133 million in FY 2007, with a portion of this increase attributable to the inclusion of operating expenses on the previously ceded business that was part of the reinsurance recapture described above. Operating expenses were also impacted by strategic initiative expenses to broaden the distribution channels of our operating unit in Hong Kong and build wealth management capabilities. Our expense ratio increased to 6.3% in FY 2008 from 4.7% in FY 2007.

Operating profit increased 44.6% to US$590 million in FY 2008 from US$408 million in FY 2007. This increase was primarily due to the beneficial effect of the reinsurance recapture, higher investment income and higher fees on surrenders following the AIG Events. Surrender fees more than offset the acceleration of DAC amortisation relating to surrenders. The growth in operating profit was greater than the growth in TWPI, and our operating margin increased to 20.2% in FY 2008 from 14.3% in FY 2007. The increase in operating profit also reflected the improved performance of our corporate pension business, AIA-PT, which generated operating profit of US$38 million in FY 2008, compared with US$33 million in FY 2007.

Operating return on allocated equity increased to 18.3% in FY 2008 from 15.5% in FY 2007. The increase in operating profit after tax attributable to shareholders of AIA Group Limited in FY 2008 was partially offset by the impact of a net capital contribution into our Hong Kong operations of US$684 million.

Thailand

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions, except ratios)				
TWPI	2,164	2,351	2,373	1,072	1,222
New business — ANP(1)	N/A	N/A	372	156	181
New business — NBP(2)	311	342	349	N/A	N/A
Investment income(3)	557	657	640	320	367
Operating expenses	114	132	135	64	71
Operating profit	401	424	358	184	243
Operating profit after tax attributable to shareholders of AIA Group Limited	275	303	251	128	170
Allocated segment equity (at period end)	2,736	2,448	2,919	2,723	3,233
Net capital in/(out) flow(4)	(61)	(74)	(175)	(58)	(29)
Ratios:					
Expense ratio	5.3%	5.6%	5.7%	6.0%	5.8%
Operating margin	18.5%	18.0%	15.1%	17.2%	19.9%
Operating return on allocated equity	11.0%	11.7%	9.4%	9.9%(5)	11.1%(5)

(1) Beginning in FY 2009, we measured new business using ANP, which consists of 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. ANP excludes new business of our corporate pension business and personal lines and motor insurance.

(2) Prior to FY 2009, we measured our new business using NBP, which consists of 100% first year premiums (without annualisation) and 10% of single premiums, before reinsurance ceded.

(3) Excludes investment income related to investment-linked contracts.

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

(5) Operating return on allocated equity for 1H 2009 and 1H 2010 have been annualised to facilitate comparison with prior periods.

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions)				
TWPI includes:					
Renewal premium	1,853	2,009	2,024	922	1,047
First year premium	301	326	337	143	168
Weighted single premium	10	16	12	7	7
Total	2,164	2,351	2,373	1,072	1,222

Six Months Ended 31 May 2010 Compared with Six Months Ended 31 May 2009

Thailand is our second largest market based on TWPI, and accounted for 20.3% of our total TWPI in 1H 2010. Thailand is our largest market for traditional life insurance products based on TWPI.

TWPI in 1H 2010 was US$1,222 million compared with US$1,072 million in 1H 2009, representing an increase of 14.0%, or 6.2% on a constant exchange rate basis. This increase was largely attributable to growth in renewal premiums of 13.5%, or 5.7% on a constant exchange rate basis, as average persistency remained steady during 1H 2010 and 1H 2009.

New business, as measured by ANP, increased from US$156 million in 1H 2009 to US$181 million in 1H 2010, largely due to higher sales of traditional life and universal life insurance products. During the second quarter of FY 2010, Thailand experienced a period of political unrest, primarily centred around Bangkok. While we experienced a significant decline in sales during May 2010, this trend has since reversed and, overall, new business was higher in 1H 2010 compared with 1H 2009. We believe that the impact on TWPI was limited, given the geographical spread of our operations throughout Thailand.

Investment income (excluding investment income related to investment-linked contracts) was US$367 million in 1H 2010 compared with US$320 million in 1H 2009, primarily due to an increase in the average size of the investment portfolio over the period, as well as an increase in dividend income, which was US$15 million higher in 1H 2010 compared with 1H 2009. The carrying value of other policyholder and shareholder investments in debt and equity securities as of 31 May 2010 were US$12,489 million and US$1,645 million, respectively, compared with US$11,062 million and US$1,322 million, respectively, as of 30 November 2009.

Between 1H 2010 and 1H 2009, operating expenses increased 10.9% to US$71 million from US$64 million, partly due to the appreciation of the Thai Baht against the U.S. dollar over the period. On a constant exchange rate basis, the increase was 1.7%, with the increase primarily attributable to the upgrading of our sales offices and compensation programmes to retain key sales staff and employees.

Our expense ratio was 5.8% in 1H 2010 compared with 6.0% in 1H 2009, while operating profit increased to US$243 million in 1H 2010 from US$184 million in 1H 2009, reflecting the strong performance and higher investment income as described above. This led to a corresponding increase in operating profit after tax attributable to shareholders of AIA Group Limited and an improvement in operating margin to 19.9% in 1H 2010 compared with 17.2% in 1H 2009.

Operating return on allocated equity increased to a lesser degree than operating margin, partly due to the growth in allocated segment equity. Allocated segment equity of our operations in Thailand increased to US$3,233 million as of 31 May 2010 compared with US$2,723 million as of 31 May 2009, reflecting the improvement in operating results and non-operating investment return of US$247 million in 1H 2010.

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

TWPI in Thailand, which accounted for 20.4% of our total TWPI in FY 2009, increased 0.9%, or 4.1% on a constant exchange rate basis, to US$2,373 million in FY 2009 from US$2,351 million in FY 2008, largely due to growth in renewal premiums. Renewal premiums increased across all product lines mainly as a result of an improvement in average persistency during FY 2009.

New business, as measured by NBP, increased 2.0% from US$342 million to US$349 million between FY 2008 and FY 2009, or 5.5% on a constant exchange rate basis, mainly led by higher sales of universal life insurance products. New business in FY 2009 as measured by ANP was US$372 million compared with NBP of US$349 million, reflecting the effect of annualising first year premiums in respect of our monthly payment mode regular premium policies.

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

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

Operating profit and operating profit after tax attributable to shareholders of AIA Group Limited decreased to US$358 million and US$251 million, respectively, in FY 2009 from US$424 million and US$303 million, respectively, in FY 2008, primarily reflecting the effects of depreciation of the Thai Baht against the U.S. dollar during FY 2009 and lower investment income as described above.

Operating margin decreased to 15.1% in FY 2009 from 18.0% in FY 2008, principally as a result of the decrease in operating profit. Operating return on allocated equity decreased to 9.4% in FY 2009 from 11.7% in FY 2008, reflecting the deterioration in operating margin and higher allocated segment equity. Allocated segment equity increased to US$2,919 million as of 30 November 2009 from US$2,448 million as of 30 November 2008, largely due to the positive results of operations and a significant improvement in non-operating investment return from a loss after tax of US$493 million in FY 2008 to a gain after tax of US$403 million. The improvement in non-operating investment return was mainly attributable to the recovery in market values of Thai equity securities, the carrying value of which increased from US$781 million as of 30 November 2008, to US$1,322 million as of 30 November 2009. Allocated segment equity as of 30 November 2009 also reflected capital repatriation of US$180 million from our Thai operations during FY 2009.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

TWPI in Thailand increased 8.7% to US$2,351 million in FY 2008 from US$2,164 million in FY 2007. On a constant exchange rate basis, the growth was 4.5%. The increase was generated across renewal premiums, first year premiums and weighted single premiums, particularly in respect of traditional life insurance products. Renewal premiums increased across all our major product lines with an overall increase of 8.4% to US$2,009 million in FY 2008 compared with US$1,853 million in FY 2007.

New business, as measured by NBP, increased 9.9% from US$311 million in FY 2007 to US$342 million in FY 2008, as our core operations in Thailand were not significantly affected by the global economic slowdown and political demonstrations in Thailand in FY 2008. First year premiums increased 8.3% to US$326 million in FY 2008 from US$301 million in FY 2007, primarily due to growth in the bancassurance and agency distribution channels, while weighted single premiums grew 59.3% to US$16 million in FY 2008 from US$10 million in FY 2007.

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

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

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

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

Singapore

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions, except ratios)				
TWPI	1,514	1,641	1,524	717	796
New business — ANP(1)	N/A	N/A	162	60	82
New business — NBP(2)	235	234	151	N/A	N/A
Investment income(3)	538	616	609	305	327
Operating expenses	95	129	91	44	56
Operating profit	326	266	316	135	200
Operating profit after tax attributable to shareholders of AIA Group Limited	280	233	264	113	159
Allocated segment equity (at period end)	1,076	978	1,526	1,322	1,721
Net capital in/(out) flow(4)	(319)	(45)	220	216	—
Ratios:					
Expense ratio	6.3%	7.9%	6.0%	6.1%	7.0%
Operating margin	21.5%	16.2%	20.7%	18.8%	25.1%
Operating return on allocated equity	25.9%	22.7%	21.1%	19.7%(5)	19.6%(5)

(1) Beginning in FY 2009, we measured new business using ANP, which consists of 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. ANP excludes the business of our personal lines and motor insurance.

(2) Prior to FY 2009, we measured our new business using NBP, which consists of 100% first year premiums (without annualisation) and 10% of single premiums, before reinsurance ceded.

(3) Excludes investment income related to investment-linked contracts.

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

(5) Operating return on allocated equity for 1H 2009 and 1H 2010 have been annualised to facilitate comparison with prior periods.

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
			(in US$ millions)		
TWPI includes:					
Renewal premium	1,280	1,407	1,373	662	720
First year premium	115	139	111	49	62
Weighted single premium	119	95	40	6	14
Total	1,514	1,641	1,524	717	796

Six Months Ended 31 May 2010 Compared with Six Months Ended 31 May 2009

Our operations in Singapore had TWPI of US$796 million in 1H 2010 compared with US$717 million in 1H 2009. TWPI grew by 11.0%, or 3.7% on a constant exchange rate basis, largely driven by increases in renewal premiums and new business.

Renewal premiums grew across all our major product lines and increased 8.7%, or 1.6% on a constant exchange rate basis, in 1H 2010 compared with 1H 2009. This was principally the result of an improvement in average persistency of in-force policies from 96.2% during 1H 2009 to 97.0% during 2H 2009 and 97.4% during 1H 2010, meaning that a greater proportion of our customers continued to pay renewal premiums in 1H 2010 compared with 1H 2009.

New business, as measured by ANP, increased from US$60 million in 1H 2009 to US$82 million in 1H 2010. This increase mainly reflected higher sales of traditional life and investment-linked insurance products during 1H 2010 as we continued our marketing efforts focusing on more affluent consumers.

