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**American International Assurance Company (Bermuda)
Limited-New Zealand Branch
Trading as AIA New Zealand**

Financial Statements

For the year ended 30 November 2009

P# 28

18 JUN 2010

Signed for and on behalf of the Board of American International Assurance Company (Bermuda) Limited



Director

Martina CHUNG Kit-Hung



Director

Mark Andrew WILSON

BUSINESS & REGISTRATION
BRANCH, AUCKLAND

26 MAY 2010

RECEIVED

Date

28 APR 2010

**American International Assurance Company (Bermuda) Limited-
New Zealand Branch**

Balance Sheets

As at 30 November 2009

	Note	Branch		Consolidated	
		2009	2008	2009	2008
Assets					
Cash and cash equivalents	27	17,558,808	23,822,561	18,036,912	24,106,371
Loans and receivables	11	9,716,448	6,077,876	9,716,634	6,077,876
Available for sale financial assets	13	83,754,292	62,553,941	83,754,292	62,553,941
Property, plant and equipment	14	818,243	1,131,697	819,927	1,132,422
Intangible assets	15	703,258	456,205	703,258	456,205
Assets arising from reinsurance contracts	21	26,611,052	23,636,131	26,611,052	23,636,131
Income tax asset	10(b)	323,393	447,334	325,829	451,588
Total Assets		139,485,494	118,125,745	139,967,904	118,414,534
Liabilities					
Trade and other payables	16	8,767,078	7,683,857	8,797,203	7,703,395
Employee benefits	17	1,743,322	1,403,470	1,744,392	1,407,966
Provision for restructuring	18	539,618	-	539,618	-
Other insurance liabilities	19	11,091,370	2,275,050	11,091,370	2,275,050
Other financial liabilities	20	903,226	955,186	897,298	948,464
Deferred tax liabilities	10(c)	37,458,108	37,489,651	37,458,108	37,489,651
Policyholder liabilities	21	13,518,856	11,142,294	13,518,856	11,142,294
Total Liabilities		74,021,578	60,949,508	74,046,845	60,966,820
Net Assets		65,463,916	57,176,237	65,921,059	57,447,714
Represented by					
Share capital	24	-	-	86,500	86,500
Retained earnings	25	42,819,621	35,494,375	43,190,264	35,679,352
Reserves	26	2,671,860	1,709,427	2,671,860	1,709,427
Total Equity		45,491,481	37,203,802	45,948,624	37,475,279
Head office account	23	19,972,435	19,972,435	19,972,435	19,972,435
Total Equity and Head Office Account		65,463,916	57,176,237	65,921,059	57,447,714

The above balance sheets should be read in conjunction with the accompanying notes.

**American International Assurance Company (Bermuda) Limited-
New Zealand Branch**

Income Statements

For the year ended 30 November 2009

	Note	Branch		Consolidated	
		2009	2008	2009	2008
Revenue and other income					
Premium revenue from insurance contracts		93,558,708	96,146,032	93,558,708	96,146,032
Less: Outward reinsurance expenses		(35,177,852)	(35,675,354)	(35,177,852)	(35,675,354)
Net premium revenue		58,380,856	60,470,678	58,380,856	60,470,678
Investment income	6	6,166,879	6,232,630	6,179,367	6,249,686
Other income	7	127,286	428,091	127,286	428,091
Net operating income		64,675,021	67,131,399	64,687,509	67,148,455
Expenses					
Claims expense		49,723,021	34,783,662	49,723,021	34,783,662
Less: Reinsurance recovery		(34,328,005)	(24,769,858)	(34,328,005)	(24,769,858)
Net claims expense	8	15,395,016	10,013,804	15,395,016	10,013,804
Policy acquisition expenses	9(a)	13,010,805	11,947,489	12,723,199	11,720,829
Policy maintenance expenses	9(a)	5,235,117	4,715,233	5,235,117	4,715,233
Employee benefits	9(b)	13,697,855	11,643,895	13,737,319	11,690,606
Investment management expenses		67,094	54,445	67,094	54,445
Depreciation and amortisation expense	9(c)	629,032	670,873	629,581	671,649
Other expenses	9(d)	11,322,340	11,037,023	11,396,755	11,107,287
Movement in policyholder liabilities	21	(471,662)	7,189,629	(471,662)	7,189,629
Net claims and operating expenses		58,885,597	57,272,391	58,712,419	57,163,482
Profit before taxation		5,789,424	9,859,008	5,975,090	9,984,973
Income tax gain	10(a)	(1,535,822)	(1,295,158)	(1,535,822)	(1,295,158)
Profit after taxation for the year	5	7,325,246	11,154,166	7,510,912	11,280,131

The above income statements should be read in conjunction with the accompanying notes.

**American International Assurance Company (Bermuda) Limited-
New Zealand Branch**

Statements of Changes in Equity and Head Office Account

For the year ended 30 November 2009

	Note	Branch		Consolidated	
		2009	2008	2009	2008
EQUITY AND HEAD OFFICE ACCOUNT AT THE BEGINNING OF THE YEAR		57,176,237	44,300,441	57,447,714	44,445,953
Movements in head office account	23	-	-	-	-
Movements in share capital	24	-	-	-	-
Movements in retained earnings					
<i>Profit after taxation for the year</i>	25	7,325,246	11,154,166	7,510,912	11,280,131
Movements in reserves					
<i>Movement in available for sale financial assets reserve</i>	26	962,433	1,721,630	962,433	1,721,630
Total income and expenses for the year		8,287,679	12,875,796	8,473,345	13,001,761
EQUITY AND HEAD OFFICE ACCOUNT AT THE END OF THE YEAR		65,463,916	57,176,237	65,921,059	57,447,714

The above statements of changes in equity and head office account should be read in conjunction with the accompanying notes.

**American International Assurance Company (Bermuda) Limited-
New Zealand Branch**

Cash Flow Statements

For the year ended 30 November 2009

	Note	Branch		Consolidated	
		2009	2008	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES					
Premiums received		93,735,969	95,652,844	93,735,969	95,652,844
Reinsurance paid		(35,349,189)	(37,326,984)	(35,349,189)	(37,326,984)
Interest received		5,907,741	5,667,023	5,920,229	5,684,079
Interest paid		(1,447)	(5,344)	(1,447)	(5,344)
Dividends received		1,598	1,817	1,598	1,817
Other income received		13,258	-	13,258	-
Reinsurance recoveries		30,454,823	35,011,749	30,454,823	35,011,749
Policy loan advancements		(135,099)	(40,284)	(135,099)	(40,284)
Repayment of policy loans		21,421	-	21,421	-
Payments to suppliers and employees		(40,874,778)	(39,003,394)	(40,691,464)	(38,900,972)
Payments to policyholders		(40,804,230)	(39,187,083)	(40,804,230)	(39,187,083)
Income tax refunded / sold		1,628,220	4,597,664	1,628,220	4,597,664
Net cash inflow from operating activities	27(b)	14,598,287	25,368,008	14,794,089	25,487,486
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales of available for sale assets		14,794,056	15,822,980	14,794,056	15,822,980
Acquisition of available for sale assets		(34,930,972)	(34,625,527)	(34,930,972)	(34,625,527)
Purchase of property, plant and equipment		(163,384)	(604,321)	(164,892)	(604,321)
Acquisition of intangible assets		(454,385)	(278,471)	(454,385)	(278,471)
Net cash outflow from investing activities		(20,754,685)	(19,685,339)	(20,756,193)	(19,685,339)
Net (decrease) / increase in cash and cash equivalents		(6,156,398)	5,682,669	(5,962,104)	5,802,147
Cash and cash equivalents at the beginning of the year		23,610,729	17,928,060	23,894,539	18,092,392
Cash and cash equivalents at the end of the year	27(a)	17,454,331	23,610,729	17,932,435	23,894,539

The above cash flow statements should be read in conjunction with the accompanying notes.

**American International Assurance Company (Bermuda) Limited-
New Zealand Branch**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2009**

1. GENERAL INFORMATION

American International Assurance Company (Bermuda) Limited-New Zealand Branch (the Branch or AIA-B NZ) trading as AIA New Zealand (previously as AIG Life), is a branch of American International Assurance Company (Bermuda) Limited (AIA-B). The Branch reports to its Group Office (the 'Group') in Hong Kong and predominantly provides a range of insurance products in New Zealand.

For the purposes of complying with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), American International Assurance Company (Bermuda) Limited-New Zealand Branch is a profit oriented entity. AIA-B is an overseas company registered under the Companies Act 1993.

Its registered office is at:

The AIA Building, Level 15,
5-7 Byron Avenue,
Takapuna, Auckland,
New Zealand

These financial statements have been approved for issue by the Board of Directors on 28 April 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied to all the periods presented unless otherwise stated.

