

AMERICAN INTERNATIONAL GROUP INC  
Form 10-K/A  
February 27, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-K/A**

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

Commission file number 1-8787

**American International Group, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**13-2592361**

*(I.R.S. Employer Identification No.)*

**180 Maiden Lane, New York, New York**

*(Address of principal executive offices)*

**10038**

*(Zip Code)*

**Registrant's telephone number, including area code (212) 770-7000**

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, Par Value \$2.50 Per Share	New York Stock Exchange
Warrants (expiring January 19, 2021)	New York Stock Exchange
5.75% Series A-2 Junior Subordinated Debentures	New York Stock Exchange
4.875% Series A-3 Junior Subordinated Debentures	New York Stock Exchange
6.45% Series A-4 Junior Subordinated Debentures	New York Stock Exchange
7.70% Series A-5 Junior Subordinated Debentures	New York Stock Exchange
Stock Purchase Rights	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
*(Do not check if a smaller reporting company)*

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant (based on the closing price of the registrant's most recently completed second fiscal quarter) was approximately \$12,986,000,000.

As of January 31, 2012, there were outstanding 1,896,865,688 shares of Common Stock, \$2.50 par value per share, of the registrant.

### DOCUMENTS INCORPORATED BY REFERENCE

None

**Explanatory Note**

This amendment (Amendment No. 1) to the Annual Report on Form 10-K for the year ended December 31, 2011 of American International Group, Inc. (the 2011 Annual Report on Form 10-K) is being filed solely for the purpose of (i) providing audited financial statements of AIA Group Limited (AIA) in accordance with Rule 3-09 of Regulation S-X and (ii) removing the \*\*\* footnote included within Exhibit 101 that was filed as part of the 2011 Annual Report on Form 10-K on February 23, 2012. Other than adding the aforementioned financial statements, no other Item of the 2011 Annual Report on Form 10-K is affected by the change. As a result, they have been omitted from this Amendment No. 1.

**Part IV**

**ITEM 15. EXHIBIT, FINANCIAL STATEMENT SCHEDULES**

(a) Financial Statements and Schedules.

Report of Independent Registered Public Accounting Firm \*

Consolidated Balance Sheet at December 31, 2011 and 2010 \*

Consolidated Statement of Operations for the years ended December 31, 2011, 2010 and 2009 \*

Consolidated Statement of Comprehensive Income (Loss) for the years ended December 31, 2011, 2010 and 2009 \*

Consolidated Statement of Equity for the years ended December 31, 2011, 2010 and 2009 \*

Consolidated Statement of Cash Flows for the years ended December 31, 2011, 2010 and 2009 \*

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Notes to Consolidated Financial Statements \*

Schedules.

I Summary of Investments Other than Investments in Related Parties at December 31, 2011\*

II Condensed Financial Information of Registrant at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009\*

III Supplementary Insurance Information at December 31, 2011, 2010 and 2009 and for the years then ended \*

IV Reinsurance at December 31, 2011, 2010 and 2009 and for the years then ended \*

V Valuation and Qualifying Accounts at December 31, 2011, 2010 and 2009 and for the years then ended \*

VI AIA Group Limited Consolidated Financial Statements for the year ended November 30, 2011

Independent Auditor's Report

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

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Notes to the Consolidated Financial Statements and Significant Accounting Policies

Supplementary Information to the Consolidated Income Statement

Supplementary Information to the Consolidated Statement of Financial Position

Other Information

(b) Exhibits.

Exhibit 23.1 Consent of Independent Accountants

Exhibit 31 - Rule 13a-14(a)/15d-14(a) Certifications

Exhibit 32 - 18 U.S.C. Section 1350 Certifications

Exhibit 101 - Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheet as of December 31, 2011 and December 31, 2010, (ii) the Consolidated Statement of Operations for the three years ended December 31, 2011, (iii) the Consolidated Statement of Shareholders' Equity for the three years ended December 31, 2011, (iv) the Consolidated Statement of Cash Flows for the three years ended December 31, 2011, (v) the Consolidated Statement of Comprehensive Income (Loss) for the three years ended December 31, 2011 and (vi) the Notes to the Consolidated Financial Statements.\*

(c) Audited financial statements of AIA are provided in accordance with Rule 3-09 of Regulation S-X as Schedule VI

\*Previously filed in the 2011 Annual Report on Form 10-K on February 23, 2012.

# **AIA Group Limited**

## **Consolidated Financial Statements for the year ended 30 November 2011**



AIA Group Limited

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## **REPORT OF INDEPENDENT AUDITORS**

### **TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED**

(incorporated in Hong Kong with limited liability)

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of AIA Group Limited and its subsidiaries (the Company) at November 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with the International Financial Reporting Standards issued by the International Accounting Standards Board. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong

24 February 2012

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Financial statements for the year ended 30 November 2011