Investment income (excluding investment income related to investment-linked contracts) was US$327 million in 1H 2010 compared with US$305 million in 1H 2009, primarily due to growth in the average size of the investment portfolio and an increase in dividend income (excluding investment income related to our investment-linked contracts) of US$9 million over the period. As of 31 May 2010, the carrying value of debt and equity securities attributable to other policyholder and shareholder financial investments were US$11,902 million and US$1,610 million respectively, compared with US$11,492 million and US$1,525 million, respectively, as of 30 November 2009.

Operating expenses were US$56 million in 1H 2010 compared with US$44 million in 1H 2009, leading to a corresponding increase in our expense ratio to 7.0% in 1H 2010 compared with 6.1% in 1H 2009. This increase was largely due to higher expenditure on branding activities in relation to our 'Power of We' marketing campaigns.

Operating profit was US$200 million in 1H 2010 compared with US$135 million in 1H 2009, reflecting a net reserve release of US$18 million as other provisions were updated to reflect current estimates, higher investment income reflecting the increase in the average size of our investment portfolio, as well as the positive impact of the appreciation of the Singapore Dollar against the U.S. dollar over the period.

Operating profit after tax attributable to shareholders of the AIA Group Limited was US$159 million in 1H 2010 compared with US$113 million in 1H 2009, reflecting a higher tax charge in 1H 2010 due to true-up adjustments after submission of tax returns.

The increase in operating profit led to an improvement in operating margin to 25.1% in 1H 2010, compared with 18.8% in 1H 2009. Notwithstanding this trend, operating return on allocated equity remained stable at 19.6% and 19.7% in 1H 2010 and 1H 2009, respectively, due to the retention of additional capital in our Singapore operations.

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

TWPI in Singapore accounted for 13.1% of our total TWPI in FY 2009 compared with 13.4% in FY 2008. TWPI decreased 7.1%, or 4.0% on a constant exchange rate basis, to US$1,524 million in FY 2009 from US$1,641 million in FY 2008, largely as a result of a significant fall in demand for investment-linked insurance products that adversely affected renewal premiums and new business.

Renewal premiums decreased to US$1,373 million in FY 2009 from US$1,407 million in FY 2008, largely due to the effects of foreign exchange movements and the adverse effect of policy maturities. On a constant exchange rate basis, renewal premiums increased by 0.8% over the period as average persistency of our in-force policies remained steady during FY 2008 and FY 2009.

New business, as measured by NBP, decreased 35.5% to US$151 million in FY 2009 from US$234 million in FY 2008, primarily due to lower sales of investment-linked insurance products. Sales of investment-linked insurance products in 1H 2008 were boosted by strong demand prior to the introduction of additional regulatory restrictions on investment options on CPF ordinary accounts in April 2008. Sales of investment-linked insurance products in 1H 2009 were affected by lower demand as a result of the economic uncertainty during the period, but improved in 2H 2009 reflecting various sales promotions and the launch of tailored wealth management products to target affluent individuals. These initiatives resulted in growth in first year premiums and weighted single premiums of 25.7% and 474.1%, respectively, between 1H 2009 and 2H 2009.

Investment income (excluding investment income related to investment-linked contracts) decreased 1.1% to US$609 million in FY 2009 from US$616 million in FY 2008, as a result of the depreciation of the average exchange rate of the Singapore Dollar against the U.S. dollar and as cash balances were used to repay obligations under repurchase agreements, which resulted in our foregoing investment income in order to reduce finance costs. On a constant exchange rate basis, investment income (excluding investment income related to investment-linked contracts) increased 2.3% during the year.

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

Operating profit and operating profit after tax attributable to shareholders of AIA Group Limited increased to US$316 million and US$264 million, respectively, in FY 2009, from US$266 million and US$233 million, respectively, in FY 2008. This increase was mainly attributable to the improvement in expense ratio and a decrease in commission and other acquisition expenses during FY 2009, whereas FY 2008 was adversely affected by accelerated DAC amortisation arising from higher than expected surrenders in the aftermath of the AIG Events in the fourth quarter of 2008.

The increase in operating profit led to an improvement in the operating margin to 20.7% in FY 2009 from 16.2% in 2008. Despite this increase, operating return on allocated equity fell to 21.1%

in FY 2009 compared with 22.7% in FY 2008, reflecting an increase in allocated segment equity from the retention of earnings and a capital injection of US$220 million to increase the regulatory capital position of our Singapore operations.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

TWPI in Singapore increased 8.4% to US$1,641 million in FY 2008 from US$1,514 million in FY 2007. On a constant exchange rate basis, the growth in TWPI was 1.1%. Renewal premiums increased by 9.9% from US$1,280 million in FY 2007 to US$1,407 million in FY 2008, and accounted for 85.7% of TWPI in FY 2008, compared with 84.5% in FY 2007.

New business, as measured by NBP, remained steady at US$235 million and US$234 million in FY 2007 and FY 2008, respectively, as a result of lower sales of single premium investment-linked insurance products, which offset NBP growth in traditional life insurance products during the year. In FY 2007 and 1H 2008, our operations in Singapore experienced strong growth in investment-linked insurance products as policyholders reinvested savings from their CPF ordinary accounts in search of higher returns. Sales of single premium investment-linked insurance products reached US$1,173 million in FY 2007. However, in April 2008, investment restrictions introduced by the CPF on the use of CPF ordinary accounts resulted in substantially lower sales of single premium investment-linked insurance products for the remainder of FY 2008.

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

Our operating expenses increased 35.8% to US$129 million in FY 2008 from US$95 million in FY 2007, primarily due to increased expenses of US$9 million relating to several strategic initiatives to grow the agency distribution channel, build new distribution channels and improve wealth management capabilities and operational efficiency, establish a provision for current obligations from past events, and the effects of the appreciation of the Singapore dollar against the U.S. dollar. This led to an increase in our expense ratio to 7.9% in FY 2008 from 6.3% in FY 2007.

Our operating profit decreased 18.4% to US$266 million in FY 2008 from US$326 million in FY 2007, mainly due to an acceleration of DAC amortisation and an increase in operating expenses. These factors more than offset the fee income arising on surrenders. This led to a decrease in operating margin to 16.2% in FY 2008 from 21.5% in FY 2007, and a decrease in operating profit after tax attributable to shareholders of AIA Group Limited.

Our operating return on allocated equity declined to 22.7% in FY 2008 from 25.9% in FY 2007, largely due to lower operating profit after tax attributable to shareholders of AIA Group Limited.

Malaysia

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions, except ratios)				
TWPI	667	727	707	342	390
New business — ANP(1)	N/A	N/A	108	54	61
New business — NBP(2)	89	100	96	N/A	N/A
Investment income(3)	200	230	223	105	120
Operating expenses	52	64	58	27	28
Operating profit	97	117	138	67	69
Operating profit after tax attributable to shareholders of AIA Group Limited	85	112	106	41	52
Allocated segment equity (at period end)	379	437	504	412	473
Net capital out flow(4)	(51)	(28)	(54)	(71)	(91)
Ratios:					
Expense ratio	7.8%	8.8%	8.2%	7.9%	7.2%
Operating margin	14.5%	16.1%	19.5%	19.6%	17.7%
Operating return on allocated equity	24.3%	27.5%	22.5%	19.3%(5)	21.3%(5)

(1) Beginning in FY 2009, we measured new business using ANP, which consists of 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. ANP excludes new business of our personal lines and motor insurance.

(2) Prior to FY 2009, we measured our new business using NBP, which consists of 100% first year premiums (without annualisation) and 10% of single premiums, before reinsurance ceded.

(3) Excludes investment income related to investment-linked contracts.

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

(5) Operating return on allocated equity for 1H 2009 and 1H 2010 have been annualised to facilitate comparison with prior periods.

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions)				
TWPI includes:					
Renewal premium	578	627	611	294	331
First year premium	78	91	93	47	57
Weighted single premium	11	9	3	1	2
Total	667	727	707	342	390

Six Months Ended 31 May 2010 Compared with Six Months Ended 31 May 2009

Our operations in Malaysia experienced an improvement in TWPI across all major product types in 1H 2010 compared with 1H 2009, which resulted in an overall increase in TWPI of 14.0%, or 5.8% on a constant exchange rate basis, over the period.

Between 1H 2010 and 1H 2009, renewal premiums increased 12.5%, largely resulting from the strengthening of the Malaysian Ringgit against the U.S. dollar over the period. The increase was 4.1% on a constant exchange rate basis, reflecting an improvement in average persistency to 94.2% during 1H 2010 compared with 93.5% during 1H 2009.

New business, as measured by ANP, increased 12.8% from US$54 million in 1H 2009 to US$61 million in 1H 2010, or 4.3% on a constant exchange rate basis, largely reflecting stronger sales of investment-linked insurance products. First year premiums increased 21.5%, or 14.9% on a constant exchange rate basis, over the period, principally as a result of higher sales of investment-linked and group insurance products.

Investment income (excluding investment income related to investment-linked contracts) in 1H 2010 was US$120 million compared with US$105 million in 1H 2009, partly due to an increase in both dividend income and the average size of our investment portfolio. The carrying value of debt and equity securities attributable to other policyholder and shareholder financial investments grew to US$3,692 million and US$673 million, respectively, as of 31 May 2010, compared with US$3,547 million and US$535 million, respectively, as of 30 November 2009.

Operating expenses remained relatively unchanged between 1H 2010 and 1H 2009, while our expense ratio improved to 7.2% in 1H 2010 compared with 7.9% in 1H 2009, reflecting measures taken during 1H 2010 to keep our cost base stable while increasing TWPI.

We experienced a modest increase in operating profit to US$69 million in 1H 2010 compared with US$67 million in 1H 2009, reflecting the improvement in investment income, which was partly offset by a US$6 million increase in commission and other acquisition expenses.

Between 1H 2010 and 1H 2009, operating profit after tax attributable to shareholders of AIA Group Limited increased more than the corresponding increase in operating profit, as the tax expense on operating profit in 1H 2009 included a change in the estimation of tax credits. The effective tax rate on operating profit of 25% in 1H 2010 compared with 39% in 1H 2009 is more consistent with that of FY 2009.

Operating margin decreased to 17.7% in 1H 2010 compared with 19.6% in 1H 2009, as TWPI increased at a faster rate than operating profit. Operating return on allocated equity improved to 21.3% in 1H 2010 compared with 19.3% in 1H 2009, partly reflecting the lower effective tax rate on operating profit as described above. Allocated segment equity increased to US$473 million as of 31 May 2010 compared with US$412 million as of 31 May 2009, notwithstanding the remittance of dividends of US$86 million to the Corporate and Other segment in 1H 2010.

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

TWPI in Malaysia was US$707 million in FY 2009 compared with US$727 million in FY 2008. The decrease in TWPI was due to the depreciation of the Malaysian Ringgit against the U.S. dollar in FY 2009; on a constant exchange rate basis, TWPI increased 3.5% from FY 2008 to FY 2009.

Renewal premiums were US$611 million in FY 2009 compared with US$627 million in FY 2008, largely reflecting the depreciation of Malaysian Ringgit against the U.S. dollar. On a constant exchange rate basis, renewal premiums grew 3.8%, with increases across all our major product lines.

New business, as measured by NBP, decreased 4.2% to US$96 million in FY 2009 compared with US$100 million in FY 2008. On a constant exchange rate basis, NBP increased 1.1%, led by higher sales of traditional life insurance products, which more than offset the decline in NBP in respect of investment-linked insurance products.