2.1 BASIS OF PREPARATION

This financial report has been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements comply with the Financial Reporting Act 1993 and the Companies Act 1993. The financial statements also comply with International Financial Reporting Standards (IFRS).

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

This financial report is prepared in accordance with the fair value basis of accounting with certain exceptions as described in the accounting policies below and the functional and presentation currency is New Zealand dollars rounded to the nearest dollar.

There were no new standards adopted during the current year.

Standards approved but not yet effective

The Branch and consolidated entity have chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting periods beginning on 1 December 2008. Initial application of these standards and interpretations is not expected to have any material impact to the financial report of the Branch and consolidated entity:

**American International Assurance Company (Bermuda) Limited-
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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Standard	Effective for annual reporting periods beginning on or after
NZ IAS 1 'Presentation of Financial Statements' – revised standard: requires the presentation of all recognised income and expenses in one statement (a statement of comprehensive income) or in two statements (an income statement and a statement of comprehensive income), separately from owner changes in equity. The revised standard also includes other minor changes to presentation and disclosure requirements.	1 January 2009
NZ IAS 1 (amendment): provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.	1 January 2010
NZ IAS 23 'Borrowing Costs' – revised 2007: NZ IAS 23 (July 2004) permits an entity to either expense or capitalise borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. Under NZ IAS 23 (revised) 2007, entities are no longer permitted to choose between alternate treatments and must capitalise borrowing costs relating to qualifying assets. This standard is not relevant to the Branch and consolidated entity.	1 January 2009
NZ IAS 24 (amendment) 'Related party disclosures'. The amendment relaxes the disclosures of transactions between government-related entities and clarifies related-party definition.	1 January 2011
Revised Amendments to NZ IAS 32 'Financial Instruments: Presentation' and NZ IAS 1 'Presentation of Financial Statements' – Puttable Financial Instruments and Obligations Arising on Liquidation: The revised amendments to NZ IAS 32 address the balance sheet classification of puttable financial instruments and financial instruments with obligations arising only on liquidation. The amendments to NZ IAS 1 add new disclosure requirements relating to puttable instruments and financial instruments with obligations arising on liquidation.	1 January 2009
NZ IAS 32 (amendment), 'Classification of rights issues': allows rights issues to be classified as equity when the price is denominated in a currency other than the entity's functional currency.	1 February 2010
NZ IAS 38 (amendment), 'Intangible assets': clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.	1 July 2009
IAS 39 (amendment), 'Financial instruments: Recognition and measurement – Eligible hedged items': it provides guidance in two situations: on the designation of a one-sided risk in a hedged item, NZ IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective.	1 July 2009
Amendments to NZ IFRS 1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards' and NZ IAS 27 'Consolidated and Separate Financial Statements' – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate: require that dividends received from subsidiaries, jointly controlled entities and associates be recognised in profit or loss when the entity's right to receive the dividend is established, even when the dividend relates to pre-acquisition accumulated profits. The entity is required to consider whether a dividend has given rise to impairment in the carrying value of the investment.	1 January 2009

**American International Assurance Company (Bermuda) Limited-
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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Amendments to NZ IFRS 2 'Share-Based Payment' – Vesting Conditions and Cancellations: IFRS-2 (revised) clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.	1 January 2009
NZ IFRS 3 (revised) 2008 and NZ IAS 27 (revised) 2008: The revised IFRS-3 and IAS-27 together change the accounting for business combinations.	1 July 2009
NZ IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held for sale': provides clarification that NZ IFRS 5, 'Non-current assets held for sale and discontinued operations', specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of NZ IAS 1 still apply, particularly NZ IAS 1 paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty). This standard is not relevant to the Branch and consolidated entity.	1 January 2010
NZ IFRS 7 'Financial instruments – Disclosures' (amendment), requires enhanced disclosures about fair value measurement and liquidity risk.	1 January 2009
NZ IFRS 8 'Operating Segments': replaces NZ IAS 14 'Segment Reporting'. NZ IFRS 8 extends the scope of segment reporting and requires identification of operating segments and disclosures based on internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance.	1 January 2009
NZ IFRS 9 'Financial Instruments': addresses classification and measurement of financial assets and is available for early adoption immediately. IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.	1 January 2013
IFRIC 15 'Agreements for the Construction of Real Estate' addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This standard is not relevant to the Branch and consolidated entity.	1 January 2009
IFRIC 17, 'Distribution of non-cash assets to owners' provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. This standard is not relevant to the Branch and consolidated entity.	1 July 2009
IFRIC 18, 'Transfers of assets from customers' clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. This standard is not relevant to the Branch and consolidated entity.	1 July 2009
Improvements to New Zealand Equivalents to International Financial Reporting Standards (2008 and 2009): This Standard is a result of the IASB's annual improvements process, and includes amendments to certain recognition, measurement, and presentation requirements of New Zealand Equivalents to International Financial Reporting Standards.	Various*

* The effective date and transitional provisions vary by Standard. Most of the improvements are effective for annual periods beginning on or after 1 January 2009 and 1 July 2009, with earlier adoption permitted, and they are to be applied retrospectively.

**American International Assurance Company (Bermuda) Limited-
New Zealand Branch**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2009**

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements aggregate the assets, liabilities and results of American International Assurance Financial Services Network Limited (AIA FSN), a controlled entity of the Branch. AIA FSN is involved in the activity of insurance broking. All transactions and balances between these entities have been eliminated.

2.3 PRINCIPLES UNDERLYING THE CONDUCT OF INSURANCE BUSINESS

The insurance operations of the Branch comprise the selling and administration of contracts which are classified as either insurance contracts or investment contracts.

Insurance contracts

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (insured event) adversely affects the policyholders.

Insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investment held by the insurer, and the financial risks are substantially borne by the insurer.

Investment contracts

Any products sold by the Branch that do not meet the definition of an insurance contract are classified as investment contracts.

Investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held. While the underlying assets are registered in the name of the insurer and the investment-linked policyholder has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policyholder bears the risks and rewards of the investment performance. The insurer derives fee income from the administration of investment contracts.

2.4 SPECIFIC ACCOUNTING POLICIES

a) Premium revenue

Insurance contracts

Premium revenue comprises the insurance component of premium receipts from customers. Premiums relating to insurance contracts are recognised as premium income in the income statement.

Premiums are recognised as income when due from policyholders. Unpaid premiums are only recognised during the days of grace or where secured by the surrender value of the policy and are included as "receivables" in the balance sheet.

Investment contracts

Premium receipts of a deposit nature are recognised as a change in policyholder liabilities. Premiums for investment contracts are recognised on a cash basis.

**American International Assurance Company (Bermuda) Limited-
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2009**

b) Reinsurance expenses and recoveries

Reinsurance expenses (premiums) and recoveries are recognised on an accrual basis, separately in the income statement as "outward reinsurance expenses" and "reinsurance recovery revenue".

c) Investment income

Dividends are recognised as revenue on a due basis. Interest income is recognised on an effective interest basis. All other investment revenue is recognised on an accrual basis.

d) Fee and other income

Fee and other income are recognised in the income statement on an accrual basis.

e) Claims

Insurance contracts

Claims expense comprises the expense component of claims payments to customers and relates to insurance contracts.

Claims are recognised when the liability to the policy owner under the policy contract has been established. Claims in respect of policies remaining in force at balance date are included in policyholder liabilities.

Claims have been separated into expenses that are incurred in providing services, including the bearing of risks, and amounts that are akin to withdrawals from deposits, which qualify for recognition as reductions in liabilities.

Maturity claims are recognised on the policy maturity date. Surrenders are recognised when paid. Death and all other claims are recognised when the liability to the policyholder under the policy contract has been established.

Provision has been made for the estimated cost of all claims notified but not settled at reporting date.

For the purpose of determining policyholder liabilities, expenses involved in running the Branch's business are categorised into acquisition, investment management and maintenance costs on the basis of a detailed functional analysis of activities carried out by the Branch.

Investment contracts

Surrender or benefit payments in the context of an investment contract are deposits in nature and as such are recognised as a change in policyholder liabilities.

f) Policy acquisition expenses

Policy acquisition costs comprise the costs of acquiring new business (commissions). They do not include the general growth and development costs incurred by the Branch and consolidated entity. Acquisition costs are initially recorded in the income statement, with any amounts to be deferred then taken to the balance sheet as deferred acquisition cost (DAC) within policyholder liabilities (refer to 2.4.w).

g) Policy maintenance expenses

Maintenance costs are fixed and variable costs of administering policies subsequent to sale (from the second year of the policy onwards) and maintaining the Branch and consolidated entity's operations such that they are sufficient to service in force policies. These include general growth and development costs. Maintenance costs include all operating and management costs other than acquisition and investment management costs. These expenses are recognised in the income statement on an accrual basis.