***Consolidated Income Statement***

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US\$m	<i>Notes</i>	Year ended 30 November 2011	Year ended 30 November 2010
<b>Revenue</b>			
<i>Turnover</i>			
Premiums and fee income		12,935	11,557
Premiums ceded to reinsurers		(634)	(478)
Net premiums and fee income		12,301	11,079
Investment return	7	1,973	7,240
Other operating revenue	7	114	75
<b>Total revenue</b>		<b>14,388</b>	<b>18,394</b>
<b>Expenses</b>			
Insurance and investment contract benefits		9,601	12,483
Insurance and investment contract benefits ceded		(529)	(403)
<b>Net insurance and investment contract benefits</b>		<b>9,072</b>	<b>12,080</b>
Commission and other acquisition expenses		1,649	1,438
Operating expenses		1,253	1,146
Restructuring, separation and other non-operating costs		50	42
Investment management expenses		225	106
Finance costs		12	9
Change in third party interests in consolidated investment funds		(29)	15
<b>Total expenses</b>	8	<b>12,232</b>	<b>14,836</b>
<b>Profit before share of profit/(loss) from associates</b>		<b>2,156</b>	<b>3,558</b>
Share of profit/(loss) from associates	13	12	(9)
<b>Profit before tax</b>		<b>2,168</b>	<b>3,549</b>
Income tax expense attributable to policyholders' returns		(47)	(135)
<b>Profit before tax attributable to shareholders' profits</b>		<b>2,121</b>	<b>3,414</b>
Tax expense	9	(560)	(839)
Tax attributable to policyholders' returns		47	135
Tax expense attributable to shareholders' profits		(513)	(704)
<b>Net profit</b>		<b>1,608</b>	<b>2,710</b>
<i>Net profit attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>1,600</b>	<b>2,701</b>
Non-controlling interests		8	9
<b>Earnings per share (US\$)</b>			
Basic	10	0.13	0.22
Diluted	10	0.13	0.22
Dividends to shareholders of the Company attributable to the year:			
Interim dividends declared and paid of HK\$11 cents per share (2010: nil)		170	-
Final dividends proposed after the balance sheet date of HK\$22 cents per share (2010: nil)(1)		339	-
		509	-

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

AIA Group Limited

Financial statements for the year ended 30 November 2011

***Consolidated Statement of Comprehensive Income***

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

AIA Group Limited

Financial statements for the year ended 30 November 2011

***Consolidated Statement of Financial Position***

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US\$m	Notes	As at 30 November 2011	As at 30 November 2010 (restated)
<b>Assets</b>			
Intangible assets	12	276	252
Investments in associates	13	61	69
Property, plant and equipment	14	359	433
Investment property	15, 16	896	828
Reinsurance assets	17	858	614
Deferred acquisition and origination costs	18	12,818	12,006
<b>Financial investments:</b>			
Loans and deposits	19, 21	4,565	3,762
Available for sale			
Debt securities		51,018	45,829
At fair value through profit or loss			
Debt securities		16,934	16,378
Equity securities		19,012	22,054
Derivative financial instruments	20	725	775
		92,254	88,798
Deferred tax assets	9	4	2
Current tax recoverable		44	29
Other assets	22	2,588	2,239
Cash and cash equivalents	23	4,303	2,595
<b>Total assets</b>		<b>114,461</b>	<b>107,865</b>
<b>Liabilities</b>			
Insurance contract liabilities	24	78,752	73,205
Investment contract liabilities	25	8,360	9,091
Borrowings	27	559	597
Obligations under securities lending and repurchase agreements	28	670	1,091
Derivative financial instruments	20	38	29
Provisions	30	180	200
Deferred tax liabilities	9	1,810	1,754
Current tax liabilities		290	287
Other liabilities	31	2,387	1,976
<b>Total liabilities</b>		<b>93,046</b>	<b>88,230</b>
<b>Equity</b>			
Issued share capital	32	12,044	12,044
Share premium	32	1,914	1,914
Employee share-based trusts	32	(105)	-
Other reserves	32	(12,101)	(12,117)
Retained earnings		15,354	13,924
Fair value reserve		3,414	2,914
Foreign currency translation reserve		793	876
Amounts reflected in other comprehensive income		4,207	3,790
<i>Total equity attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>21,313</b>	<b>19,555</b>
Non-controlling interests	33	102	80
<b>Total equity</b>		<b>21,415</b>	<b>19,635</b>
<b>Total liabilities and equity</b>		<b>114,461</b>	<b>107,865</b>

Approved and authorised for issue by the board of directors on 24 February 2012

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) Directors

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AIA Group Limited

Financial statements for the year ended 30 November 2011

***Consolidated Statement of Changes in Equity***

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

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AIA Group Limited

Financial statements for the year ended 30 November 2011

***Consolidated Statement of Cash Flows***

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

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

AIA Group Limited

Financial statements for the year ended 30 November 2011

## Notes to the Consolidated Financial Statements and Significant Accounting Policies

### 1. Corporate information

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

AIA Group Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code 1299 with American Depositary Receipts (Level 1) being traded on the over-the-counter market (ticker symbol: AAGIY).