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

Operating expenses decreased 9.4% to US$58 million in FY 2009 compared with US$64 million in FY 2008, primarily because operating expenses in FY 2008 included certain non-recurring expenses associated with converting our Malaysian operations from a branch to a subsidiary and the establishment of our international Takaful operations. This decrease also reflected the depreciation of the Malaysian Ringgit against the U.S. dollar between FY 2008 and FY 2009. There was a corresponding improvement in our expense ratio to 8.2% in FY 2009 from 8.8% in FY 2008.

Operating profit increased 17.9% to US$138 million in FY 2009 compared with US$117 million in FY 2008, principally as a result of lower claims and policyholder dividends in FY 2009 following the maturity of an endowment product in FY 2008. This contributed to a more favourable operating margin of 19.5% in FY 2009 compared with 16.1% in FY 2008.

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

Operating return on allocated equity decreased to 22.5% in FY 2009 from 27.5% in FY 2008, largely reflecting higher allocated segment equity of US$504 million as of 30 November 2009 compared with US$437 million as of 30 November 2008. Allocated segment equity has been stated after the effects of a dividend remittance of US$69 million to the AIA Group during the year.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

TWPI in Malaysia increased 9.1% to US$727 million in FY 2008 from US$667 million in FY 2007. On a constant exchange rate basis, the increase was 4.6%, driven by growth in renewal premiums and new business.

Between FY 2007 and FY 2008, renewal premiums grew 8.5%, or 4.1% on a constant exchange rate basis, with increases reported across all product lines. In particular, renewal premiums attributable to traditional life and investment-linked insurance products increased by 7.1% and 9.2%, respectively, over the period.

New business, as measured by NBP, increased 13.1% to US$100 million in FY 2008 from US$89 million in FY 2007, primarily driven by higher sales of traditional life insurance products.

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

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

Our operating profit grew to US$117 million in FY 2008 from US$97 million in FY 2007, while operating margin improved to 16.1% in FY 2008 from 14.5% in FY 2007, mainly reflecting the increase in investment income (excluding investment income related to investment-linked contracts).

Operating profit after tax attributable to shareholders of AIA Group Limited in FY 2008 increased more than the corresponding increase in operating profit, mainly due to the recognition of a tax credit relating to a beneficial change in tax regulations in Malaysia. Operating return on allocated equity increased to 27.5% in FY 2008 from 24.3% in FY 2007, largely reflecting the effect of the increase in operating profit after tax attributable to shareholders of AIA Group Limited and lower net capital outflows during FY 2008. Net capital outflows were lower in FY 2008 as we decided to retain more capital to fund future growth once our branch in Malaysia was converted to a wholly-owned subsidiary.

China

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions, except ratios)				
TWPI	806	934	1,018	469	519
New business — ANP(1)	N/A	N/A	188	79	92
New business — NBP(2)	199	179	183	N/A	N/A
Investment income(3)	147	184	201	99	130
Operating expenses	127	172	181	82	82
Operating profit	122	85	89	62	56
Operating profit after tax attributable to shareholders of AIA Group Limited	111	88	68	50	39
Allocated segment equity (at period end)	494	554	660	621	685
Net capital in/(out) flow(4)	—	7	16	1	26
Ratios:					
Expense ratio	15.8%	18.4%	17.8%	17.5%	15.8%
Operating margin	15.1%	9.1%	8.7%	13.2%	10.8%
Operating return on allocated equity	26.9%	16.8%	11.2%	17.0%(5)	11.6%(5)

(1) Beginning in FY 2009, we measured new business using ANP, which consists of 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. ANP excludes new business of our personal lines and motor insurance.

(2) Prior to FY 2009, we measured our new business using NBP, which consists of 100% first year premiums (without annualisation) and 10% of single premiums, before reinsurance ceded.

(3) Excludes investment income related to investment-linked contracts.

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

(5) Operating return on allocated equity for 1H 2009 and 1H 2010 have been annualised to facilitate comparison with prior periods.

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions)				
TWPI includes:					
Renewal premium	607	755	835	388	427
First year premium	161	160	166	72	86
Weighted single premium	38	19	17	9	6
Total	806	934	1,018	469	519

Six Months Ended 31 May 2010 Compared with Six Months Ended 31 May 2009

Our operations in China achieved the highest growth in TWPI on a constant exchange rate basis among our Key Markets between 1H 2010 and 1H 2009. In particular, TWPI grew 10.6%, or 10.4% on a constant exchange rate basis, between 1H 2010 and 1H 2009, as a result of higher renewal premiums and new business.

Renewal premiums grew by 9.9% in 1H 2010 compared with 1H 2009, with increases reported across all our major product lines. The growth in renewal premiums reflects an improvement in average persistency to 95.2% during 1H 2010 compared with 91.8% during 1H 2009.

New business, as measured by ANP, increased 15.8% to US$92 million in 1H 2010 from US$79 million in 1H 2009, as we stepped up our agency recruitment and retention programmes. First year premiums increased 19.3% between 1H 2010 and 1H 2009, mainly due to higher sales of traditional life insurance products through our bancassurance and direct marketing sales channels in China.

Investment income (excluding investment income related to investment-linked contracts) was US$130 million in 1H 2010 compared with US$99 million in 1H 2009. This increase was largely driven by a substantial increase in dividend income, which rose to US$28 million in 1H 2010 compared with US$6 million in 1H 2009. In addition, interest income increased 9.9%, reflecting an increase in the average size of our portfolio of debt securities attributable to other policyholder and shareholder financial investments, to US$4,404 million as of 31 May 2010, compared with US$4,208 million as of 30 November 2009.

Operating expenses remained relatively unchanged between 1H 2010 and 1H 2009, while our expense ratio improved to 15.8% in 1H 2010 compared with 17.5% in 1H 2009, reflecting an improvement in operational efficiencies.

Notwithstanding the increase in investment income and stable operating expenses, operating profit and operating profit after tax attributable to shareholders of AIA Group Limited decreased to US$56 million and US$39 million, respectively, in 1H 2010 compared with US$62 million and US$50 million, respectively, in 1H 2009. This was partly due to an increase in net insurance and investment contract benefits attributable to growth of our in-force policies and because of the tax impact of new reserving regulations introduced at the end of FY 2009. In addition, the results of our China operations in 1H 2009 benefited from a one-time business tax refund of US$14 million.

The decrease in operating profit resulted in a lower operating margin and operating return on allocated equity in 1H 2010 to 10.8% and 11.6%, respectively, compared with 1H 2009 of 13.2% and 17.0%, respectively.

Allocated segment equity of US$685 million as of 31 May 2010 was stated after the effects of non-operating investment losses of US$54 million, which offset a capital injection of US$26 million into a real estate development project in Guangdong province.

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

TWPI in China increased 9.0% to US$1,018 million in FY 2009 compared with US$934 million in FY 2008, reflecting our continued efforts to expand our distribution capabilities across our branch network.

Renewal premiums grew 10.6% to US$835 million in FY 2009 from US$755 million in FY 2008, with increases experienced across all product categories. In particular, renewal premiums in respect of traditional life and standalone A&H insurance products grew 6.5% and 17.3%, respectively, in FY 2009 compared with FY 2008.

New business, as measured by NBP, increased 2.0% to US$183 million in FY 2009 from US$179 million in FY 2008, as the 46.2% growth in NBP in respect of traditional life insurance products was partly offset by lower sales of universal life insurance products during the period.

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

Operating expenses increased by 5.2% to US$181 million in FY 2009 from US$172 million in FY 2008, as we continued to enhance our agency and customer services network and develop our bancassurance and IFA distribution capabilities during the year. This increase also reflected the strengthening of the Renminbi against the U.S. dollar during FY 2009. Despite higher operating expenses, our expense ratio decreased to 17.8% in FY 2009 compared with 18.4% in FY 2008, as growth in TWPI outpaced growth in operating expenses.

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

Operating margin for FY 2009 was 8.7% compared with 9.1% in FY 2008, as TWPI grew at a faster rate than operating profit. Operating return on allocated equity fell to 11.2% in FY 2009 compared with 16.8% in FY 2008, influenced by lower operating profit after tax attributable to shareholders of AIA Group Limited and an increase in allocated equity reflecting retention of earnings and a capital injection of US$6 million into a real estate development project in Guangdong province.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

TWPI in China increased 15.8% to US$934 million in FY 2008 from US$806 million in FY 2007. On a constant exchange rate basis, the growth was 6.0%. The increase in TWPI was primarily attributable to a growth in renewal premiums across all major product lines and a significant increase in group insurance products across all available premium paying modes.

New business, as measured by NBP, was US$179 million in FY 2008 compared with US$199 million in FY 2007. The decrease in NBP over the period was principally attributable to lower sales of universal life insurance products, particularly as Asian and global equity market valuations declined in 2H 2008, which more than offset the growth in NBP attributable to group insurance products.

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

Operating expenses increased 35.4% to US$172 million in FY 2008 from US$127 million in FY 2007, mainly due to higher employee expenses as a result of an increase in headcount combined with an increase in salaries, investments in initiatives to expand our business in China and the appreciation of the Renminbi against the U.S. dollar. These increases were partly offset by a refund of US$14 million of business tax relating to commission expenses. Specifically, we expanded our agency and customer services infrastructure by increasing new sales and services centres to 127 centres in FY 2008 from 104 centres in FY 2007. The expense ratio increased to 18.4% in FY 2008 from 15.8% in FY 2007.

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

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

The operating return on allocated equity decreased to 16.8% in FY 2008 from 26.9% in FY 2007, reflecting the decrease in operating profit and an increase in allocated segment equity, including the effect of a capital injection made by the AIA Group relating to a real estate development project in Guangdong province.

Korea

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009[3]	2010
				Unaudited	
	(in US$ millions, except ratios)				
TWPI	2,178	2,268	1,759	827	989
New business — ANP[1]	N/A	N/A	340	146	146
New business — NBP[2]	757	709	330	N/A	N/A
Investment income[3]	233	248	217	99	138
Operating expenses	136	132	101	51	61
Operating profit	269	281	81	71	91
Operating profit after tax attributable to shareholders of AIA Group Limited	192	218	65	60	69
Allocated segment equity (at period end)	947	1,216	1,227	1,240	1,302
Net capital in/(out) flow[4]	60	105	11	—	—
Ratios:					
Expense ratio	6.2%	5.8%	5.7%	6.2%	6.2%
Operating margin	12.4%	12.4%	4.6%	8.6%	9.2%
Operating return on allocated equity	23.8%	20.2%	5.3%	9.8%[5]	10.9%[5]

(1) Beginning in FY 2009, we measured new business using ANP, which consists of 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. ANP excludes the business of our personal lines and motor insurance.

(2) Prior to FY 2009, we measured our new business using NBP, which consists of 100% first year premiums (without annualisation) and 10% of single premiums, before reinsurance ceded.

(3) Excludes investment income related to investment-linked contracts.

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

(5) Operating return on allocated equity for 1H 2009 and 1H 2010 have been annualised to facilitate comparison with prior periods.