**American International Assurance Company (Bermuda) Limited-
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2009**

h) Investment management expenses

Investment management expenses are fixed and variable costs of managing investment funds. These costs are recognised in the income statement on an accrual basis.

i) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, sick leave and annual leave expected to be settled within 12 months of the reporting date are recognised in employee benefits in respect of employees services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the employee benefits liability and is measured in accordance with the paragraph above. The liability for long service leave expected to be settled more than 12 months from the reporting date is also recognised in the employee benefits liability and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employees, departures and periods of service. Expected future payments are discounted using market yields at the reporting date on New Zealand government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement on an accrual basis.

j) Other expenses

Other expenses which are not related to the above categories or to amortisation and depreciation (refer to 'property, plant and equipment' and 'intangible assets' notes) are included in the income statement as other expenses and are recognised on an accrual basis.

k) Taxation

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted at the time. The current company tax rate is 30%.

**American International Assurance Company (Bermuda) Limited-
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Income tax for life insurance contracts business

Life insurance contracts are subject to a special tax regime. The current life insurance tax regime recognises two separate bases. Life office base and policyholder base would tax shareholder income and policyholder income respectively. Income tax expense recognised in the income statement reflects tax imposed on shareholders as well as policyholders.

Life office base tax losses would be available to be utilised within the group companies and/or future income tax obligations. Policyholder base tax losses would only be available to meet future policyholder base tax obligations.

Income tax for other business

Income tax expense for all other business is the tax payable on taxable income for the current period, based on the income tax rate at the time and adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

GST

All revenues, expenses and assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included as part of an item of expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as payable or receivable in the balance sheet. Cash flow statements have been prepared on a GST exclusive basis.

l) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases in which the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

m) Foreign currency transactions

Foreign currency transactions are initially translated into New Zealand currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to New Zealand currency at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit or loss for the year.

n) Critical accounting judgments and estimates

In the application of NZ IFRS, management is required to make judgments, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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Judgments made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements as follows:

- Policyholder liabilities: refer to note 2.4.w) and note 3.
- Assets arising from reinsurance contracts: refer to note 2.4.x) and note 3.
- Available for sale financial assets, in particular around Annuity bond valuation that is dependent on factors such as credit spreads: refer to note 2.4.p) and note 4.

o) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short term, highly liquid investments with maturities at acquisition of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within trade and other payables on the balance sheet, if applicable.

p) Financial instruments

Financial assets

The Branch and consolidated entity classify their investments into the following categories: loans and receivables and available for sale financial assets. The classification of financial assets depends on their nature and purpose and it is determined at the time of initial recognition.

Loans and receivables: are non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Branch and consolidated entity intend to sell in the short term or that it has designated as available for sale. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment.

Available for sale financial assets (AFS): Equity and debts securities held by the Branch that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 4. Gains and losses arising from changes in fair value are recognised directly in equity in the available for sale reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the available for sale reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Branch's right to receive the dividend is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Financial liabilities

Financial liabilities are classified as either at fair value through profit and loss (FVTPL) or at amortised cost. A financial liability is classified as FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near future; or
- It is part of an identified portfolio of financial instruments that the Branch manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

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A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement of recognition inconsistency that would otherwise arise; or
- It forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Branch's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and NZ IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Other financial liabilities are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method.

q) Property, plant and equipment

Property, plant and equipment are initially recorded at cost including transaction costs and subsequently measured at cost less any subsequent depreciation and impairment losses. Depreciation is calculated on a straight line basis to write off the net cost of the property, plant and equipment over their expected useful lives. Estimates of remaining useful lives are made on a regular basis. The depreciation rates are as follow:

Asset description	Depreciation rates
Furniture, fitting and office equipment	20%
Computer equipment	33.33%

r) Intangible assets

Software development costs

Software development is recorded at cost less accumulated amortisation and impairment. Software development costs are capitalised where it is expected that future economic benefit will be derived and are amortised over a period not exceeding 3 years using the straight line basis method. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Purchased computer software

Application software purchased is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of the software not exceeding 3 years.

s) Impairment of assets

Impairment of financial assets

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 Branch and consolidated entity assess at each balance sheet 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 Branch and consolidated entity 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;

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- The disappearance of an active market for that financial asset because of financial difficulties; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in that group.

The Branch and consolidated entity first assess whether objective evidence of impairment exists for financial assets that are individually significant. If the Branch 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.

Impairment of non financial assets

Property, plant and equipment, intangible 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 for the amount by which 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 at the lowest level for which there are separately identifiable cash flows.

t) Trade and other payables

Trade and other payables are recognised when the Branch and consolidated entity become obliged to make future payments resulting from the purchase of goods and services.

u) Provisions

A provision is recognised when:

- The Branch and consolidated entity have a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of economic benefits will be required to settle the obligation; and
- The amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

v) Other insurance liabilities

Other insurance liabilities are recognised on an accrual basis. These liabilities are initially measured at fair value, net of transaction costs and subsequently at amortised cost using the effective interest method, with interest expenses recognised on an effective basis.

w) Policyholder liabilities

Policyholder liabilities for insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by an external and independent actuary (refer to note 3) who prepared the reports for the Branch, on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of insurance business written. Deferred acquisition costs (DAC) are connected with the measurement basis of insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement. These costs relate to all costs incurred on the acquisition of insurance contracts and is recognised to the extent that it is recoverable through future margins on contracts. The deferred amounts are recognised in the balance sheet as a reduction in policyholder liabilities and amortised through the income statement over the expected duration of the relevant insurance contracts.

Policyholder liabilities consist of insurance contract liabilities and investment contract liabilities.

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Insurance contracts

Policyholder liabilities relating to insurance contracts are measured using the *Margin On Services (MoS) Methodology*. Under this methodology the net present value of future receipts from and payments to policyholders and planned profit margin is calculated on the basis of best estimate assumptions using a risk-free discount rate. Profit margins are released over the lifetime of the contract in a manner that reflects the pattern of services provided.

For actuarial methods and assumptions refer to note 3.

Investment contracts

Policyholder liabilities relating to the investment contracts are recognised and subsequently measured at fair value with any change in value being recognised in the income statement.

Policyholder liabilities are calculated gross of any reinsurance recoveries. A separate estimate is made of amounts that will be recoverable from reinsurers based on gross provisions.

x) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Branch may not receive amounts due to it and these amounts can be reliably measured.

y) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in an active market, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Derivatives that do not qualify for hedge accounting

The derivative instrument held by the Branch does not qualify for hedge accounting. Changes in the fair value of that derivative instrument are recognised immediately in the income statement.

z) Liability adequacy test

Policyholder liabilities are tested for liability adequacy by comparing them to the current estimate of future cash flows. Liabilities are grouped according to related product groups and each group is tested against the current estimate of future cash flows. If the liability of a related product group is less than current estimate, the liability is increased with the expense being booked directly through the income statement.

aa) Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where the Branch and consolidated entity have transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged or cancelled.

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bb) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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 to realise the asset and settle the liability simultaneously.

cc) Cash flow statements

For the purpose of the cash flow statements, cash and cash equivalents include cash on hand and in banks and investment in money market instruments, net of outstanding bank overdrafts. The following terms are used in the statement of cash flows:

Operating activities: are the principal revenue producing activities of the Branch and consolidated entity and other activities that are not investing or financing activities.

Investing activities: are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities: are activities that result in changes in the size and composition of the contributed equity and head office account and borrowings of the entity.

dd) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current year.

The impact of these reclassifications in the 2008 Balance Sheet was a decrease in loans and receivables of \$1,001,811 and a decrease in trade and other payables by the same amount. The reclassification was made in order to present amounts due to reinsurers net of commissions/discounts to better reflect the substance and cash flow of the transaction.

3. ACTUARIAL POLICIES AND METHODS

The actuarial reports on policyholder liabilities and solvency reserves for the current reporting period were prepared as at 30 November 2009. The actuary who prepared the reports for the Branch was Peter Davies B.Bus Sc., FIA, and FNZSA. The value of policyholder liabilities has been determined in accordance with Professional Standard 3 of the New Zealand Society of Actuaries. After making appropriate checks, the actuary was satisfied as to the accuracy of the data from which the amount of policyholder liabilities has been determined.