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

### 2. Significant accounting policies

#### 2.1 Basis of preparation and statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), Hong Kong Financial Reporting Standards (HKFRS) and the Hong Kong Companies Ordinance. HKFRS is substantially consistent with IFRS and the accounting policy selections that the Group has made in preparing these consolidated financial statements are such that the Group is able to comply with both IFRS and HKFRS. References to IFRS, International Accounting Standards (IAS) and International Financial Reporting Interpretation Committee (IFRIC) in these consolidated financial statements should be read as referring to the equivalent HKFRS, Hong Kong Accounting Standards (HKAS) and Hong Kong (IFRIC) Interpretations (HK(IFRIC) Int) as the case may be. Accordingly, there are no differences of accounting practice between IFRS and HKFRS affecting these consolidated financial statements.

The consolidated financial statements have been approved for issue by the Board of Directors on 24 February 2012.

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

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

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

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

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

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

AIA Group Limited

Financial statements for the year ended 30 November 2011

## **2. Significant accounting policies (continued)**

### **2.1 Basis of preparation and statement of compliance (continued)**

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

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



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(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year ended 30 November 2011 and 2010 and have not been early adopted (the financial years for which the adoption is planned and required are stated in parenthesis). The Group is yet to assess the full impact of these new standards on its financial position and results of operations; however, they are not expected to have a material impact on the financial position or results of operations of the Group but may require additional disclosures:

- IFRS 11, Joint Arrangements (2014);
- IFRS 12, Disclosure of Interests in Other Entities (2014);
- IAS 24, Related Party Disclosures, Revised definition of related parties (as revised in 2009) (2012);
- IAS 27, Separate Financial Statements (as revised in 2011) (2014);
- IAS 28, Investments in Associates and Joint Ventures (as revised in 2011) (2014);
- Amendment to IAS 1, Presentation of Financial Statements, Clarification of statement of changes in equity (2012);
- Amendment to IAS 1, Presentation of Items of Other Comprehensive Income (2013);
- Amendments to IFRS 7, Financial Instruments: Disclosures, Clarification of disclosures (2012);
- Amendments to IFRS 7, Financial Instruments: Disclosures, Enhancing disclosures about transfers of financial assets (2012);
- Amendments to IAS 12, Income Taxes, Recovery of underlying assets (2013);
- Amendments to IAS 32, Financial Instruments: Presentation on offsetting financial assets and financial liabilities (2015);
- Amendments to IFRS 7, Financial Instruments: Disclosures on offsetting financial assets and financial liabilities (2014); and

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

AIA Group Limited

Financial statements for the year ended 30 November 2011

## **2. Significant accounting policies (continued)**

### **2.1 Basis of preparation and statement of compliance (continued)**

(d) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year ended 30 November 2011 and 2010 and have not been early adopted (the financial years for which the adoption is planned and required are stated in parenthesis). The Group is yet to assess the full impact of these new standards on its financial position and results of operations; however, they may have a material impact on the financial position or results of operations of the Group and require additional disclosures:

- IFRS 9, Financial Instruments (2016);
- IFRS 10, Consolidated Financial Statements (2014);
- IFRS 13, Fair Value Measurement (2014); and
- IAS 19, Employee Benefits (as revised in 2011) (2014).

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

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

### **2.2 Operating profit**

The long-term nature of much of the Group's operations means that, for management's decision making and internal performance management purposes, the Group evaluates its results and its operating segments using a financial performance measure referred to as operating profit. The Group defines operating profit before and after tax respectively as profit excluding the following non-operating items:

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- investment experience (which consists of realised gains and losses, foreign exchange gains and losses, impairments and unrealised gains and losses on investments held at fair value through profit or loss);
- investment income related to unit-linked contracts (consisting of dividends, interest income and rental income);
- investment management expenses related to unit-linked contracts;
- corresponding changes in insurance and investment contract liabilities in respect of unit-linked contracts and participating funds (see Note 2.3) and changes in third party interests in consolidated investment funds resulting from the above;
- policyholders' share of tax relating to changes in insurance and investment contract liabilities; and
- other significant items that management considers to be non-operating income and expenses.

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

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

AIA Group Limited

Financial statements for the year ended 30 November 2011

## 2. Significant accounting policies (continued)

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

#### *Critical accounting policies*

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

#### *Product classification*

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

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

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

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

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

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

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

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Financial statements for the year ended 30 November 2011

## 2. Significant accounting policies (continued)

### 2.3 Critical accounting policies and the use of estimates (continued)

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

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

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

#### Deferred policy acquisition and origination costs

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

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

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

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

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

#### Liability adequacy testing

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

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

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



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## **2. Significant accounting policies (continued)**

### **2.3 Critical accounting policies and the use of estimates (continued)**

Liability adequacy testing (continued)

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

Financial assets at fair value through profit or loss

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

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

Available for sale financial assets

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

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

#### Fair values of financial assets

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

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

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

#### Impairment of financial assets

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

#### Share-based compensation

The Group has adopted a number of share-based compensation plans to retain, motivate and align the interests of eligible employees, directors and officers with those of the Group. These share-based compensation plans are predominantly accounted for as equity-settled plans under which shares or options to purchase shares are awarded. The Group utilises a binomial lattice model to calculate the fair value of the share option grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the other share awards. These models require assumption inputs that may differ from actual results due to changes in economic conditions. Further details of share-based compensation are provided in Notes 2.17 and 37.