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions)				
TWPI includes:					
Renewal premium	1,421	1,559	1,429	660	826
First year premium	683	664	322	165	155
Weighted single premium	74	45	8	2	8
Total	2,178	2,268	1,759	827	989

Six Months Ended 31 May 2010 Compared with Six Months Ended 31 May 2009

TWPI in Korea increased 19.6% to US$989 million in 1H 2010 compared with US$827 million in 1H 2009, but increased only 0.5% on a constant exchange rate basis, primarily due to lower first year sales as we took actions to focus on margins rather than volume in the latter part of FY 2009. In particular, we re-priced our universal life insurance products and closed our long term cancer protection products to new customers at the end of FY 2009.

Renewal premiums continue to be a key source of revenue and contributed 83.5% of our TWPI in Korea in 1H 2010. Between 1H 2009 and 1H 2010, renewal premiums grew 25.2%, or 5.3% on a constant exchange rate basis, reflecting an improvement in average persistency over the period.

New business, as measured by ANP, was US$146 million in both 1H 2010 and 1H 2009, but decreased 15.7%, on a constant exchange rate basis over the period, mainly driven by lower sales of standalone A&H insurance products following our action on re-pricing discussed above. This was offset by an increase in sales of annuity products through our bancassurance channel. Notwithstanding these factors, ANP in respect of traditional life insurance products remained robust during 1H 2010, with first year premiums attributable to traditional life insurance products growing at 35.5%, on a constant exchange rate basis, over the period.

Investment income (excluding investment income related to investment-linked contracts) increased 39.4%, or 17.9% on a constant exchange rate basis, to US$138 million in 1H 2010 compared with US$99 million in 1H 2009, principally due to an increase in the average size of the investment portfolio over the period as well as because the proportion of our investment portfolio held in longer dated bonds increased. The carrying value of debt and equity securities attributable to other policyholder and shareholder financial investments were US$4,432 million and US$111 million, respectively, as of 31 May 2010, compared with US$4,142 million and US$94 million, respectively, as of 30 November 2009.

Operating expenses increased 19.6% to US$61 million in 1H 2010 from US$51 million in 1H 2009, partly reflecting the appreciation of the Korean Won against the U.S. dollar. On a constant exchange rate basis, operating expenses increased 2.2% over the period, mainly due to formalisation of the provision of intra-group shared services, as well as strategic initiatives undertaken during 1H 2010 to enhance our distribution capabilities. Our expense ratio was 6.2% in 1H 2010 and 1H 2009, respectively.

Our operating profit increased 28.2%, or 7.1% on a constant exchange rate basis, to US$91 million in 1H 2010 compared with US$71 million in 1H 2009, reflecting the favorable impact of foreign exchange fluctuations and the favorable impact investment income, as discussed above. Operating profit after tax attributable to shareholders of AIA Group Limited grew less than the corresponding improvement in operating profit, reflecting a lower current tax charge in 1H 2009 as a higher corporate tax rate was applied on tax benefits generated during that period. The average effective tax rate in 1H 2010 is representative of the enacted corporate tax rate in Korea of 24.2%.

The increase in operating profit led to an improvement in our operating margin and operating return on allocated equity which were 9.2% and 10.9%, respectively, in 1H 2010 compared with 8.6% and 9.8%, respectively, in 1H 2009. The increase in allocated segment equity to US$1,302 million as of 31 May 2010, compared with US$1,227 million as of 30 November 2009, reflects the retention of earnings in our Korean operations to enhance its capital position.

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

The performance of our operations in Korea in FY 2009 was significantly affected by ongoing uncertainty in the Korean economy and the AIG Events. The impact on these events on our results of operations in Korea was exacerbated by further depreciation of the Korean Won against the U.S. dollar during FY 2009, as the average Korean Won to U.S. dollar exchange rate deteriorated 22.9% to 1,287.00 in FY 2009 from 1,047.12 in FY 2008.

TWPI in Korea decreased 22.4% to US$1,759 million in FY 2009 compared with US$2,268 million in FY 2008, although, on a constant exchange rate basis, the decrease was a more modest 4.7%. The 8.3% decrease in renewal premiums between FY 2008 and FY 2009 was largely attributable to adverse foreign exchange movements; on a constant exchange rate basis renewal premiums increased 11.9% during FY 2009. This increase was driven by a 23.7% growth, on a constant exchange rate basis, in renewal premiums for investment-linked and universal life insurance products in FY 2009.

New business, as measured by NBP, was US$330 million in FY 2009 compared with US$709 million in FY 2008. In particular, NBP in respect of investment-linked and universal life insurance products decreased 63.1%, or 53.5% on a constant exchange rate basis, to US$175 million in FY 2009 compared with US$475 million in FY 2008, mainly as a result of lower sales in 1H 2009 following the AIG Events.

Investment income (excluding investment income related to investment-linked contracts) fell 12.5% to US$217 million in FY 2009 from US$248 million in FY 2008, due to the depreciation of the Korean Won against the U.S. dollar as well as the carry-over effect of lower assets under management during FY 2009 following high policy surrenders in the last quarter of FY 2008 and the first quarter of 2009. On a constant exchange rate basis, investment income (excluding investment income related to investment-linked contracts) increased 7.5% from FY 2008 to FY 2009.

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

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

A further factor contributing to the reduction in operating profit was an increase in claims during FY 2009 estimated at US$40 million, particularly in respect of cancer products, claims in respect of which increased significantly due to enhanced awareness of and access to health screening. We have taken steps in Q1 2010 to strengthen claims management and we temporarily withdrew our long term cancer protection products as we redesigned a range of more appropriately priced products. In addition, operating profit in FY 2008 benefited from approximately US$40 million of surrender gains following the AIG Events in the last quarter of 2008.

Both operating margin and operating return on allocated equity were adversely affected by the deterioration in operating profit and decreased to 4.6% and 5.3%, respectively, in FY 2009 from 12.4% and 20.2%, respectively, in FY 2008.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

Our operations in Korea experienced growth in 1H 2008, but were adversely affected by the financial market downturn and the AIG Events in 2H 2008. The depreciation of the Korean Won against the U.S. dollar in FY 2008 also had an adverse impact on the financial results of our business in Korea.

TWPI in Korea increased 4.1% to US$2,268 million in FY 2008 from US$2,178 million in FY 2007. On a constant exchange rate basis, the increase was 17.3%, driven by a growth in renewal premiums. On a constant exchange rate basis, renewal premiums grew across all products lines and collectively increased 24.2% in FY 2008 compared with FY 2007.

New business, as measured by NBP, declined by 6.3% from US$757 million in FY 2007 to US$709 million in FY 2008, but increased 4.3% on a constant exchange rate basis. The growth on a constant exchange rate basis was driven by a 18.5% increase in NBP, on a constant exchange rate basis, in respect of investment-linked and universal life insurance products, which more than offset decreases in NBP in respect of standalone A&H and traditional life insurance products. In 1H 2008, we experienced growth in first year and single premiums, particularly with respect to universal life insurance products. In 2H 2008, our sales of investment-linked insurance products fell significantly, which was mainly attributable to the significant decline in values in the Asian and global equity markets and the AIG Events. In Korea, response to the AIG Events was particularly severe as the local operations were branded AIG Life Korea, which, in particular, adversely affected our bancassurance distribution channel.

Korea was a significant geographical market with respect to our standalone A&H insurance product line in FY 2008. During FY 2008, first year premiums for standalone A&H insurance products decreased 27.7%, or 19.2% on a constant exchange rate basis, due to declining demand for these products, reflecting increased competition and decline in sales of insurance products through the direct marketing channel, and the depreciation of the Korean Won against the U.S. dollar.

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

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

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

Our operating margin remained at 12.4% in FY 2007 and FY 2008.

The increase in our operating profit after tax attributable to shareholders of AIA Group Limited for FY 2008 compared with FY 2007 was greater than the corresponding increase in operating profit, partly due to a lower deferred tax charge in respect of FY 2008 reflecting a reduction in corporate tax rates to 22% beginning in 2012 (compared with 27.5% in FY 2008). However, operating return on allocated equity decreased to 20.2% in FY 2008 from 23.8% in FY 2007, despite the increase in operating profit after tax attributable to shareholders of AIA Group Limited, primarily due to the effects of a depreciation of the Korean Won against the U.S. dollar and a capital contribution from the AIA Group to support local solvency following significant annuity surrenders.

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

Other Markets

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

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions, except ratios)				
TWPI	1,184	1,366	1,390	618	766
New business — ANP[1]	N/A	N/A	321	148	160
New business — NBP[2]	294	322	358	N/A	N/A
Investment income[3]	352	397	400	191	218
Operating expenses	157	173	170	72	98
Operating profit	168	187	189	90	114
Operating profit after tax attributable to shareholders of AIA Group Limited	105	153	137	68	87
Allocated segment equity (at period end)	1,024	1,204	1,316	1,347	1,320
Net capital in/(out) flow[4]	(1)	118	18	75	(82)
Ratios:					
Expense ratio	13.3%	12.7%	12.2%	11.7%	12.8%
Operating margin	14.2%	13.7%	13.6%	14.6%	14.9%
Operating return on allocated equity	11.1%	13.7%	10.9%	10.7%[5]	13.2%[5]

(1) Beginning in FY 2009, we measured new business using ANP, which consists of 100% of annualised first year premiums and 10% of single premiums, before reinsurance ceded. ANP excludes new business of our corporate pension business and personal lines and motor insurance, as well as new business of PT. Asuransi AIA Indonesia which we disposed in October 2009.

(2) Prior to FY 2009, we measured our new business using NBP, which consists of 100% first year premiums (without annualisation) and 10% of single premiums, before reinsurance ceded. NBP excludes new business of PT. Asuransi AIA Indonesia, which we disposed in October 2009.

(3) Excludes investment income related to investment-linked contracts.

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

(5) Operating return on allocated equity for 1H 2009 and 1H 2010 have been annualised to facilitate comparison with prior periods.

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
	(in US$ millions)				
TWPI includes:					
Renewal premium	861	1,015	1,020	460	613
First year premium	296	326	358	153	146
Weighted single premium	27	25	12	5	7
Total	1,184	1,366	1,390	618	766

New business

ANP — FY 2009 onwards

	Year ended 30 November	Six months ended 31 May	
	2009	2009	2010
		Unaudited (in US$ millions)	
Australia	191	95	77
Philippines	31	13	21
Indonesia[(1)]	58	22	41
Taiwan	20	10	11
Vietnam	15	6	7
New Zealand	6	2	3
Total[(2)]	**321**	**148**	**160**

(1) Excludes new business of PT. Asuransi AIA Indonesia which we disposed in October 2009.

(2) ANP excludes new business of our corporate pension business and personal lines and motor insurance.

NBP — FY 2007 to FY 2009

	Year ended 30 November		
	2007	2008	2009
Australia	68	113	243
Philippines	55	45	27
Indonesia[(1)]	126	123	51
Taiwan	30	25	18
Vietnam	7	9	14
New Zealand	8	7	5
Total	**294**	**322**	**358**

(1) NBP excludes new business of PT. Asuransi AIA Indonesia, which we disposed in October 2009. If we had included NBP in respect of PT. Asuransi AIA Indonesia, NBP of Other Markets would have been US$324 million in FY 2007, US$352 million in FY 2008 and US$370 million in FY 2009.