The valuation methodology and assumptions are as follows:

Valuation methods and profit carriers

The policies were divided into major product groups with profit carriers as follows:

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Major product groups	Carrier	Valuation Method
Permanent Term, Express Life, Permanent Life	Claims	Model office projection
Golden Life	Interim and final maturity payments	Model office projection (evaluated on Hong Kong Net Premium basis in 2008)
Renewable Risk business	Not applicable	Accumulation method: Liability = Deferred Acquisition Costs
Ex Alico term insurance, consumer credit, mortgage protection	Premium / Investment Earnings	Hong Kong Net premium basis

Valuation assumptions

Future cash-flows are discounted using the expected rate of return on risk-free investments over the duration of the insurance contracts, and realistic estimates of future expense, cancellation / surrender and mortality experience. The assumptions used are set out in the table below:

	Permanent Term, Express Life, Permanent Life and Golden Life	Renewable Risk	Disabled lives
Discount rate (before tax)	6.29% (2008: 5.35%)	5.92% (2008: 5.17%)	5.52% (2008: 5.07%)

Other assumptions

	Permanent Term, Express Life, Permanent Life and Golden Life	Renewable Risk	Ex Alico term insurance, consumer credit, mortgage protection
Mortality	75% of NZ 97	Nil	115% of NZ 04
Mortality improvement	Nil (2008: 1% p.a. max 20%)		
Initial expense allowance (before tax)	191% of new Annualised Premium Income (API) (2008: 182%)	191% of new API (2008: 182%)	Nil
Renewal expenses (before tax)	\$125.80 p.a., escalating at 2.5% p.a. (2008: \$119.69 p.a. escalating at 1.5% p.a.)	Nil	Nil
Cover escalation	2% p.a. (2008: 1.5% p.a.)	2.5% p.a., 70% take-up (2008: 2% p.a., 75% take up)	Nil

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	Permanent Term and Express Life, Golden Life	Renewable Risk	Ex Alico term insurance, consumer credit, mortgage protection
Lapses / surrenders	<p>Permanent Term:</p> <p>Year 1: 12% (2008: 9%) Year 2: 10% (2008: 9%) Year 3: 9% (2008: 6%) Year 4: 7% (2008: 5%) Year 5: 4% (2008: 4%) Year 6: 5% (2008: 2%) Year 7: 5% (2008: 1%) Year 8: 3% (2008: 1%) Year 9 till 100% payback: 1% (2008: 1%) Full payback: 75% (PT+, PT10), 100% (PT) (2008: Full payback: 50% (PT+, PT10), 100% (PT)) Then: 2% p.a. (2008: 2% p.a.)</p> <p>Express Life, Permanent Life: 1% p.a. (2008: 2%)</p> <p>Golden Life: Nil</p>	<p>Policies with reinsurance finance:</p> <p>Year 1: 12% (2008: 9%) Year 2: 15% (2008: 12%) Year 3: 18% (2008: 15%) Year 4: 16% (2008: 15%) Year 5: 15% (2008: 15%) Year 6: 13% (2008: 15%) Year 7: 12% (2008: 15%) Year 8+: 11% (2008: 15%)</p> <p>Policies Without reinsurance finance:</p> <p>Year 1: 13% (2008: 9%) Year 2: 16% (2008: 12%) Year 3: 20% (2008: 15%) Year 4: 17% (2008: 15%) Year 5: 16% (2008: 15%) Year 6: 15% (2008: 15%) Year 7: 14% (2008: 15%) Year 8: 13% (2008: 15%) Year 9+: 12% (2008: 15%)</p> <p>Free standing medical:</p> <p>Year 1: 15% (2008: 9%) Year 2: 15% (2008: 12%) Year 3: 14% (2008: 15%) Year 4: 12% (2008: 15%) Year 5: 10% (2008: 15%) Year 6: 10% (2008: 15%) Year 7: 7% (2008: 15%) Year 8+: 6% (2008: 15%)</p>	Nil
Tax rate	30% (2008: 15%)	30% (2008: 15%)	Nil

There have been no changes in valuation assumptions used from the previous year unless explicitly stated. The 2008 assumptions do not apply to Golden Life, which was evaluated on Hong Kong Net Premium basis in 2008.

Impact of changes in assumptions

Changes in the assumptions made at 30 November 2009 and 30 November 2008 had the following impact:

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	2009			2008		
	Future profit margins increase (decrease)	Policyholder liability increase (decrease)*	Profit and equity increase (decrease)	Future profit margins increase (decrease)	Policyholder liability increase (decrease)*	Profit and equity increase (decrease)
Assumption change						
Discount rate	(2,749,718)	(9,547,221)	9,547,221	1,878,832	6,477,083	(6,477,083)
Inflation rate	777,283	1,516,011	(1,516,011)	(1,232,546)	(2,509,671)	2,509,671
Mortality improvement	(873,136)	-	-	1,770,811	-	-
Renewal expenses	161,279	-	-	(428,217)	-	-
Lapses / surrenders	(12,856,190)	-	-	(2,316,027)	-	-
Tax regime change	4,725,158	-	-	-	-	-
Others	3,722,532	-	-	-	-	-

* Net of movement in future reinsurance assets and movement in deferred tax on deferred acquisition costs.

Sensitivity analysis

	2009		2008	
Variation	Policyholder liability increase (decrease)*	Profit and equity increase (decrease)	Policyholder liability increase (decrease)*	Profit and equity increase (decrease)
Interest rates +1% per annum	(8,900,000)	8,900,000	(15,100,000)	15,100,000
Interest rates -1% per annum	11,300,000	(11,300,000)	20,400,000	(20,400,000)
Inflation +1% per annum	3,000,000	(3,000,000)	7,100,000	(7,100,000)
Inflation -1% per annum	(2,000,000)	2,000,000	(4,600,000)	4,600,000
Termination rates of open disability income claims increased by 10%	(800,000)	800,000	(700,000)	700,000
Termination rates of open disability income claims decreased by 10%	800,000	(800,000)	800,000	(800,000)

* Net of movement in future reinsurance assets and movement in deferred tax on deferred acquisition costs

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Branch and consolidated entity operate risk management policies in accordance with Group policies and procedures.

The financial condition and operating results of the Branch and consolidated entity are affected by a variety of key financial and non-financial risks. Financial risks include market risk (interest rate risk, foreign currency risk and price risk), liquidity risk and credit risk. The non-financial risks are operational risk, life insurance risk and compliance risk.

Risk management objectives and approach

Whilst there is no New Zealand legislation requirement to have a risk management strategy in place, various procedures are put in place to control and mitigate the risks faced by the Branch and consolidated entity depending on the nature of the risk. The Branch and consolidated entity's approach to risk management involves the identification of risks by type, impact and likelihood, implementation of processes and controls to mitigate risks, and continuous monitoring and improvement of the procedures in place to minimize the chance of an adverse event occurring.

The Branch and consolidated entity do not enter into or trade financial instruments including derivative financial instruments for speculative purposes.

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Financial risks

The Branch and consolidated entity hold the following categories of financial instruments:

Branch

As at 30 November 2009

	Loans and Receivables	Financial liabilities at fair value through profit and loss	AFS financial assets	Financial liabilities at amortised cost	Total
Assets					
Cash and cash equivalents	17,558,808	-	-	-	17,558,808
Loans and receivables	9,597,419	-	-	-	9,597,419
Available for sale financial assets	-	-	83,754,292	-	83,754,292
Total financial assets	27,156,227	-	83,754,292	-	110,910,519
Total non financial assets					28,574,975
Total Assets					139,485,494
Liabilities					
Trade and other payables	-	-	-	8,767,078	8,767,078
Other insurance liabilities	-	-	-	11,091,370	11,091,370
Other financial liabilities					
- Amounts due to related parties	-	-	-	232,456	232,456
- Derivatives	-	670,770	-	-	670,770
Policyholder liabilities - Investment contracts	-	2,992,879	-	-	2,992,879
Total financial liabilities	-	3,663,649	-	20,090,904	23,754,553
Total non financial liabilities					50,267,025
Total Liabilities					74,021,578

As at 30 November 2008

	Loans and Receivables	Financial liabilities at fair value through profit and loss	AFS financial assets	Financial liabilities at amortised cost	Total
Assets					
Cash and cash equivalents	23,822,561	-	-	-	23,822,561
Loans and receivables	5,955,739	-	-	-	5,955,739
Available for sale financial assets	-	-	62,553,941	-	62,553,941
Total financial assets	29,778,300	-	62,553,941	-	92,332,241
Total non financial assets					25,793,504
Total Assets					118,125,745
Liabilities					
Trade and other payables	-	-	-	7,683,857	7,683,857
Other insurance liabilities	-	-	-	2,275,050	2,275,050
Other financial liabilities					
- Amounts due to related parties	-	-	-	282,566	282,566
- Derivatives	-	672,620	-	-	672,620
Policyholder liabilities - Investment contracts	-	3,028,974	-	-	3,028,974
Total financial liabilities	-	3,701,594	-	10,241,473	13,943,067
Total non financial liabilities					47,006,441
Total Liabilities					60,949,508