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## 2. Significant accounting policies (continued)

### 2.3 Critical accounting policies and the use of estimates (continued)

#### *Use of estimates*

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

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

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

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

### 2.4 Basis of consolidation

#### *Subsidiaries*

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

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

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

### *Investment funds*

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

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## 2. Significant accounting policies (continued)

### 2.4 Basis of consolidation (continued)

#### *Employee share-based trusts*

Trusts are set up to acquire shares of the Company for distribution to participants in future periods through the share-based compensation schemes. The consolidation of these trusts is evaluated in accordance with SIC 12; where the Group is deemed to control the trusts, they are consolidated. Shares acquired by the trusts to the extent not provided to the participants upon vesting are carried at cost and reported as *Shares held by employee share-based trusts* in the consolidated statement of financial position.

#### *Non-controlling interests*

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

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

#### *Associates and joint ventures*

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

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

Investments in associates are accounted for using the equity method of accounting. Under this method, the cost of the investment in an associate, together with the Group's share of that entity's post-acquisition changes to equity, is included as an asset in the consolidated statement of financial position. Cost includes goodwill

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

### *The Company's investments*

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

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## 2. Significant accounting policies (continued)

### 2.5 Insurance and investment contracts

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

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

#### *Product classification*

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

Investment contracts are those contracts without significant insurance risk.

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

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

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and

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- that are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the company, fund or other entity that issues the contract.

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

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

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

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



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## 2. Significant accounting policies (continued)

### 2.5 Insurance and investment contracts (continued)

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

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

Unit-linked

These may be primarily savings products or may combine savings with an element of protection.

additional insurance benefits are recorded  
Insurance contract liabilities reflect the accumulation value, representing premiums received and investment return credited, less deductions for front end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded

Investment contract liabilities are measured at fair value (determined with reference to the accumulation value)

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## **2. Significant accounting policies (continued)**

### **2.5 Insurance and investment contracts (continued)**

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

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

#### **2.5.1 Insurance contracts and investment contracts with DPF**

##### *Premiums*

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

Amounts collected as premiums from insurance contracts with investment features but with sufficient insurance risk to be considered insurance contracts, such as universal life, and certain unit-linked contracts, are accumulated as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration, and surrenders during the period.

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

##### *Unearned revenue liability*

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

*Deferred acquisition costs*

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

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

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

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

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Financial statements for the year ended 30 November 2011

## **2. Significant accounting policies (continued)**

### **2.5 Insurance and investment contracts (continued)**

#### **2.5.1 Insurance contracts and investment contracts with DPF (continued)**

##### *Deferred sales inducements*

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

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

##### *Unbundling*

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

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

##### *Bifurcation*

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

*Benefits and claims*

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

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

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

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

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

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

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

For contracts with an explicit account balance, such as universal life and unit-linked contracts, insurance contract liabilities are equal to the accumulation value, which represents premiums received and investment returns credited to the policy less deductions for mortality and morbidity costs and expense charges.

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



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Financial statements for the year ended 30 November 2011

## **2. Significant accounting policies (continued)**

### **2.5 Insurance and investment contracts (continued)**

#### **2.5.1 Insurance contracts and investment contracts with DPF (continued)**

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

#### *Liability adequacy testing*

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

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

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

#### *Financial guarantees*

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

#### **2.5.2 Investment contracts**



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

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

*Investment contract fee revenue*

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

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

*Deferred origination costs*

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

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

AIA Group Limited

Financial statements for the year ended 30 November 2011

## **2. Significant accounting policies (continued)**

### **2.5 Insurance and investment contracts (continued)**

#### **2.5.2 Investment contracts (continued)**

##### *Investment contract liabilities*

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

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

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

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

#### **2.5.3 Insurance and investment contracts**

##### *Reinsurance*

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

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

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

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

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

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

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

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## **2. Significant accounting policies (continued)**

### **2.5 Insurance and investment contracts (continued)**

#### **2.5.3 Insurance and investment contracts (continued)**

##### *Shadow accounting*

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

##### *Other assessments and levies*

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

### **2.6 Financial instruments**

#### **2.6.1 Classification of and designation of financial instruments**

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

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

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

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

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

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

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

### *Available for sale financial assets*

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

The available for sale category is used where the relevant investments backing insurance and investment contract liabilities and shareholders' equity are not managed on a fair value basis. These principally consist of the Group's debt securities (other than those backing participating funds and unit-linked contracts). Available for sale financial assets are initially recognised at fair value plus attributable transaction costs. For available for sale debt securities, the difference between their cost and par value is amortised. Available for sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available for sale is recognised in investment income in the consolidated income statement using the effective interest method.

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Financial statements for the year ended 30 November 2011

## **2. Significant accounting policies (continued)**

### **2.6 Financial instruments (continued)**

#### **2.6.1 Classification of and designation of financial instruments (continued)**

##### *Available for sale financial assets (continued)*

Unrealised gains and losses on securities classified as available for sale are analysed between differences resulting from foreign currency translation, and other fair value changes. Foreign currency translation differences on monetary available for sale investments, such as debt securities are calculated as if they were carried at amortised cost and so are recognised in the consolidated income statement as investment experience. For impairments of available for sale financial assets reference is made to the section *Impairment of financial assets*.