Six Months Ended 31 May 2010 Compared with Six Months Ended 31 May 2009

On an aggregate basis, TWPI for Other Markets increased 24.0%, or 3.5% on a constant exchange rate basis, to US$766 million in 1H 2010 compared with US$618 million in 1H 2009. Excluding the TWPI generated by PT. Asuransi AIA Indonesia, our joint venture in Indonesia which we disposed in October 2009, the growth in TWPI was 34.1%, or 12.0% on a constant exchange rate basis.

The increase in TWPI was led by our operations in Australia, Indonesia, the Philippines and Vietnam, each of which experienced TWPI growth of 23.4%, 14.5%, 10.4% and 20.0%, respectively, on a constant exchange rate basis, between 1H 2010 and 1H 2009. TWPI growth in Australia was largely due to an increase of 225.3%, or 149.1% on a constant exchange rate basis, in renewal premiums in respect of group insurance business, reflecting the retention of large corporate customers which were acquired in 1H 2009 and boosted first year premiums in 1H 2009. Renewal premiums of group insurance products reached US$226 million in 1H 2010, which more than offset the decrease in first year premiums compared with 1H 2009. Renewal premiums accounted for 80.0% of TWPI in 1H 2010 compared with 74.3% of TWPI in 1H 2009, which was principally as a result of the increase in renewal premiums in Australia.

Within Other Markets, new business, as measured by ANP, grew 93.6% and 62.7% in Indonesia and the Philippines, respectively, during 1H 2010 compared with 1H 2009, and partially offset a

19.9% decrease in ANP for our operations in Australia over the same period. We experienced a decrease in ANP in Australia in 1H 2010 compared with 1H 2009 as sales in 1H 2009 were boosted by the acquisition of two large corporate customers of our group insurance business. In Indonesia, the growth was mainly driven by first year premium in respect of investment-linked insurance products, which more than doubled to US$30 million in 1H 2010 compared with 1H 2009, reflecting improved productivity of our agency and bancassurance distribution channels. Growth in the Philippines was partly attributable to our acquisition of a 51% interest in BPI-Philam in the latter part of FY 2009. In Vietnam, growth in ANP was led by strong growth in sales of universal life insurance products, with first year premiums growing at 29.9% on a constant exchange rate basis.

Investment income (excluding investment income related to investment-linked contracts) in 1H 2010 increased to US$218 million compared with US$191 million in 1H 2009, mainly due to an increase in the average size of the investment portfolio over the period. In particular, our operating units in the Philippines, Australia and Indonesia each experienced growth in interest income of 19.9%, 46.9% and 27.8%, respectively, between 1H 2009 and 1H 2010, and collectively contributed approximately 90% of our total investment income for the Other Markets segment in 1H 2010. In the Philippines, the growth was largely attributable to our acquisition of BPI-Philam referred to above. This more than offset the exclusion of the contribution from PT. Asuransi AIA Indonesia, which reported interest income of US$18 million in 1H 2009. Across Other Markets, the carrying value of debt and equity securities attributable to other policyholder and shareholder financial investments increased to US$4,061 million and US$309 million, respectively, as of 31 May 2010, compared with US$3,946 million and US$225 million, respectively, as of 30 November 2009.

Operating expenses increased to US$98 million in 1H 2010 compared with US$72 million in 1H 2009, mainly due to higher expenses incurred by our operating units in Australia and the Philippines, which more than offset the effect of the exclusion of the operating expenses of PT. Asuransi AIA Indonesia (of US$6 million in 1H 2009) in our results for 1H 2010. Operating expenses in our operating unit in Australia grew to US$35 million in 1H 2010, compared with US$25 million in 1H 2009, primarily reflecting a 26.1% appreciation of the Australian Dollar, with the average Australian Dollar to U.S. dollar exchange rate increasing to 0.9029 in 1H 2010 from 0.7158 in 1H 2009. The increase in operating expenses in the Philippines is largely attributable to the first time inclusion of operating expenses of BPI-Philam referred to above. As a result of the foregoing, our expense ratio increased to 12.8% in 1H 2010 compared with 11.7% in 1H 2009.

Operating profit and operating profit after tax attributable to shareholders of AIA Group Limited increased to US$114 million and US$87 million, respectively, in 1H 2010 compared with US$90 million and US$68 million, respectively, in 1H 2009. These increases were principally the result of the increase in investment income, and in turn, resulted in improvements in our operating margin and operating return on allocated equity.

Allocated segment equity for Other Markets decreased to US$1,320 million as of 31 May 2010 from US$1,347 million as of 31 May 2009, following the dividend remittance of US$9 million from our operations in Australia during 1H 2010, as well as the full and partial repayment of intra-group subordinated loans from Australia and Indonesia, respectively, during the period to the Corporate and Other segment.

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

The collective performance of our Other Markets segment continued to grow in FY 2009, with TWPI and operating profit in FY 2009 exceeding the corresponding amounts in FY 2008 and FY 2007. As our purchase of a 51% interest in BPI-Philam was completed only shortly before our fiscal year end, this purchase had no impact on TWPI for FY 2009.

TWPI for Other Markets grew 1.7% to US$1,390 million in FY 2009 from US$1,366 million in FY 2008, corresponding to an increase of 12.6% on a constant exchange rate basis. Consistent with the performance of our Key Markets reporting segments, TWPI growth in 2H 2009 was stronger in most of our operations in Other Markets, and across most product lines, compared with 1H 2009. Overall, TWPI grew 24.7% in 2H 2009, compared with 1H 2009. The increase in TWPI was led by growth in group insurance products, which represented 32.9% of overall TWPI for Other Markets in FY 2009 compared with 20.9% in FY 2008.

New business, as measured by NBP, for Other Markets increased to US$358 million in FY 2009 from US$322 million in FY 2008, led by the growth in our operations in Australia and Vietnam, which more than offset the decrease in Indonesia. Between FY 2008 and FY 2009, NBP of our Australian operations increased 116.6% as a result of strong growth in group insurance products and expansion of our distribution channels to include bancassurance during FY 2009. We acquired significant new corporate accounts during the year, enabling us to attain a leading position in the Australian group insurance market in FY 2009. In Vietnam, NBP increased 67.4% between FY 2008 and FY 2009, mainly attributable to growth in universal life insurance products. In Indonesia, we operated under two distinct entities, PT. Assurance AIA Indonesia and PT. AIA FINANCIAL. In October 2009, we disposed of our interest in our joint venture in PT. Asuransi AIA Indonesia, which contributed US$12 million of NBP in FY 2009, compared with US$31 million in FY 2008. NBP of PT. AIA FINANCIAL decreased 58.4% to US$51 million in FY 2009 from US$123 million in FY 2008 as this operation was previously branded AIG and was adversely affected by the AIG Events in 2008.

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

Operating expenses decreased marginally to US$170 million in FY 2009 from US$173 million in FY 2008, but increased 8.8% on a constant exchange rate basis mainly as a result of higher spending on strategic initiatives during FY 2009, particularly in Australia, where we invested in diversifying our distribution capabilities and improving operational efficiency. Our expense ratio improved to 12.2% in FY 2009 compared with 12.7% in FY 2008 as growth in TWPI outpaced the increase in expenses.

Operating profit increased to US$189 million in FY 2009 from US$187 million in FY 2008, which was mainly attributable to a decrease in our share of losses from associates, which fell to US$22 million in FY 2009 from US$29 million in FY 2008. Despite the growth in operating profit, operating profit after tax attributable to shareholders of AIA Group Limited decreased to US$137 million in FY 2009 compared with US$153 million in FY 2008.

Our operating margin remained largely unchanged at 13.7% in FY 2008 and 13.6% in FY 2009, reflecting stable operating profit. Excluding our share of losses from associates and joint ventures, our operating margin was 15.2% in FY 2009, a slight deterioration compared with FY 2008 of 15.8%, but higher than 14.9% in FY 2007.

Our operating return on allocated equity declined to 10.9% in FY 2009 compared with 13.7% in FY 2008, reflecting lower operating profit after tax attributable to shareholders of AIA Group Limited and higher allocated segment equity. Allocated segment equity increased to US$1,316 million as of 30 November 2009 from US$1,204 million as of 30 November 2008, as we retained earnings in local operations in order to provide capital to support further growth.

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

In FY 2008, most of our operating units in Other Markets experienced a growth in TWPI notwithstanding the regional economic slowdown. Overall, our operations in Other Markets saw TWPI grow 15.5% to US$1,366 million in FY 2008 from US$1,184 million in FY 2007. On a constant exchange rate basis, the increase was 12.7%, driven by growth in renewal premiums and new business.

Renewal premiums grew to US$1,015 million in FY 2008 from US$861 million in FY 2007, corresponding to a 14.6% increase on a constant exchange rate basis. The increase was led by our wholly owned subsidiary, PT. AIA FINANCIAL in Indonesia, and our operations in Australia. PT. AIA FINANCIAL experienced an increase in renewal premiums of 45.3%, on a constant exchange rate basis, principally led by investment-linked insurance products. Our Australian operations, the largest contributor to TWPI among the Other Markets segment, accounted for 30.6% of TWPI in respect of our Other Markets segment in FY 2008. In Australia, TWPI increased across all product lines and premium types with an overall increase of 33.2%, primarily as a result of a significant increase in group and standalone A&H insurance premiums.

New business, as measured by NBP, was US$322 million in FY 2008 compared with US$294 million in FY 2007, principally reflecting an increase in sales of group insurance products, which more than offset the decrease in respect of investment-linked and universal life insurance products during the period. Our group insurance business in Australia acquired a number of large corporate customers, while growth in standalone A&H insurance business was driven primarily by higher sales achieved through greater focus on the IFA channel throughout FY 2008.

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

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

Our operating profit increased 11.3% to US$187 million in FY 2008 from US$168 million in FY 2007. Operating profit increased in most of our operating units in Other Markets due to higher sales and higher investment income. Operating profit also includes the effect of equity accounting for our share of losses from associates of US$29 million in FY 2008 and US$8 million in FY 2007. The operating margin decreased to 13.7% in FY 2008 from 14.2% in FY 2007, mainly as a result of TWPI increasing at a greater rate than operating profit before tax.

Operating return on allocated equity increased to 13.7% in FY 2008 from 11.1% in FY 2007, reflecting the increase in operating profit after tax attributable to shareholders of AIA Group Limited and the effects of capital allocations by the AIA Group to support continued expansion in Australia of US$18 million (in the form of subordinated debt), in Vietnam of US$23 million, in Taiwan of US$9 million, as well as US$50 million (in the form of subordinated debt) in Indonesia to support local solvency requirements in FY 2008. In addition, we invested US$44 million in our joint venture in India in FY 2008.