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Consolidated

As at 30 November 2009

	Loans and Receivables	Financial liabilities at fair value through profit and loss	AFS financial assets	Financial liabilities at amortised cost	Total
Assets					
Cash and cash equivalents	18,036,912	-	-	-	18,036,912
Loans and receivables	9,597,605	-	-	-	9,597,605
Available for sale financial assets	-	-	83,754,292	-	83,754,292
Total financial assets	27,634,517	-	83,754,292	-	111,388,809
Total non financial assets					28,579,095
Total Assets					139,967,904
Liabilities					
Trade and other payables	-	-	-	8,797,203	8,797,203
Other insurance liabilities	-	-	-	11,091,370	11,091,370
Other financial liabilities					
- Amounts due to related parties	-	-	-	226,528	226,528
- Derivatives	-	670,770	-	-	670,770
Policyholder liabilities - Investment contracts	-	2,992,879	-	-	2,992,879
Total financial liabilities	-	3,663,649	-	20,115,101	23,778,750
Total non financial liabilities					50,268,095
Total Liabilities					74,046,845

As at 30 November 2008

	Loans and Receivables	Financial liabilities at fair value through profit and loss	AFS financial assets	Financial liabilities at amortised cost	Total
Assets					
Cash and cash equivalents	24,106,371				24,106,371
Loans and receivables	5,955,739				5,955,739
Available for sale financial assets			62,553,941		62,553,941
Total financial assets	30,062,110		62,553,941		92,616,051
Total non financial assets					25,798,483
Total Assets					118,414,534
Liabilities					
Trade and other payables	-	-	-	7,703,395	7,703,395
Other insurance liabilities	-	-	-	2,275,050	2,275,050
Other financial liabilities					
- Amounts due to related parties	-	-	-	275,844	275,844
- Derivatives	-	672,620	-	-	672,620
Policyholder liabilities - Investment contracts	-	3,028,974	-	-	3,028,974
Total financial liabilities	-	3,701,594	-	10,254,289	13,955,883
Total non financial liabilities					47,010,937
Total Liabilities					60,966,820

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Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expense are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 and 3.

Market risk

Market risk is the risk of change in the fair value of financial instruments from fluctuations in the foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to an individual financial instrument or its issuer or factors affecting all financial instruments traded in a market.

Market risk is managed by the members of the American International Assurance Company (Australia) Limited (AIA Australia) investment team who currently handle the investment function of the Branch. Also there is an Investment Committee comprised of members of local management and the AIA Australia's Chief Investment Officer.

(i) Currency risk

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Branch's and consolidated entity exposure to foreign exchange risk arises primarily with respect to the Australian dollar (AUD).

To manage the foreign exchange risk arising from the cash flows related to the coupon payments of Annuity bonds denominated in Australian dollars the Branch has entered into a cross currency swap with AIG Financial Products Corp. (former Banque AIG).

The Branch has economically hedged certain foreign denominated investments to ensure their investment income stream is recognised in New Zealand dollars without material risk of foreign exchange fluctuations. Accordingly, the Branch has entered into foreign currency swap contracts under which it receives the coupon payment in NZD. The contract eliminates the AUD coupons receivable and creates NZD coupons receivable therefore reducing any foreign exchange rate risk.

The Branch and consolidated entity's foreign currency risk exposure at the reporting date was as follows:

	2009		2008	
	(AUD)	(NZD)	(AUD)	(NZD)
AFS - Annuity Bonds	5,697,450	7,291,906	6,691,230	7,996,445
Derivatives (AUD leg)	(6,733,983)	(8,618,518)	(7,753,658)	(9,230,817)

Foreign currency sensitivity

Based on the financial instruments held at 30 November 2009, had the New Zealand dollar strengthened / weakened by 5% against the AUD dollar with all other variables held constant, the Branch and consolidated entity's profit after tax and equity would have been \$66,326 higher / \$66,326 lower (2008: profit after tax and equity \$64,000 higher / \$64,000 lower), mainly as a result of foreign exchange gains/losses on translation of AUD dollar denominated financial instruments as detailed in the above table.

The Branch and consolidated entity's exposure to other foreign exchange movements is not material.

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(ii) Interest rate risk

Interest-rate risk is the risk that the value or future value cash flows of a financial instrument will fluctuate due to changes in market interest rates. Changes in level of interest rates can have a significant impact on the Branch's and consolidated entity overall investment return.

Weighted average interest rate and maturity profile of financial instruments are shown in the table below:

Branch

As at 30 November 2009

	Weighted average interest rate %	Under 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years	Total
Cash and cash equivalents								
- Cash at bank and in hand	0%	221,809	-	-	-	-	-	221,809
- Deposits at call	3.52%	17,336,999	-	-	-	-	-	17,336,999
Loans and receivables								
- Policy loans	15.22%	-	-	-	-	-	184,901	184,901
- Others	N/A (*)	9,412,518	-	-	-	-	-	9,412,518
Available for sale assets								
- Shares in listed companies	N/A (*)	14,099						14,099
- Debt securities	7.20%	5,057,065	5,801,515	12,643,190	5,913,895	28,465,317	25,859,211	83,740,193
Total financial assets		32,042,490	5,801,515	12,643,190	5,913,895	28,465,317	26,044,112	110,910,519
Trade and other payables	N/A (*)	8,767,078	-	-	-	-	-	8,767,078
Other insurance liabilities	N/A (*)	11,091,370	-	-	-	-	-	11,091,370
Other financial liabilities								
- Amounts due to related parties	N/A (*)	232,456	-	-	-	-	-	232,456
- Derivatives	N/A (*)	-	-	-	-	-	670,770	670,770
Policyholder liabilities - Investment contracts	6.35%	-	-	-	-	-	2,992,879	2,992,879
Total financial liabilities		20,090,904					3,663,649	23,754,553

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As at 30 November 2008

	Weighted average interest rate %	Under 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years	Total
Cash and cash equivalents								
- Cash at bank and in hand	0%	34,215	-	-	-	-	-	34,215
- Deposits at call	7.99%	23,788,346	-	-	-	-	-	23,788,346
Loans and receivables								
- Policy loans	14.63%	-	-	-	-	-	71,223	71,223
- Others	N/A (*)	5,878,516	-	-	-	-	6,000	5,884,516
Available for sale assets								
- Shares in listed companies	N/A (*)	13,530	-	-	-	-	-	13,530
- Debt securities	8.92%	4,513,886	10,058,365	5,832,407	6,869,755	4,999,217	30,266,781	62,540,411
Total financial assets		34,228,493	10,058,365	5,832,407	6,869,755	4,999,217	30,344,004	92,332,241
Trade and other payables	N/A (*)	7,683,857	-	-	-	-	-	7,683,857
Other insurance liabilities	N/A (*)	2,275,050	-	-	-	-	-	2,275,050
Other financial liabilities								
- Amounts due to related parties	N/A (*)	282,566	-	-	-	-	-	282,566
- Derivatives	N/A (*)	-	-	-	-	-	672,620	672,620
Policyholder liabilities - Investment contracts	8.57%	-	-	-	-	-	3,028,974	3,028,974
Total financial liabilities		10,241,473	-	-	-	-	3,701,594	13,943,067

Consolidated

As at 30 November 2009

Cash and cash equivalents								
- Cash at bank and in hand	0%	224,970	-	-	-	-	-	224,970
- Deposits at call	3.52%	17,811,942	-	-	-	-	-	17,811,942
Loans and receivables								
- Policy loans	15.22%	-	-	-	-	-	184,901	184,901
- Others	N/A (*)	9,412,704	-	-	-	-	-	9,412,704
Available for sale assets								
- Shares in listed companies	N/A (*)	14,099	-	-	-	-	-	14,099
- Debt securities	7.20%	5,057,065	5,801,515	12,643,190	5,913,895	28,465,317	25,859,211	83,740,193
Total financial assets		32,520,780	5,801,515	12,643,190	5,913,895	28,465,317	26,044,112	111,388,809
Trade and other payables	N/A (*)	8,797,203	-	-	-	-	-	8,797,203
Other insurance liabilities	N/A (*)	11,091,370	-	-	-	-	-	11,091,370
Other financial liabilities								
- Amounts due to related parties	N/A (*)	226,528	-	-	-	-	-	226,528
- Derivatives	N/A (*)	-	-	-	-	-	670,770	670,770
Policyholder liabilities - Investment contracts	6.35%	-	-	-	-	-	2,992,879	2,992,879
Total financial liabilities		20,115,101	-	-	-	-	3,663,649	23,778,750