Changes in the fair value of securities classified as available for sale, except for impairment losses and relevant foreign exchange gains and losses, are recognised in other comprehensive income and accumulated in a separate fair value reserve within equity. Impairment losses and relevant foreign exchange gains and losses are recognised in the income statement.

##### *Realised gains and losses on financial assets*

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

##### *Recognition of financial instruments*

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

##### *Derecognition and offset of financial assets*

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Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which the Group is exposed to changes in the fair value of the asset.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### *Loans and receivables*

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

### *Term deposits*

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

### *Cash and cash equivalents*

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

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## **2. Significant accounting policies (continued)**

### **2.6 Financial instruments (continued)**

#### **2.6.2 Fair values of non-derivative financial assets**

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

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

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

#### **2.6.3 Impairment of financial assets**

##### *General*

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

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



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

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

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

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Financial statements for the year ended 30 November 2011

## **2. Significant accounting policies (continued)**

### **2.6 Financial instruments (continued)**

#### **2.6.3 Impairment of financial assets (continued)**

##### *Available for sale financial instruments*

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

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

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

##### *Loans and receivables*

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

#### **2.6.4 Derivative financial instruments**

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

*Derivative instruments for economic hedging*

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

*Embedded derivatives*

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

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## **2. Significant accounting policies (continued)**

### **2.7 Segment reporting**

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

### **2.8 Foreign currency translation**

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

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

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

### **2.9 Property, plant and equipment**

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

Furniture, fixtures and office equipment  
Buildings

5 years  
20-40 years

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Other assets  
Freehold land

3-5 years  
No depreciation

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

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

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

Where the cost of the Group's leasehold land is known, or can be reliably determined at the inception of the lease, the Group records its interest in leasehold land and land use rights separately as operating leases or finance leases depending on whether substantially all the risks and rewards incidental to ownership of the land are transferred to the Group. These leases are recorded at original cost and amortised over the term of the lease (see 2.19).

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## **2. Significant accounting policies (continued)**

### **2.10 Investment property**

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

Investment property comprises freehold or leasehold land and buildings. Buildings located on leasehold land are classified as investment property if held for long-term rental and not occupied by the Group. Where the cost of the land is known, or can be reliably determined at the inception of the lease, the Group records its interest in leasehold land and land use rights separately as operating leases or finance leases depending on whether substantially all the risks and rewards incidental to ownership of the land are transferred to the Group (see 2.19). These leases are recorded at original cost and amortised over the term of the lease. Buildings that are held as investment properties are amortised on a straight line basis over their estimated useful lives of 20-40 years.

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

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

### **2.11 Goodwill and other intangible assets**

#### *Goodwill*

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

#### *Other intangible assets*

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

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

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

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## **2. Significant accounting policies (continued)**

### **2.12 Impairment of non-financial assets**

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

The Group assesses at the end of each reporting period whether there is any objective evidence that its investments in associates are impaired. Such objective evidence includes whether there has been any significant adverse changes in the technological, market, economic or legal environment in which the associates operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in an associate is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount is lower than the higher of the investment's fair value less costs to sell or value in use. Any reversal of such impairment loss in subsequent periods is reversed through profit or loss.

Impairment testing of the investments in subsidiaries and associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries or associates in the period the dividend is declared or if the carrying amount of the relevant investment in the Company's balance sheet exceeds its carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### **2.13 Securities lending including repurchase agreements**

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

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

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

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



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

#### *Collateral*

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

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

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## **2. Significant accounting policies (continued)**

### **2.14 Borrowings**

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

### **2.15 Income taxes**

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

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

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

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

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

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

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

### 2.16 Revenue

#### *Investment return*

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

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

#### *Other fee and commission income*

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

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## **2. Significant accounting policies (continued)**

### **2.17 Employee benefits**

#### *Annual leave and long service leave*

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

#### *Post-retirement benefit obligations*

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

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

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

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

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

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

*Share-based compensation and cash incentive plans*

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

The Group's share compensation plans are predominantly equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of shares and/or options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share and/or options granted. Non-market vesting conditions are included in assumptions about the number of shares and/or options that are expected to be vested. At each period end, the Group revises its estimates of the number of shares and/or options that are expected to be vested. Any impact of the revision to original estimates is recognised in profit or loss with a corresponding adjustment to equity. Where awards of share-based payment arrangements have graded vesting terms, each tranche is recognised as a separate award, and therefore the fair value of each tranche is recognised over the applicable vesting period.

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## **2. Significant accounting policies (continued)**

### **2.17 Employee benefits (continued)**

#### *Share-based compensation and cash incentive plans (continued)*

The Group estimates the fair value of options using a binomial lattice model. This model requires inputs such as share price, implied volatility, risk free interest rate, expected dividend rate and the expected life of the option.

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

For cash-settled share-based compensation plans, the fair value of the employee services in exchange for the grant of cash-settled award is recognised as an expense in profit or loss, with a corresponding amount recognised in liability. At the end of each reporting period, any unsettled award is remeasured based on the change in fair value of the underlying asset and the liability and expense are adjusted accordingly.