Corporate and Other

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
		(in US$ millions)			
Investment income(1)	72	45	(10)	(10)	(3)
Operating expenses	148	104	82	46	46
Operating loss	(99)	(81)	(88)	(53)	(62)
Operating loss after tax attributable to shareholders of AIA Group Limited	(146)	(87)	(106)	(59)	(76)
Allocated segment equity (at period end)(2)	828	518	755	352	815
Net capital in/(out) flow(3)	285	(377)	383	(112)	172

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

(2) Allocated segment equity includes capital allocations in the form of subordinated intra-group debt.

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

Six Months Ended 31 May 2010 Compared with Six Months Ended 31 May 2009

The Corporate and Other segment consists of the AIA Group's corporate functions, shared services and eliminations of intra-group transactions. The Corporate and Other segment holds the majority of our investment in AIG shares.

Investment income (excluding investment income related to investment-linked contracts) was a net expense of US$3 million in 1H 2010 compared with a net expense of US$10 million in 1H 2009, reflecting an increase in interest income attributable to the Corporate and Other segment during the period.

Operating expenses for this segment are stated net of fees for intra-group corporate services, which are charged to our reporting segments. Operating expenses were US$46 million for each of 1H 2010 and 1H 2009, notwithstanding a US$7 million decrease in fees for intra-group corporate services and a US$6 million increase in strategic initiative expenses in 1H 2010.

Operating loss and operating loss after tax attributable to shareholders of AIA Group Limited were US$62 million and US$76 million, respectively, in 1H 2010, compared with US$53 million and US$59 million, respectively, in 1H 2009.

Allocated segment equity increased to US$815 million as of 31 May 2010 compared with US$755 million as of 30 November 2009, reflecting dividend remittances from our operations in Thailand, Malaysia and Australia, as well as full and partial repayment of intra-group subordinated loans from Australia and Indonesia, respectively, which more than offset capital redeployment to China. We did not pay a dividend to AIG during 1H 2010.

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

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

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

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

Year Ended 30 November 2008 Compared with Year Ended 30 November 2007

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

We manage our liquidity and capital resources on a group-wide basis, as well as at the level of our subsidiaries and branches. Our principal cash inflows come from insurance premiums, deposits, policy fees, management fees for our investment-linked insurance products and annuity sales. In the case of AIA Group Limited, as discussed below under "— Distributable Reserves" in this section, our principal capital inflows will be dividends from AIA and our principal capital outflows will be dividends to shareholders.

The principal sources of funds generated by our insurance operations are generally affected by fluctuations in the level of policy surrenders, withdrawals, maturities, benefits and claims and guarantees to policyholders. AIA's operating units may face liquidity pressure in the form of unexpected cash demands that could arise from an increase in the level of policyholders terminating policies. We closely monitor and manage the level of surrenders in order to minimise such liquidity risk. We are a holding company and depend upon dividends and other distributions and payments from AIA for our cash flow, and AIA depends upon dividends and other distributions and payments from the AIA Group's operating subsidiaries and branches for substantially all of its cash flow. The payment of dividends and other distributions and payments by the AIA Group's subsidiaries and branches is regulated by applicable insurance, foreign exchange and tax laws, rules and regulations. The amount and timing of certain dividends, distributions and other payments by our insurance subsidiaries or branches require regulatory approval. In particular, the payment of dividends, distributions and other payments to AIA Group Limited by AIA is subject to the oversight of the OCI. For more information see the sections headed "Supervision and Regulation" and "Risk Factors — Risks Relating to Our Corporate Structure" in this prospectus. As a holding company, the ability of AIA Group Limited to pay dividends and meet other obligations depends on dividends and other payments from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations.

Liquidity is also available from our portfolio of investment assets. Our investments generally comprise highly liquid and marketable securities, which generally could be liquidated to meet cash needs. As of 31 May 2010, our cash and cash equivalents were US$3,222 million. We seek to augment our liquidity by employing various liability management techniques, including staggering of maturities of term deposits, and investing in marketable short-term securities. As of 31 May 2010, our investments in fixed maturity securities had a fair value of US$55,834 million. In some of the markets in which we invest, we are subject to market liquidity risk due to the significant size of our local currency denominated investments. In some of the markets in which we invest, our ability to sell investments in a sizeable volume without significantly affecting the market prices of our investments may be limited.

Our cash inflows and existing cash balances are used to pay liabilities under various traditional life, investment-linked and universal life, A&H and group insurance products, and to purchase investment assets. We also use our funds to pay operating expenses, income taxes and dividends that may be declared and payable to our shareholders.

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

Cash Flows

	Year ended 30 November			Six months ended 31 May	
	2007	2008	2009	2009	2010
				Unaudited	
			(in US$ millions)		
Profit/(loss) before tax	2,579	(32)	2,411	1,268	1,438
Net cash provided by/(used in) operating activities	1,634	2,287	(1,101)	546	(115)
Changes in net cash held in respect of investment-linked contract holders	285	502	(352)	(141)	(129)
Net cash provided by/(used in) operations, excluding changes in net cash held in respect of investment-linked contract holders	1,919	2,789	(1,453)	405	(244)
Net cash (used in)/provided by investing activities	(72)	(168)	(98)	(32)	(58)
Net cash (used in)/provided by financing activities	(62)	(414)	348	44	(7)
Net increase/(decrease) in cash held	1,500	1,705	(851)	558	(180)
Cash and cash equivalents at the beginning of the financial period	1,035	2,583	4,164	4,164	3,405
Effect of exchange rate changes on cash	48	(124)	92	63	(3)
Cash and cash equivalents at the end of the financial period	2,583	4,164	3,405	4,785	3,222

Operating Activities

Our operating activities include our net purchases and sales of financial investments. Net cash used in operating activities was US$115 million in 1H 2010 compared with net cash provided by operating activities of US$546 million in 1H 2009, primarily reflecting our continued efforts to reposition our investment portfolio beginning in 2H 2009. During FY 2007 and FY 2008, we maintained higher cash balances in response to the AIG Events and to meet potential obligations as we wound down and withdrew from securities lending by November 2009. We increased our investment activities significantly in 2H 2009 as debt and equity markets recovered and the economic and trading outlook became more positive, funded mainly by cash generated from operating activities. The impact of increasing the allocation of debt and equity securities in our financial investment portfolio as we re-entered the market at the end of FY 2009 was muted because of the substantial cash balances that we had accumulated. The impact of the decrease and subsequent increase in our financial investment portfolio is demonstrated by deducting "Changes in net cash held in respect of investment-linked contract holders", as shown in the table above, which shows that we began increasing our cash balances in FY 2007 up until 1H 2009 before gradually rebuilding our investment portfolio from 2H 2009 until 1H 2010.

Net cash used in operating activities was US$1,101 million in FY 2009 compared with net cash provided by operating activities of US$2,287 million in FY 2008, as we significantly increased our investment activities in 2H 2009. Between FY 2008 and FY 2009, we also reduced the cash allocation within the portfolio of financial assets held to back our investment-linked insurance contracts by US$352 million.

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

We significantly increased our cash holdings and reduced our exposure to the equity markets in 2H 2008 in response to adverse market conditions. The carrying value of financial investments attributable to other policyholder and shareholder investments decreased from US$43,485 million as of 30 November 2007 to US$35,801 million as of 30 November 2008, while our cash and cash equivalents increased from US$2,583 million as of 30 November 2007 to US$4,164 million as of 30 November 2008. As market conditions improved in FY 2009 and 1H 2010, we increased our holdings of equity securities and the carrying value of financial instruments attributable to other policyholder and shareholder investments increased to US$45,366 million as of 30 November 2009 and US$49,250 million as of 31 May 2010, while our cash and cash equivalents decreased to US$3,405 million as of 30 November 2009 and US$3,222 million as of 31 May 2010.

Of our cash and cash equivalents as of 31 May 2010, US$635 million was held to back investment-linked contracts, compared with US$764 million and US$1,116 million, respectively, as of 30 November 2009 and 30 November 2008.

Investing Activities

Investing activities consist of acquisitions and divestitures of subsidiaries and associates and acquisitions and disposals of investment property and intangible assets. The increase in net cash used in investing activities to US$58 million in 1H 2010 compared with US$32 million in 1H 2009 was largely attributable to our acquisition of a 51% holding of the share capital of BPI-Philam, which was agreed in November 2009 and completed in May 2010.

Net cash used in investing activities was US$98 million in FY 2009, a decrease from US$168 million in FY 2008. The decrease in cash used in investing activities over this period was primarily due to a reduction in purchases of investment property, plant and equipment.

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

Financing Activities

Financing activities include borrowings and repayments, as well as movements in capital and distribution of dividends to shareholders. During 1H 2010, net cash used in financing activities was US$7 million, compared with net cash provided by financing activities of US$44 million in 1H 2009, principally reflecting US$49 million of capital contribution from AIG during 1H 2009.

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

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

Insurance Solvency Margin

The AIA Group is in compliance with the solvency and capital adequacy requirements of its regulators. Our primary insurance regulator at the group level is the OCI, which requires that AIA meets the solvency margin requirements of the ICO. AIA defines "Total Available Capital" as the amount of assets in excess of liabilities measured in accordance with ICO and "Required Capital" as the minimum required margin of solvency calculated in accordance with ICO. The ICO, among other things, sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The "Solvency Margin Ratio" is the ratio of Total Available Capital to Required Capital. For additional information on certain undertakings the AIA Group has made with respect to solvency see the section headed "Supervision and Regulation — Regulatory Framework — Hong Kong — Section 35 Orders" in this prospectus.

Capital and Regulatory Orders Specific to the AIA Group

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

Hong Kong Office of the Commissioner of Insurance

Letters dated 17 September 2008 were issued from the Insurance Authority to each of AIA and AIA-B (the "Sections 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.

For purposes of the Section 35 Ring-fencing Orders, "specified person" includes but is not limited to an insurer's branches, directors, controlling, 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 or 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 the Section 35 Ring-fencing Orders will be rescinded on the first day of dealings in Shares on the Hong Kong Stock Exchange in consideration of the undertakings described in the section headed "Supervision and Regulation — Regulatory Framework — Hong Kong — Section 35 Orders" in this prospectus. Among other things, the recission of the Section 35 Ring-fencing Orders will permit us to implement the post-Global Offering dividend policy described under "— Dividend Policy" in this section. The Insurance Authority will also vary the Section 35 Controller Orders as described in the section headed "Supervision and Regulation — Regulatory Framework — Hong Kong — Section 35 Orders" in this prospectus.

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.

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.

Bank Negara Malaysia Requirements Following the AIG Events

Under a letter dated 16 September 2008, and following the AIG Events, Bank Negara Malaysia, requested AIA Malaysia to obtain prior written approval of Bank Negara Malaysia in relation to the following:

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

(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 undertakings given to/on behalf of related-parties within the AIG Group (which for these purposes is understood also to include members of the AIA Group); and

(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.

In connection with our adoption of a risk-based capital framework in Malaysia, Bank Negara Malaysia rescinded all of the foregoing requirements by a letter dated 26 August 2010.

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 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.