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As at 30 November 2008

	Weighted average interest rate %	Under 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years	Total
Cash and cash equivalents								
- Cash at bank and in hand	0%	37,534	-	-	-	-	-	37,534
- Deposits at call	7.99%	24,068,837	-	-	-	-	-	24,068,837
Loans and receivables								
- Policy loans	14.63%	-	-	-	-	-	71,223	71,223
- Others	N/A (*)	5,878,516	-	-	-	-	6,000	5,884,516
Available for sale assets								
- Shares in listed companies	N/A (*)	13,530	-	-	-	-	-	13,530
- Debt securities	8.92%	4,513,886	10,058,365	5,832,407	6,869,755	4,999,217	30,266,781	62,540,411
Total financial assets		34,512,303	10,058,365	5,832,407	6,869,755	4,999,217	30,344,004	92,616,051
Trade and other payables	N/A (*)	7,703,395	-	-	-	-	-	7,703,395
Other insurance liabilities	N/A (*)	2,275,050	-	-	-	-	-	2,275,050
Other financial liabilities								
- Amounts due to related parties	N/A (*)	275,844	-	-	-	-	-	275,844
- Derivatives	N/A (*)	-	-	-	-	-	672,620	672,620
Policyholder liabilities - Investment contracts	8.57%	-	-	-	-	-	3,028,974	3,028,974
Total financial liabilities		10,254,289	-	-	-	-	3,701,594	13,955,883

(*) non-interest bearing

Interest rate risk sensitivity

The analyses below are based on changes in economic conditions that are considered reasonably possible at the reporting date. Note that for 2008 sensitivity on floating interest investments a 500 basis points movement was used since that movement was considered to be reasonably possible for short term investments as at balance sheet date. For 2009 and other investments a 100 basis points movement is used.

Sensitivity of floating interest rate investments

At 30 November 2009, if interest had changed by +/- 100 basis points from the year end rates with all other variables held constant, profit after tax and equity for the year would have been \$273,370 lower/higher (2008: \$1,939,000 lower/higher, considering 500 basis movement) for the Branch and \$278,119 lower/higher (2008: \$1,953,000 lower/higher considering 500 basis point movement) for the consolidated entity.

Sensitivity of fixed interest rate investments

At 30 November 2009, if interest rate had changed by +/- 100 basis points from the year end rates with all other variables held constant, the available for sale reserve and equity would have been \$2,605,000 higher/\$2,477,000 lower (2008: \$1,678,000 higher / \$1,587,000 lower) and profit after tax and equity would have been \$29,000 higher / \$31,000 lower (2008: \$49,000 higher / \$55,000 lower) for the Branch and consolidated entity.

Interest rate risk sensitivity on policyholder liabilities is disclosed in note 3.

(iii) Price risk

Equity price risk is managed by the investment operations of the Branch, AIG Asset Management (Asia) Limited (former AIG Global Investment Corporation (Asia) Limited). Investment administration costs are charged by AIG Asset Management (Asia) Limited to the Branch.

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Price risk sensitivity

The Branch and consolidated entity's exposure to price movements of financial assets and liabilities is not material.

Liquidity risk

Liquidity Risk is the risk that in normal market conditions the Branch and consolidated entity will be unable to liquidate assets and therefore not have sufficient cash to meet and settle their debts (including expenses and policy payments) as they fall due.

The Chief Investment Officer in Australia is responsible for ensuring any assets purchased or held can be turned to cash within normal market settlement times. The Chief Investment Officer monitors this risk primarily by future cash forecast requirements. Liquidity risk is managed by holding a pool of readily tradable investment assets and deposits at call. This policy recognises that there may be extreme conditions where markets do not operate as normal. In the event that a shortfall arises, the Branch may rely on its parent entity by virtue of a letter of indemnity received from the parent.

Refer to schedule in (ii) for maturity of financial assets and liabilities. Undiscounted contractual cash flows for liabilities are the same as shown in the maturity table except for derivatives which is as follows:

2009

	Under 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years
Cash outflows	1,026,894	1,026,894	1,026,894	1,026,894	1,026,894	6,931,533
Cash inflows	936,262	936,262	936,262	936,262	936,262	6,319,770

2008

	Under 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Over 5 years
Cash outflows	955,209	955,209	955,209	955,209	955,209	7,402,870
Cash inflows	936,262	936,262	936,262	936,262	936,262	7,256,033

Credit risk

Credit risk which the Branch and consolidated entity have exposure to is the risk of default by borrowers and transactional counterparties as well as the loss of value of assets due to deterioration in credit quality.

Key areas where the Branch and consolidated entity are exposed to credit risk are:

- Cash and cash equivalents;
- Counterparty risk with respect to debt securities;
- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries; and
- Counterparty risk with respect to derivative transactions.

The maximum exposures to credit risks for the above assets are their carrying values.

Exposure to credit risk is managed by placing cash and cash equivalent with high credit quality financial institutions only. Investments are also placed with high quality institutions. Counterparties are assessed for credit worthiness before credit is granted.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Branch's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Branch remains liable for the payment to the policyholder.

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The monitoring of the credit worthiness of reinsurers is centralised with the Reinsurance Security Department of AIG in New York, who performs this function for all companies within the Group. Every new treaty and amendment requires sign-off by the Reinsurance Security Department, except for treaties with pre-approved reinsurers and with a volume within stated limits which can qualify for regional approval in Hong Kong. The Reinsurance Security Department will ask for additional security in case they are not satisfied with the status of a reinsurer, and will update the companies within the Group in case of deterioration of an existing reinsurer's status.

Financial assets of the Branch and consolidated entity are analysed in the table below using Standard & Poor's (S&P) rating (or equivalent when not available from S&P).

	Branch		Consolidated	
	2009	2008	2009	2008
AAA	-	2,991,575	-	2,991,575
AA	48,989,968	56,103,214	49,468,072	56,103,214
A	51,130,657	30,941,721	51,130,657	30,941,721
BBB	8,918,962	-	8,918,962	-
Not rated	1,870,932	2,295,731	1,871,118	2,579,541
Total financial assets	110,910,519	92,332,241	111,388,809	92,616,051

Fair value estimation

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values. The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and liabilities excluding derivative financial instruments - refer to note 2.4 (y) - are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and direct quotes from similar instruments.

Capital management

The Branch manages its capital to ensure that the Branch and entities that are part of the consolidated entity will be able to continue as a going concern while maximising the return to Head Office through the optimisation of the equity balance. The Branch's overall strategy remains unchanged from 2008.

The capital structure of the Branch and consolidated entity consists of cash and cash equivalents and equity attributable to equity holders, comprising mainly Head Office account and retained earnings as disclosed in notes 23 and 25 respectively.

Current regulations in New Zealand do not require the Branch to have capital, but under NZ IFRS 4 'Insurance Contracts' the Branch is required to disclose the amount of equity retained as solvency reserves and the basis of establishing the amount, which are disclosed in note 22, and there are some impending regulatory changes proposed that may require the life insurance branch operation to meet minimum solvency standards. It is currently anticipated that the relevant legislation will be enacted in September 2010, followed by a transition period of two to three years.

Under the Insurance Companies' Deposits Act 1953 and Life Insurance Act 1908, insurance and life insurance companies are required to maintain a \$500,000 deposit (per Act) with the Ministry of Economic Development (MED). The Branch has complied with this requirement during the reporting period.

Non financial risk

Insurance risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

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The principle risk that the Branch faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities.

There are two types of risks that are considered to be unique to life insurance businesses. These are the risks that the incidence of death, illness and injury claims are higher than assumed when pricing life insurance policies, and the risk that the incidence is greater than best estimate assumptions used to determine the fair value of the business.

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates and sufficient reinsurance arrangements, all of which are approved jointly at the Branch and Regional office levels. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Concentration of insurance risk

Concentration of insurance risk arises due to:

- Large sum assured on certain individuals: The concentration of individual lump sum risk is limited as the Branch's retention under the treaties with reinsurers is either a fixed amount, or a percentage of the sum assured subject to a fixed amount. In addition, excessive concentration can be detected and prevented at underwriting stage.
- Geographic concentrations due to employee group schemes: This risk is primarily covered by a catastrophe reinsurance treaty which provides cover losses in excess of US\$500,000, up to a maximum of US\$5 million in case of a catastrophe as defined in the treaty.

Terms and conditions of insurance contracts

The nature and the terms of insurance contracts written by the Branch is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provides an overview of the key variables upon which the amount of the related cash flows are dependent.