### **2.18 Provisions and contingencies**

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

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

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

### **2.19 Leases**

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

There are no freehold land interests in Hong Kong. The Group classifies the amounts paid to acquire leasehold land under operating leases and finance leases as operating lease prepayments and property, plant and equipment or investment property respectively. Operating lease prepayments are included within Other assets. Amortisation is calculated to write off the cost of the land on a straight line basis over the terms of the lease.

## **2.20 Share capital**

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

### *Share issue costs*

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

### *Dividends*

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

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## **2. Significant accounting policies (continued)**

### **2.21 Presentation of the consolidated statement of financial position**

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

### **2.22 Earnings per share**

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

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

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

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

### **2.23 Fiduciary activities**

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

### **2.24 Consolidated statement of cash flow**



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

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

**2.25 Related party transactions**

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

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### 3. Exchange rates

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

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

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

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

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

## AIA Group Limited

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**4. Operating profit before tax**

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

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

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



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## 5. Total weighted premium income and annualised new premiums

For management decision making and internal performance management purposes, the Group measures business volumes during the year using a performance measure referred to as total weighted premium income ( TWPI ), while the Group measures new business activity using a performance measure referred to as annualised new premiums ( ANP ). Both measures are reported gross of reinsurance ceded.

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

Management considers that TWPI provides an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not intended to be indicative of premium and fee income recorded in the consolidated income statement.

ANP is a key internal measure of new business activities, which consists of 100% of annualised first year premium and 10% of single premium, before reinsurance ceded. ANP excludes renewal premiums and first year premiums are reported on an annualised basis.

TWPI US\$m	Year ended 30 November 2011	Year ended 30 November 2010
<b>TWPI by geography</b>		
Hong Kong	3,142	3,012
Thailand	2,976	2,742
Singapore	1,949	1,687
Malaysia	928	813
China	1,313	1,137
Korea	2,029	1,951
Other Markets	2,105	1,671
<b>Total</b>	<b>14,442</b>	<b>13,013</b>
<b>First year premiums by geography</b>		
Hong Kong	471	428
Thailand	420	389
Singapore	189	175
Malaysia	124	113
China	201	192
Korea	244	278
Other Markets	452	315
<b>Total</b>	<b>2,101</b>	<b>1,890</b>

### Single premiums by geography

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Hong Kong	308	98
Thailand	147	134
Singapore	585	291
Malaysia	29	39
China	72	113
Korea	120	158
Other Markets	238	171
<b>Total</b>	<b>1,499</b>	<b>1,004</b>

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Financial statements for the year ended 30 November 2011

**5. Total weighted premium income and annualised new premiums (continued)**

TWPI US\$m	Year ended 30 November 2011	Year ended 30 November 2010
<b>Renewal premiums by geography</b>		
Hong Kong	2,640	2,574
Thailand	2,541	2,340
Singapore	1,702	1,483
Malaysia	801	696
China	1,105	934
Korea	1,773	1,657
Other Markets	1,629	1,339
<b>Total</b>	<b>12,191</b>	<b>11,023</b>
ANP US\$m	Year ended 30 November 2011	Year ended 30 November 2010
<b>ANP by geography (1)</b>		
Hong Kong	522	449
Thailand	465	420
Singapore	264	210
Malaysia	142	117
China	215	206
Korea	270	282
Other Markets	594	341
<b>Total</b>	<b>2,472</b>	<b>2,025</b>

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

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## 6. Segment information

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

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

- ANP;
- TWPI;
- investment income (excluding investment income in respect of unit-linked contracts);
- operating expenses;
- operating profit before tax (see Note 4);
- expense ratio, measured as operating expenses divided by TWPI;
- operating margin, measured as operating profit before tax (see above) expressed as a percentage of TWPI; and
- operating return on allocated segment equity, measured as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a simple average of opening and closing allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests, fair value and foreign currency translation reserves, and adjusted for subordinated intercompany debt).

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

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





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**6. Segment information (continued)**