Other Orders

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

A number of transactions undertaken in FY 2008 and FY 2009 have enhanced the company solvency position of the AIA Group. Effective 28 February 2009, AIA-B and AIA Australia, among others, became subsidiaries of AIA. On 3 November 2009, beneficial ownership of Philamlife was transferred to AIA. In particular, the integration of AIA-B as a wholly-owned subsidiary of AIA substantially strengthened the solvency and capital position of AIA. The information below illustrates AIA and AIA-B's Total Available Capital, Required Capital and Required Solvency Margin Ratio under the ICO as of the dates indicated.

AIA — company solvency

	As of 30 November			As of 31 May
	2007	2008	2009	2010
		(in US$ millions, except ratios)		
Total Available Capital	2,551	2,751	4,811	5,185
Required Capital	1,357	1,316	1,547	1,664
Solvency Margin Ratio	188%	209%	311%	312%

AIA-B — company solvency

	As of 30 November			As of 31 May
	2007	2008	2009	2010
		(in US$ millions, except ratios)		
Total Available Capital	2,519	1,469	2,742	3,120
Required Capital	648	684	911	923
Solvency Margin Ratio	389%	215%	301%	338%

The Total Available Capital, Required Capital and Solvency Margin Ratio as of 31 May 2010 of AIA under the ICO basis were approximately US$5,185 million, US$1,664 million and 312%, respectively.

The AIA Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries are domiciled. AIA-B, although domiciled in Bermuda, is an authorised insurer in Hong Kong and so it is also required to comply with the solvency margin requirements of the ICO. The various regulators overseeing the AIA Group actively monitor the solvency margin position of the AIA Group. AIA and AIA-B submit annual filings to the OCI setting forth their solvency margin ratios based on their annual audited accounts, and the AIA Group's operating units make similar annual filings with their respective local regulators. The AIA Group's operating units were in compliance with the solvency margin requirements of their respective local regulators as of 30 November 2007, 2008 and 2009 and 31 May 2010.

INDEBTEDNESS

Borrowings and Obligations under Securities Lending and Repurchase Agreements

As of 31 May 2010, we had borrowings of US$682 million outstanding. Of these borrowings, US$495 million was in the form of bank loans, US$133 million was in the form of bank overdrafts, US$50 million was in the form of loans from fellow subsidiaries of AIG and US$4 million was in the form of other loans.

The most material financing transaction that we are a party to is a five-year variable rate term loan facility dated 23 November 2007 relating to a refinancing of a loan facility for AIA Central, our headquarters building. The available facility and amount outstanding as of 31 May 2010 was US$488 million. The loan facility for AIA Central is on standard commercial terms and on a non-recourse basis, principally secured against assets of our subsidiary company, Bayshore Development Group Limited ("Bayshore"), a 90%-owned subsidiary of the Group which owns AIA Central in Hong Kong, and shares held by Grand Design Development Limited, a wholly owned subsidiary, and the immediate parent of Bayshore, in Bayshore.

The remaining bank loan relates to a three-year fixed rate term loan facility commencing 31 August 2007, held by our Thai operations. The available facility and amount outstanding as of 31 May 2010 was US$7 million. The loan facility, which is on standard commercial terms and on a non-recourse basis, is secured against a plot of land held by our Thai operations. On 31 August 2010, the bank loan held by our Thai operations was extended for a further term of one year for an outstanding amount of US$6.3 million. The terms of the loan agreement were amended and a covenant with respect to AIA maintaining a certain minimum solvency ratio in respect of its regulated life insurance business in Thailand was removed.

As of 31 May 2010, we had no material bank loans other than as described immediately above.

Changes to Liquidity and Indebtedness Subsequent to 31 May 2010

As of 31 August 2010, we had outstanding borrowings and obligations under repurchase agreements of approximately US$1,369 million.

As of 31 August 2010, our cash and cash equivalents were US$3,062 million. As of 31 August 2010, the AIA Group's outstanding borrowings were US$711 million, principally reflecting an increase in bank loan and overdraft balances.

Properties with a book value of US$758 million and a fair value of US$1,556 million and cash and cash equivalents of US$66 million at 31 August 2010 are pledged as security with respect to bank loans.

Operational Borrowings

The following operational borrowing as a ratio of total equity attributable to shareholders of AIA Group Limited is presented on a consistent basis as of 30 November 2007, 2008 and 2009, and 31 May 2010. For the purpose of this analysis, operational borrowings consist of borrowings and obligations under repurchase agreements. Borrowings consist of bank loans, bank overdrafts, loans from fellow subsidiaries of AIG and other loans. It excludes obligations under agreements related to securities lending since the AIA Group largely withdrew from securities lending in November 2009.

- As of 30 November 2007, the AIA Group's operational borrowing as a percentage of total equity attributable to shareholders of AIA Group Limited was 22.6%. Excluding loans from fellow subsidiaries of AIG, the ratio of operational borrowing to total equity attributable to shareholders of AIA Group Limited was 16.6%.

- As of 30 November 2008, the AIA Group's operational borrowing as a percentage of total equity attributable to shareholders of AIA Group Limited decreased to 15.9% despite a 33.7% decrease in equity attributable to shareholders of AIA Group Limited to US$8,908 million from US$13,440 million in the previous year. The decrease in equity was principally driven by negative fair value and foreign currency translation reserves; while the decrease in operational borrowings reflects a substantial reduction in obligations under repurchase agreements (which decreased to US$755 million) and repayment of a substantial portion of related party borrowings (which decreased the related party borrowings to US$20 million).

- As of 30 November 2009, the AIA Group's ratio of operational borrowing as a percentage of total equity attributable to shareholders of AIA Group Limited decreased further to 6.5% largely due to a reduction in obligations under repurchase agreements, which decreased 62.4% to US$284 million as of 30 November 2009 from US$755 million in the previous year, combined with a significant increase in equity attributable to shareholders of AIA Group Limited to US$14,908 million as of 30 November 2009 compared with US$8,908 million in the previous year. The latter was largely driven by a recovery in market values of financial investments towards the end of FY 2009.

- As of 31 May 2010, the AIA Group's ratio of operational borrowing as a percentage of total equity attributable to shareholders of AIA Group Limited increased to 8.2%, largely due to an increase in our obligations under repurchase agreements to US$670 million as of 31 May 2010 compared with US$284 million as of 30 November 2009. Over the same period, total equity attributable to shareholders of AIA Group Limited grew to US$16,547 million as of 31 May 2010 compared with US$14,908 million as of 30 November 2009, due to no dividends being distributed during 1H 2010 as well as an increase in the fair value reserve in respect of available for sale financial investments.

- As of 31 August 2010, operational borrowings increased to US$1,369 million from US$1,364 million as of 31 May 2010.

Contingencies

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

We are exposed to legal proceedings, complaints and other actions from our activities including those arising from commercial activities, sales practices, suitability of products, policies and claims.

We are the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. Due to a change in law, further cessions under this contract ended in July 2008. This reinsurance is fully retroceded to a subsidiary of AIG. We are exposed to the risk of losses in the event of the failure of the counterparty retrocessionaire to honour its obligations. The principal balance outstanding on mortgage loans to which the reinsurance agreement relates was approximately US$2,899 million as of 31 August 2010 (US$4,507 million as of 30 November 2007; US$3,147 million as of 30 November 2008; US$3,588 million as of 30 November 2009; and US$2,977 as of 31 May 2010). The liabilities and related reinsurance assets, which totalled US$13 million as of 31 August 2010 (US$31 million as of 30 November 2007; US$32 million as of 30 November 2008; US$24 million as of 30 November 2009; and US$15 million as of 31 May 2010) respectively arising from these agreements are reflected and presented on a gross basis in accordance with our accounting policies. We expect to fully recover amounts outstanding as of 31 August 2010 under the terms of this agreement from the retrocessionaire. In the event of a change in control of one party, the other party has the right to terminate the retrocession cover with the AIA Group electing whether the termination is on a run-off basis or clean cut basis.

We provided reinsurance and retrocession of general insurance business which was primarily underwritten in the 1970s and 1980s. In the absence of any material claim notifications in the three years ended 30 November 2009 and up to 31 August 2010, we do not expect any further material liabilities to arise. At the time AIA-B was transferred to the AIA Group, AIRCO, the former owner of AIA-B, provided AIA with an uncapped indemnification for losses with respect to claims made before 1 November 2010, arising from underwriting activities of the Bermuda office of AIA-B prior to 28 February 2009.

As of 31 August 2010, we have issued capital guarantees and guarantees of indebtedness of approximately US$1.8 million and minimum guaranteed rates of return ranging from 0% to 5% to holders of units of pension funds that have an accumulation value of approximately US$1,298 million (US$1,272 million as of 30 November 2007; US$1,232 million as of 30 November 2008; US$1,260 million as of 30 November 2009; and US$1,282 million as of 31 May 2010). We have the ability to reduce the guaranteed rates of return, subject to obtaining approvals of applicable regulators.

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

CONTRACTUAL OBLIGATIONS

Commitments under Operating Leases

Total future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of 30 November			As of 31 May
	2007	2008	2009	2010
	(in US$ millions)			
Properties and others expiring				
Not later than one year	64	69	76	89
Later than one and not later than five years	121	136	102	138
Later than five years	117	101	94	102
Total	302	306	272	329

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

Investment Commitments

	As of 30 November			As of 31 May
	2007	2008	2009	2010
	(in US$ millions)			
Not later than one year	—	107	90	134
Later than one and not later than five years	143	51	36	12
Later than five years	—	131	138	104
Total	143	289	264	250

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

OFF-BALANCE SHEET ARRANGEMENTS

Except as described in "— Contractual Obligations" in this section and the discussion of capital guarantees and minimum guaranteed rates of return we have issued to certain holders of units of pension funds in "Contingencies" in this section, we have no other material off-balance sheet arrangements.

DIVIDEND POLICY

In accordance with the Articles, we may, upon ordinary resolution of our shareholders, declare dividends, but any such dividend may not exceed the amount recommended by the Board. The Board will recommend the declaration of dividends, if any, after considering various factors, including:

- our financial results;
- our shareholders' interests;
- general business conditions and strategies;
- our capital and solvency requirements;
- statutory restrictions on the payment of dividends by us to our shareholders;

- our solvency margin position;
- possible effects on our creditworthiness;
- fluctuations of the respective functional currencies of our local operating units against our reporting currency, the U.S. dollar; and
- other factors the Board may deem relevant.

We will declare dividends, if any, on a per Share basis in U.S. dollars. Shareholders will have the option to receive cash dividends in Hong Kong dollars or U.S. dollars. AIA Group Limited will not pay a dividend before 2011. The Board will consider the factors set forth above in establishing a semi-annual dividend commencing for the interim period ending 1H 2011.

AIG has given the Insurance Authority an undertaking 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, AIG will ensure that no member of the AIG Group that holds AIG's interest in AIA Group Limited and that is controlled by AIG will vote its shares in any shareholder vote for the approval of a dividend distribution to AIA Group Limited's shareholders. For more information concerning this undertaking given by AIG, see the section headed "Supervision and Regulation — Regulatory Framework — Hong Kong — Section 35 Orders" in this prospectus.