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life insurance contracts with fixed terms (Term Life and Disability including renewable risk)	Benefits paid on death or ill health that are fixed and not at the discretion of the issuer	Benefits, defined by the insurance contract and are not directly affected by the performance of the underlying assets or the performance of the contracts as a whole	Rates of mortality and morbidity, discontinuance rates and expenses

Operational and compliance risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Compliance risk is the risk of legal or regulatory sanctions the Branch may suffer as a result of its failure to comply with relevant laws, regulatory requirements and industry standards and codes.

The Branch's objective is to satisfactorily manage operational risk and compliance risk. Various procedures and mechanisms are put in place to control and mitigate the risks faced by the Branch depending on the nature of the risk. Both operational risk and compliance risks are closely monitored by the Compliance, Enterprise Risk Management and Legal functions and are regularly reported to the Leadership Team and Group Office in Hong Kong.

**American International Assurance Company (Bermuda) Limited-
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2009

5. PROFIT AFTER TAXATION FOR THE YEAR

	Branch		Consolidated	
	2009	2008	2009	2008
Profit after taxation arose from:				
Insurance contracts				
Planned margins of revenues over expenses	223,631	210,559	223,631	210,559
Difference between actual and assumed experience	(4,274,312)	10,670,120	(4,274,312)	10,670,120
Effects of changes in underlying assumptions:				
- Change in discount rate	9,547,221	(6,477,083)	9,547,221	(6,477,083)
- Change in inflation rate	(1,516,011)	2,509,671	(1,516,011)	2,509,671
	3,980,529	6,913,267	3,980,529	6,913,267
Investment contracts				
Difference between actual and assumed experience	(20,551)	(34,357)	(20,551)	(34,357)
	(20,551)	(34,357)	(20,551)	(34,357)
Investment earnings on assets in excess of policyholder liabilities	3,365,268	4,275,256	3,365,268	4,275,256
Other	-	-	185,666	125,965
Total profit after taxation for the year	7,325,246	11,154,166	7,510,912	11,280,131

The disclosure of the components of profit after taxation are required to be separated between policyholders' and shareholder's interests. In the case of the Branch and consolidated entity, total profit after taxation is attributable to the head office.

6. NET INVESTMENT INCOME

Investment gains				
Available for sale:				
- Equity securities dividends	1,598	1,817	1,598	1,817
- Debt securities interest and other income	5,456,161	4,752,623	5,456,161	4,752,623
- Debt securities realised gain on sale	77,896	-	77,896	-
Cash and cash equivalents interest	737,814	1,483,301	750,302	1,500,357
Policy loans interest	20,013	7,792	20,013	7,792
	6,293,482	6,245,533	6,305,970	6,262,589
Investment losses				
Available for sale:				
- Equity securities impairment	78	12,903	78	12,903
- Debt securities realised losses on sale	126,525	-	126,525	-
	126,603	12,903	126,603	12,903
Total net investment income	6,166,879	6,232,630	6,179,367	6,249,686

7. OTHER INCOME

Interests	6,677	395,977	6,677	395,977
Bad debt recovered and reversal of impairments on receivables	102,684	30,252	102,684	30,252
Unrealised gains from derivatives	1,850	-	1,850	-
Other income	16,075	1,862	16,075	1,862
Total other income	127,286	428,091	127,286	428,091

8. NET CLAIMS EXPENSE

Claims	46,558,979	32,239,358	46,558,979	32,239,358
Surrenders	3,164,042	2,544,304	3,164,042	2,544,304
Insurance claims recognised as expense	49,723,021	34,783,662	49,723,021	34,783,662
Less: Reinsurance recovery	(34,328,005)	(24,769,858)	(34,328,005)	(24,769,858)
Net claims expense	15,395,016	10,013,804	15,395,016	10,013,804

**American International Assurance Company (Bermuda) Limited-
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9. OPERATING EXPENSES

(a) Policy acquisition and maintenance expenses

Policy expenses have been included as part of expenses in the following categories in the income statements:

	Branch		Consolidated	
	2009	2008	2009	2008
Policy acquisition expenses	13,010,805	11,947,489	12,723,199	11,720,829
Policy maintenance expenses	5,235,117	4,715,233	5,235,117	4,715,233
Total policy expenses	18,245,922	16,662,722	17,958,316	16,436,062

(b) Employee benefit expenses

Salaries and other short term benefits (2009 includes \$671,101 of terminations and other restructuring expenses - note 18)	13,456,448	11,441,493	13,495,912	11,488,204
Post-employment benefits	224,570	193,052	224,570	193,052
Other long-term benefits	16,837	9,350	16,837	9,350
Total employee benefit expenses	13,697,855	11,643,895	13,737,319	11,690,606

(c) Depreciation and amortisation expense

Depreciation of property, plant and equipment (note 14)	455,156	426,551	455,705	427,327
Amortisation of intangible assets (note 15)	173,876	244,322	173,876	244,322
Total depreciation and amortisation expense	629,032	670,873	629,581	671,649

(d) Other expenses

Operating leases	635,979	671,747	696,779	732,547
Audit of financial statements fees	100,509	119,240	107,393	128,240
Other assurance related services paid to auditors	-	30,760	-	30,760
Other tax compliance services fees paid to auditor	3,538	26,347	5,038	27,847
Donations	107	200	107	200
Unrealised losses from derivatives	-	439,882	-	439,882
Group office fees	576,284	-	576,284	-
Property, plant and equipments written off	21,682	7,713	21,682	7,713
Intangible assets written off	33,456	-	33,456	-
Others	9,950,785	9,741,134	9,956,016	9,740,098
Total other expenses	11,322,340	11,037,023	11,396,755	11,107,287

10. TAXATION

(a) Income tax expense

Current taxation	-	-	-	-
Deferred taxation (gain) / expense	(31,543)	2,469,758	(31,543)	2,469,758
Tax losses sold	(1,504,279)	(3,510,575)	(1,504,279)	(3,510,575)
NRWT paid	-	272	-	272
Prior year tax balance adjustment	-	(254,613)	-	(254,613)
Income tax gain	(1,535,822)	(1,295,158)	(1,535,822)	(1,295,158)

The income tax gain recognised can be reconciled to the accounting profit as follows:

Total profit before taxation	5,789,424	9,859,008	5,975,090	9,984,973
Income tax at the current rate of 30%	1,736,827	2,957,702	1,792,527	2,995,492
Taxation effect of non-deductible expenses/non-assessable revenue				
Permanent differences	(5,885,616)	(214,313)	(5,885,504)	(214,313)
Tax loss not recognised	4,117,246	-	4,117,246	-
Tax losses sold	(1,504,279)	(3,510,575)	(1,504,279)	(3,510,575)
Tax losses offset	-	(273,631)	(56,637)	(312,086)
Unrecognised timing differences	-	-	825	665
NRWT paid	-	272	-	272
Prior year tax balance adjustment	-	(254,613)	-	(254,613)
Income tax gain	(1,535,822)	(1,295,158)	(1,535,822)	(1,295,158)

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10. TAXATION (continued)

(b) Income tax asset

	Branch		Consolidated	
	2009	2008	2009	2008
Current income tax receivable for the year	323,393	447,334	325,829	451,588
Non-current income tax receivable for the year	-	-	-	-
Total income tax receivable for the year	323,393	447,334	325,829	451,588

As at 30 November 2009, tax losses of \$13,726,003 (2008:\$14,787,940) are available to offset against any future taxable income. Of the above tax losses \$13,726,003 have yet to be confirmed by the Inland Revenue Department and are subject to the requirements of the tax legislation being met. The Branch has agreed to offset \$188,789 (2008:\$2,245) of its tax losses with AIA FSN's financial year taxable income, in return of no consideration.

Note that due to a potential change in shareholding it is possible that tax losses that would otherwise be available to offset against income in future years may be forfeited upon any such change.

During the 2009 year, the Branch offset \$9,116,843 of tax losses with American Home Assurance Company (NZ) Limited's (AHAC NZ) 2008 year taxable income. The Branch in return received a cash payment of \$1,504,279 in the 2009 financial year.

In October 2009 a similar agreement was reached between the Branch and AHAC NZ to offset \$14,787,940 of the Branch's tax losses with AHAC NZ's 2009 tax year taxable income. The Branch, in return agreed to receive a cash payment from AHAC NZ equivalent to 50% of the tax effected value of the losses. This agreement is due to be executed in the 2010 financial year.