US\$m	Key markets								Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets	Corporate and Other	
<b>Year ended 30 November 2011</b>									
<b>ANP</b>	<b>522</b>	<b>465</b>	<b>264</b>	<b>142</b>	<b>215</b>	<b>270</b>	<b>594</b>	-	<b>2,472</b>
<b>TWPI</b>	<b>3,142</b>	<b>2,976</b>	<b>1,949</b>	<b>928</b>	<b>1,313</b>	<b>2,029</b>	<b>2,105</b>	-	<b>14,442</b>
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	2,548	3,027	1,921	813	1,245	1,517	1,343	1	12,415
Investment income(1)	904	835	720	288	299	342	486	72	3,946
<b>Total revenue</b>	<b>3,452</b>	<b>3,862</b>	<b>2,641</b>	<b>1,101</b>	<b>1,544</b>	<b>1,859</b>	<b>1,829</b>	<b>73</b>	<b>16,361</b>
Net insurance and investment contract benefits(2)	2,149	2,670	1,878	769	1,120	1,331	1,049	-	10,966
Commission and other acquisition expenses	313	432	223	87	97	246	251	-	1,649
Operating expenses	192	167	131	75	178	125	263	122	1,253
Investment management expenses and finance costs(3)	6	33	19	7	9	4	26	20	124
<b>Total expenses</b>	<b>2,660</b>	<b>3,302</b>	<b>2,251</b>	<b>938</b>	<b>1,404</b>	<b>1,706</b>	<b>1,589</b>	<b>142</b>	<b>13,992</b>
Share of profit from associates	-	-	1	3	-	-	8	-	12
<b>Operating profit/(loss) before tax</b>	<b>792</b>	<b>560</b>	<b>391</b>	<b>166</b>	<b>140</b>	<b>153</b>	<b>248</b>	<b>(69)</b>	<b>2,381</b>
Tax on operating profit/(loss) before tax	(52)	(165)	(55)	(34)	(21)	(29)	(78)	(17)	(451)
<b>Operating profit/(loss) after tax</b>	<b>740</b>	<b>395</b>	<b>336</b>	<b>132</b>	<b>119</b>	<b>124</b>	<b>170</b>	<b>(86)</b>	<b>1,930</b>
<i>Operating profit/(loss) after tax attributable to:</i>									
<b>Shareholders of AIA Group Limited</b>	<b>736</b>	<b>395</b>	<b>336</b>	<b>133</b>	<b>119</b>	<b>124</b>	<b>165</b>	<b>(86)</b>	<b>1,922</b>
Non-controlling interests	4	-	-	(1)	-	-	5	-	8
<b>Key operating ratios:</b>									
Expense ratio	6.1%	5.6%	6.7%	8.1%	13.6%	6.2%	12.5%	-	8.7%
Operating margin	25.2%	18.8%	20.1%	17.9%	10.7%	7.5%	11.8%	-	16.5%
Operating return on allocated equity	17.4%	11.1%	24.2%	23.6%	15.7%	8.6%	11.3%	-	11.7%
Operating profit/(loss) before tax includes:									
Finance costs	3	1	4	1	3	-	1	(1)	12
Depreciation and amortisation	10	9	11	9	11	13	19	9	91

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

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

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

## AIA Group Limited

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**6. Segment information (continued)**

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

US\$m	Key markets								Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets	Corporate and Other	
<b>Year ended 30 November 2011</b>									
<b>Operating profit/(loss) before tax</b>	<b>792</b>	<b>560</b>	<b>391</b>	<b>166</b>	<b>140</b>	<b>153</b>	<b>248</b>	<b>(69)</b>	<b>2,381</b>
Non-operating items	(196)	103	21	15	(136)	(11)	72	(81)	(213)
<b>Profit/(loss) before tax</b>	<b>596</b>	<b>663</b>	<b>412</b>	<b>181</b>	<b>4</b>	<b>142</b>	<b>320</b>	<b>(150)</b>	<b>2,168</b>
Tax on operating profit/(loss) before tax	(52)	(165)	(55)	(34)	(21)	(29)	(78)	(17)	(451)
Policyholders tax on operating profit before tax	-	-	(40)	(14)	-	-	(5)	-	(59)
Other non-operating tax expense	-	(46)	19	(2)	34	2	(53)	(4)	(50)
Tax expense	(52)	(211)	(76)	(50)	13	(27)	(136)	(21)	(560)
<b>Net profit/(loss)</b>	<b>544</b>	<b>452</b>	<b>336</b>	<b>131</b>	<b>17</b>	<b>115</b>	<b>184</b>	<b>(171)</b>	<b>1,608</b>
<i>Net profit/(loss) attributable to:</i>									
<b>Shareholders of AIA Group Limited</b>	<b>540</b>	<b>452</b>	<b>336</b>	<b>132</b>	<b>17</b>	<b>115</b>	<b>179</b>	<b>(171)</b>	<b>1,600</b>
Non-controlling interests	4	-	-	(1)	-	-	5	-	8

Allocated equity may be analysed as follows:

US\$m	Key markets								Total
	Hong Kong	Thailand	Singapore	Malaysia	China	Korea	Other Markets	Corporate and Other	
<b>30 November 2011</b>									
Assets before investments in associates	28,030	21,519	23,215	7,601	8,850	9,827	11,021	4,337	114,400
Investments in associates	-	1	1	12	-	-	47	-	61
<b>Total assets</b>	<b>28,030</b>	<b>21,520</b>	<b>23,216</b>	<b>7,613</b>	<b>8,850</b>	<b>9,827</b>	<b>11,068</b>	<b>4,337</b>	<b>114,461</b>
<b>Total liabilities(4)</b>	<b>22,700</b>	<b>16,724</b>	<b>21,449</b>	<b>6,931</b>	<b>8,000</b>	<b>8,137</b>	<b>8,518</b>	<b>587</b>	<b>93,046</b>
<b>Total equity</b>	<b>5,330</b>	<b>4,796</b>	<b>1,767</b>	<b>682</b>	<b>850</b>	<b>1,690</b>	<b>2,550</b>	<b>3,750</b>	<b>21,415</b>
Non-controlling interests	9	-	-	9	-	-	81	3	102
Amounts reflected in other comprehensive income:									
Fair value reserve	1,364	815	250	38	(61)	334	827	(153)	3,414
Foreign currency translation reserve	(1)	393	269	66	106	(149)	104	5	793
<b>Allocated equity</b>	<b>3,958</b>	<b>3,588</b>	<b>1,248</b>	<b>569</b>	<b>805</b>	<b>1,505</b>	<b>1,538</b>	<b>3,895</b>	<b>17,106</b>
Net capital (out)/in flows	(1,100)	(401)	(618)	(120)	80	-	(26)	1,926	(259)