DISTRIBUTABLE RESERVES

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

PROPERTY INTERESTS

As of 31 August 2010, we had a total of 547 property leases and owned a total of 133 properties in 14 jurisdictions. As of 31 August 2010, the total market value of our property interests was US$2,634 million, representing less than 3% of our total assets. Further, more than 90% of the total value of our property interests is attributable to 10 buildings, namely AIA Central located in Hong Kong, a property at Headland Road located in Hong Kong, AIA Building located in Hong Kong, AIA Tower located in Singapore, AIA Alexandra located in Singapore, AIA Tampines located in Singapore, Menara AIA & Chartis House located in Malaysia, Philamlife Tower located in the Philippines, Ratchadaphisek Land Plots located in Thailand and St. Louis Land Plot located in Thailand. For further details relating to our property interests, see the property valuation report set forth in Appendix IV to this prospectus.

The table below sets forth the reconciliation of aggregate amounts of the property interests of the AIA Group as of 31 August 2010 to their value as of 31 May 2010 as per the property valuation report set forth in Appendix IV to this prospectus:

	in US$ millions
Net book value property interests of the AIA Group as of 31 May 2010	1,157
Movements for the three months ended 31 August 2010	—
Additions	56
Disposals	(1)
Depreciation	(4)
Transfers	—
Foreign exchange movements	12
Net book value as of 31 August 2010	1,220
Valuation surplus as of 31 August 2010	1,529
Valuation as of 31 August 2010 as per the valuation report set forth in Appendix V to this prospectus	2,749

PROFIT FORECAST FOR THE FISCAL YEAR ENDING 30 NOVEMBER 2010

We believe that, on the basis and assumptions set out in Appendix II and in the absence of unforeseen circumstances, our consolidated operating profit for the fiscal year ending 30 November 2010 is expected to be not less than US$2,000 million, our consolidated operating profit after tax attributable to the shareholders of AIA Group Limited for the year ending 30 November 2010 is expected to be not less than US$1,600 million and our consolidated net profit attributable to the shareholders of AIA Group Limited is expected to fall within the range of US$1,400 million to US$2,300 million. We will disclose a reconciliation of consolidated operating profit to consolidated net profit attributable to shareholders for the fiscal year ending 30 November 2010 in our annual results announcement and in our annual report for the fiscal year ending 30 November 2010.

OTHER NON-RECURRING ITEMS

In 1H 2010 and FY 2009, material non-recurring items comprised restructuring and separation costs. Restructuring and separation costs were US$18 million and US$89 million, respectively, in 1H 2010 and FY 2009.

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

QUANTITATIVE AND QUALITATIVE ANALYSIS ABOUT MARKET RISK

Market risk is the exposure created by potential changes in market prices and rates. We are exposed to market risk arising principally from our holding of financial investments. Some of the significant market risks we face include interest rate risk, foreign exchange risk and equity market price risks.

Interest Rate Risk

Our exposure to interest rate risk predominantly arises from our investments in long-term fixed income debt securities, which are exposed to fluctuations in interest rates.

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

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

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

The table below sets forth the sensitivity of profit and total equity to changes in interest rates. In calculating the sensitivity of debt instruments to changes in interest rates we have made assumptions about the corresponding impact on liabilities to policyholders. Assets held to support investment-linked contracts have been excluded on the basis that changes in fair value are generally borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholders' participation ratios set forth in note 2 to the Accountant's Report set forth in Appendix I to this prospectus. For the purpose of this illustration the impact of possible impairments of financial investments classified as available for sale which may arise in times of economic stress have been ignored, since default events reflect the characteristics of individual issuers. Because our accounting policies lock in interest rate assumptions on policy inception and our assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is no corresponding effect on liabilities of our investment-linked insurance products.

	30 November 2007		30 November 2008		30 November 2009		31 May 2010	
	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)
	US$ millions							
+50 basis points shift in yield curves	(45)	(1,130)	(53)	(1,096)	(64)	(1,492)	(73)	(1,643)
-50 basis points shift in yield curves	45	1,130	53	1,096	64	1,492	73	1,643

Foreign Exchange Rate Risk

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

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

The table below sets forth the sensitivity of our total equity to changes in foreign exchange rates applied to net foreign currency exposures after taking into account the effect of economic hedges of currency risk. While providing economic hedges that reduce our net exposure to foreign exchange rate risk, hedge accounting is not applied. Currencies for which net exposure is not significant are excluded from the analysis below. In compiling the table below, the impact of a 5% strengthening of original currency is stated relative to the functional currency of the relevant operation of the AIA Group. The impact of a 5% strengthening of the U.S. dollar is also stated relative to functional currency. Currency exposure reflects the net notional amount of currency derivative positions as well as net equity by currency.

	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
				US$ millions			
31 May 2010							
Equity analysed by original currency	11,845	(260)	3,185	(1,747)	546	777	1,214
Net notional amounts of currency derivative positions	(3,723)	—	1,277	2,964	—	—	—
Currency exposure	8,122	(260)	4,462	1,217	546	777	1,214
5% strengthening of original currency							
Impact on profit before tax	89	(59)	—	12	—	8	2
5% strengthening of the US dollar							
Impact on total equity	(89)	(12)	(223)	(60)	(27)	(34)	(59)
30 November 2009							
Equity analysed by original currency	11,824	(410)	2,448	(1,922)	563	704	924
Net notional amounts of currency derivative positions	(3,845)	—	1,256	3,031	—	—	100
Currency exposure	7,979	(410)	3,704	1,109	563	704	1,024
5% strengthening of original currency							
Impact on profit before tax	103	(63)	1	11	1	9	2
5% strengthening of the US dollar							
Impact on total equity	(103)	(9)	(184)	(54)	(28)	(30)	(50)
30 November 2008							
Equity analysed by original currency	7,085	(502)	2,113	(1,887)	482	628	598
Net notional amounts of currency derivative positions	(3,316)	—	1,039	2,776	—	—	(96)
Currency exposure	3,769	(502)	3,152	889	482	628	502
5% strengthening of original currency							
Impact on profit before tax	31	(66)	1	6	—	7	1
5% strengthening of the US dollar							
Impact on total equity	(31)	(5)	(156)	(42)	(24)	(28)	(25)
30 November 2007							
Equity analysed by original currency	11,387	(15)	2,141	(2,370)	318	355	831
Net notional amounts of currency derivative positions	(2,818)	—	686	2,728	—	—	—
Currency exposure	8,569	(15)	2,827	358	318	355	831
5% strengthening of original currency							
Impact on profit before tax	128	(41)	(14)	8	2	8	8
5% strengthening of the US dollar							
Impact on total equity	(128)	(9)	(141)	(16)	(15)	(14)	(35)

Equity Market Price Risk

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

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

	30 November 2007		30 November 2008		30 November 2009		31 May 2010	
	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)
	US$ millions							
10 per cent increase in equity prices	464	716	204	214	308	314	402	409
10 per cent decrease in equity prices	(464)	(716)	(204)	(214)	(308)	(314)	(402)	(409)

NET TANGIBLE ASSETS

The following statement shows the consolidated net tangible assets as of 31 May 2010 calculated from the equity attributable to shareholders of AIA Group Limited as extracted from the Accountant's Report included in Appendix I to this prospectus and adjusted to exclude intangible assets.

Consolidated net tangible assets attributable to the shareholders of AIA Group Limited as of 31 May 2010[(1)]	US$16,305 million
Net tangible asset value per Share[(2)]	US$1.35

(1) Deferred acquisition and origination costs related to insurance and certain investment contracts are not deducted in the calculation of the above consolidated net tangible assets as they are considered to form an integral part of the measurement of such contracts.

(2) The net tangible asset value per Share is calculated on the basis of 12,044,000,001 shares issued and outstanding as of 31 May 2010.

The above consolidated net tangible assets attributable to the shareholders of AIA Group Limited of US$16,305 million is computed on the basis of the consolidated net assets of the AIA Group attributable to the shareholders of AIA Group Limited of US$16,547 million as of 31 May 2010 less intangible assets of US$242 million as of 31 May 2010, as described in the consolidated statement of financial position, net of tax effects, amounts attributable to policyholders of participating funds and non-controlling interests related to the intangible assets.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

WORKING CAPITAL

The Directors are of the opinion that we have sufficient working capital for our present working capital requirements for the next 12 months following the date of this prospectus.

DISCLAIMER

Except as disclosed in "— Indebtedness" in this section, as of 31 August 2010, we did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, guarantees or any other material contingent liabilities.

NO MATERIAL ADVERSE CHANGE

The Directors believe that there has been no material adverse change in the financial or trading position of the AIA Group since 31 May 2010.

SHARE-BASED COMPENSATION

The RSU Scheme and the Share Option Scheme were conditionally approved and adopted by our sole shareholder on 28 September 2010. For further information on these incentive schemes, see the sections headed "Restricted Share Unit Scheme" and "Share Option Scheme" in Appendix VII to this prospectus. As we intend to grant equity based awards under these schemes to, among other things, encourage and retain our and our subsidiaries' employees, officers and directors to make contributions to the long term growth and profits of the Company and our subsidiaries, we expect our share-based compensation expenses will increase in future periods.

The Company will account for the RSU Awards under the RSU Scheme and the Options under the Share Option Scheme using the fair value based method of accounting (the 'fair value method'). For the RSU Awards and the Options that are expected to be equity-settled, the fair value of the employee, director or officer services received in exchange for the grant of RSU Awards and/or Options is recognised as an expense in profit or loss over the vesting period, with a corresponding amount recorded in equity. The total amount to be expensed over the vesting and/or exercise period is determined by reference to the fair value of the RSU Awards and/or Options granted. Non-market vesting conditions (for example, profitability and premium income growth targets) are included in assumptions about the number of RSU Awards and/or Options that are expected to be granted or vest or become exercisable. At each period end, the Company will revise its estimates of the number of RSU Awards and/or Options that are expected to be granted or vest or become exercisable. We will recognise the impact of the revision to original estimates, if any, in profit or loss with a corresponding adjustment to equity. However, no subsequent adjustment to total equity is made after the vesting or exercise date. Where awards of share based payment arrangements vest or are exercisable in stages, each vesting or exercise tranche is recognised as a separate award, and therefore the fair value of each tranche is recognised over the applicable vesting or exercise period. As the fair value of the RSU Awards and Options which the Company will use under the RSU Scheme and the Share Option Scheme cannot be compared to those available in the market, the Company estimates the fair value using a binomial lattice model. This model requires inputs such as share price, implied volatility, risk free interest rate, expected dividend rate, and in respect of the Options under the Share Option Scheme, exercise price and the expected life of the Option. Where modification or cancellation of an equity settled share based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met.

For the RSU Awards and the Options that are expected to be cash-settled, the fair value of the employee, director or officer services received in exchange for the grant of RSU Awards and/or Options is recognised as an expense in profit or loss over the vesting or exercise period, with a corresponding amount recorded in liability. At each period end, the Company will revise its estimates of the number of RSU Awards and/or Options that are expected to be granted or vest or become exercisable. At the end of each reporting period, any unexercised or unvested Option or RSU Award is remeasured based on the change in fair value of the underlying asset and the liability and expense are adjusted accordingly. The fair value to be received by the employee, director or officer is based upon the fair value of the Shares.