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



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**6. Segment information (continued)**

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

US\$m Year ended 30 November 2011	Segment information	Investment experience	Investment income related to unit-linked contracts	Investment management expenses related to unit-linked contracts	Related changes in insurance and investment contract benefits		Third party interests in consolidated investment funds	Other non- operating items	Consolidated income statement	
					Unit-linked contracts	Participating funds				
<b>Total revenue</b>	<b>16,361</b>	<b>(2,177)</b>	<b>204</b>	-	-	-	-	-	<b>14,388</b>	<b>Total revenue</b>
Of which:										
Net premiums, fee income and other operating revenue	12,415	-	-	-	-	-	-	-	12,415	Net premiums, fee income and other operating revenue
Investment return	3,946	(2,177)	204	-	-	-	-	-	1,973	Investment return
<b>Total expenses</b>	<b>13,992</b>	<b>-</b>	<b>-</b>	<b>98</b>	<b>(1,622)</b>	<b>(213)</b>	<b>(29)</b>	<b>6</b>	<b>12,232</b>	<b>Total expenses</b>
Of which:										
Net insurance and investment contract benefits	10,966	-	-	-	(1,622)	(213)	-	(59)	9,072	Net insurance and investment contract benefits
Restructuring, separation and other non-operating costs	-	-	-	-	-	-	-	50	50	Restructuring, separation and other non-operating costs
Investment management expenses and finance costs	124	-	-	98	-	-	-	15	237	Investment management expenses and finance costs
	-	-	-	-	-	-	(29)	-	(29)	

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Change in third party interests in consolidated investment funds										Change in third party interests in consolidated investment funds
Share of profit from associates	12	-	-	-	-	-	-	-	12	Share of profit from associates
<b>Operating profit before tax</b>	<b>2,381</b>	<b>(2,177)</b>	<b>204</b>	<b>(98)</b>	<b>1,622</b>	<b>213</b>	<b>29</b>	<b>(6)</b>	<b>2,168</b>	<b>Profit before tax</b>

Other non-operating items in 2011 consist of restructuring and other non-operating costs of US\$50m (see Note 4).

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**6. Segment information (continued)**

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

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

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

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

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





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**6. Segment information (continued)**

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

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

Allocated equity may be analysed as follows:

	Key markets							Corporate and Other(4,5)	Total
	Hong Kong	Thailand	Singapore	Malaysia	China4	Korea	Other Markets		
US\$m									
<b>30 November 2010</b>									
Assets before investments in associates	27,171	20,955	23,504	7,434	7,618	8,849	9,660	2,605	107,796
Investments in associates	-	1	2	8	-	-	58	-	69
<b>Total assets</b>	<b>27,171</b>	<b>20,956</b>	<b>23,506</b>	<b>7,442</b>	<b>7,618</b>	<b>8,849</b>	<b>9,718</b>	<b>2,605</b>	<b>107,865</b>
<b>Total liabilities(5)</b>	<b>21,555</b>	<b>16,041</b>	<b>21,528</b>	<b>6,782</b>	<b>6,899</b>	<b>7,392</b>	<b>7,461</b>	<b>572</b>	<b>88,230</b>
<b>Total equity</b>	<b>5,616</b>	<b>4,915</b>	<b>1,978</b>	<b>660</b>	<b>719</b>	<b>1,457</b>	<b>2,257</b>	<b>2,033</b>	<b>19,635</b>
Non-controlling interests	5	-	-	-	-	-	73	2	80
Amounts reflected in other comprehensive income:									
Fair value reserve	1,093	837	202	37	(59)	222	693	(111)	2,914
Foreign currency translation reserve	-	541	246	66	70	(155)	106	2	876
<b>Allocated equity</b>	<b>4,518</b>	<b>3,537</b>	<b>1,530</b>	<b>557</b>	<b>708</b>	<b>1,390</b>	<b>1,385</b>	<b>2,140</b>	<b>15,765</b>
Net capital (out)/in flows	(585)	(346)	(400)	(90)	(1)	-	(99)	1,514	(7)

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

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

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## 6. Segment information (continued)

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

US\$m Year ended 30 November 2010	Segment information	Investment experience	Investment		Related changes in insurance and investment contract benefits		Third party		Consolidated income statement	Total revenue
			income related to unit-linked contracts	expenses related to unit-linked contracts	Unit-linked contracts	Participating funds	consolidated investment funds	interests in Other non- operating items		
<b>Total revenue</b>	<b>14,637</b>	<b>3,683</b>	<b>74</b>	-	-	-	-	-	<b>18,394</b>	<b>Total revenue</b>
Of which: Net premiums, fee income and other operating revenue	11,154	-	-	-	-	-	-	-	11,154	Net premiums, fee income and other operating revenue