(c) Deferred tax assets and liabilities

	Branch and consolidated			
	Opening Balance at 1 December	Charged/ (credited) to profit and loss	Charged to equity	Closing Balance at 30 November
2009				
Movements in deferred tax				
Provisions and accruals	550,092	243,370	-	793,462
Unrealised losses of AFS financial assets	3,854	(3,854)	-	-
Policyholder liabilities	(38,068,673)	(207,697)	-	(38,276,370)
Other	25,076	(276)	-	24,800
Total net deferred tax liability	(37,489,651)	31,543	-	(37,458,108)
2008				
Movements in deferred tax				
Provisions and accruals	302,123	247,969	-	550,092
Unrealised losses of AFS financial assets	238,247	-	(234,393)	3,854
Policyholder liabilities	(35,351,117)	(2,717,556)	-	(38,068,673)
Other	25,247	(171)	-	25,076
Total net deferred tax liability	(34,785,500)	(2,469,758)	(234,393)	(37,489,651)
	Branch		Consolidated	
	2009	2008	2009	2008
Analysed as				
Current	(2,311,282)	(14,808,398)	(2,311,282)	(14,808,398)
Non current	(35,146,826)	(22,681,253)	(35,146,826)	(22,681,253)
	(37,458,108)	(37,489,651)	(37,458,108)	(37,489,651)

Deferred tax on policyholder liabilities

Policyholder liabilities represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology, planned after tax profit margins are recognised in the income statement over the period services are provided to policyholders. A deferred tax liability of \$38.3m (2008 \$38.1m) has been separately disclosed and included in the deferred tax liabilities balance representing taxable temporary differences which are embedded within policyholder liabilities and an amount that recognises deferred tax liabilities at the statutory tax rate.

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10. TAXATION (continued)

(d) Policyholder credit account

	Branch		Consolidated	
	2009	2008	2009	2008
Balance at the beginning of the year	447,334	1,269,362	447,334	1,269,362
Resident withholding tax on interest received	274,000	49,393	274,000	49,393
Resident withholding tax refunded	(397,941)	(871,421)	(397,941)	(871,421)
Balance at the end of the year	323,393	447,334	323,393	447,334

As at 30 November 2009, policyholder losses of \$134,428,922 (2008: \$118,821,968) are available to offset against any future policyholder income. Of the above policyholder losses \$15,606,954 have yet to be confirmed by the Inland Revenue Department and are subject to the requirements of the tax legislation being met.

11. LOANS AND RECEIVABLES

Receivables from policyholders	1,469,289	1,875,717	1,469,289	1,875,717
Policy loans	184,901	71,223	184,901	71,223
Less provision for impairment of receivables from policyholders	(102,696)	(205,380)	(102,696)	(205,380)
Loans to and receivables from policyholders	1,551,494	1,741,560	1,551,494	1,741,560
Due from brokers and intermediaries	913,610	974,298	913,796	974,298
Less provision for impairment of receivables from brokers and intermediaries	(611,413)	(474,280)	(611,413)	(474,280)
Receivables from brokers and intermediaries	302,197	500,018	302,383	500,018
Reinsurance recoveries	6,570,308	2,697,127	6,570,308	2,697,127
Receivables from reinsurers	6,570,308	2,697,127	6,570,308	2,697,127
Accrued interest	1,160,670	995,634	1,160,670	995,634
Prepayments	119,029	122,137	119,029	122,137
Sundry debtors	12,750	21,400	12,750	21,400
Prepayments and other receivables	1,292,449	1,139,171	1,292,449	1,139,171
Total loans and receivables	9,716,448	6,077,876	9,716,634	6,077,876
Analysed as				
Current	9,531,547	6,000,653	9,531,733	6,000,653
Non-current	184,901	77,223	184,901	77,223
	9,716,448	6,077,876	9,716,634	6,077,876

Included in loans and receivables balance are debtors with a carrying amount of \$0.62 million (2008: \$1.16 million) which are past due at the reporting date for which the Branch and consolidated entity have not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Ageing past due receivables

1-30 days	321,577	785,788	321,577	785,788
31-90 days	269,850	242,133	269,850	242,133
91-365 days	35,544	128,699	35,544	128,699
Total	626,971	1,156,620	626,971	1,156,620

12. INVESTMENT IN SUBSIDIARY

American International Assurance Company (Bermuda) Limited has an interest in the following significant operating subsidiary:

	Principle Activity	Note	Percentage Held	
			2009	2008
AIA Financial Services Network Limited	Insurance Brokerage	(i)	100%	100%

(i) The investment in AIA Financial Services Network Limited has been written off as the net market value of the investment in the subsidiary is nil.

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13. AVAILABLE FOR SALE FINANCIAL ASSETS

	Branch		Consolidated	
	2009	2008	2009	2008
Equity securities				
Shares in listed companies	14,099	13,530	14,099	13,530
	14,099	13,530	14,099	13,530
Debt securities				
Annuity bonds	7,291,906	7,966,445	7,291,906	7,966,445
Medium term notes	75,403,197	53,549,281	75,403,197	53,549,281
New Zealand government securities	1,045,090	1,024,685	1,045,090	1,024,685
	83,740,193	62,540,411	83,740,193	62,540,411
Total available for sale financial assets	83,754,292	62,553,941	83,754,292	62,553,941
Analysed as:				
Current	5,071,164	4,527,416	5,071,164	4,527,416
Non current	78,683,128	58,026,525	78,683,128	58,026,525
	83,754,292	62,553,941	83,754,292	62,553,941

14. PROPERTY, PLANT AND EQUIPMENT

Furniture, fittings and office equipment				
Cost				
At beginning of the year	1,698,244	1,237,821	1,704,222	1,243,799
Additions	35,843	462,352	37,351	462,352
Disposals	(317,602)	(1,929)	(317,602)	(1,929)
At end of the year	1,416,485	1,698,244	1,423,971	1,704,222
Accumulated depreciation				
At beginning of the year	(824,712)	(571,433)	(829,965)	(575,910)
Depreciation charge	(284,944)	(253,633)	(285,493)	(254,409)
Disposals	295,920	354	295,920	354
At end of the year	(813,736)	(824,712)	(819,538)	(829,965)
Closing net book value	602,749	873,532	604,433	874,257
Computer equipment				
Cost				
At beginning of the year	810,821	689,215	818,321	696,715
Additions	127,541	141,969	127,541	141,969
Disposals	(1,242)	(20,363)	(1,242)	(20,363)
At end of the year	937,120	810,821	944,620	818,321
Accumulated depreciation				
At beginning of the year	(552,656)	(393,963)	(560,156)	(401,463)
Depreciation charge	(170,212)	(172,918)	(170,212)	(172,918)
Disposals	1,242	14,225	1,242	14,225
At end of the year	(721,626)	(552,656)	(729,126)	(560,156)
Closing net book value	215,494	258,165	215,494	258,165
Total net book value of property, plant and equipment	818,243	1,131,697	819,927	1,132,422

**American International Assurance Company (Bermuda) Limited-
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15. INTANGIBLE ASSETS

	Branch		Consolidated	
	2009	2008	2009	2008
Purchased computer software				
Cost				
At beginning of the year	1,914,432	1,868,334	1,914,432	1,868,334
Additions	173,817	46,098	173,817	46,098
Disposals	(69,219)	-	(69,219)	-
At end of the year	2,019,030	1,914,432	2,019,030	1,914,432
Accumulated amortisation and impairment losses				
At beginning of the year	(1,690,600)	(1,446,278)	(1,690,600)	(1,446,278)
Amortisation charge	(110,932)	(244,322)	(110,932)	(244,322)
Disposals	35,763	-	35,763	-
At end of the year	(1,765,769)	(1,690,600)	(1,765,769)	(1,690,600)
Closing net book value	253,261	223,832	253,261	223,832
Software development costs				
Cost				
At beginning of the year	232,373	-	232,373	-
Additions	280,568	232,373	280,568	232,373
At end of the year	512,941	232,373	512,941	232,373
Accumulated amortisation and impairment losses				
At beginning of the year	-	-	-	-
Amortisation charge	(62,944)	-	(62,944)	-
At end of the year	(62,944)	-	(62,944)	-
Closing net book value	449,997	232,373	449,997	232,373
Total intangible assets	703,258	456,205	703,258	456,205

16. TRADE AND OTHER PAYABLES

Amounts due to reinsurers	4,912,448	5,083,784	4,912,448	5,083,784
Other payables and accruals	3,854,630	2,600,073	3,884,755	2,619,611
Total trade and other payables	8,767,078	7,683,857	8,797,203	7,703,395
Analysed as:				
Current	8,767,078	7,683,857	8,797,203	7,703,395
Non current	-	-	-	-
	8,767,078	7,683,857	8,797,203	7,703,395

17. EMPLOYEE BENEFITS

Analysed as:				
Current	1,698,681	1,375,666	1,699,751	1,380,162
Non current	44,641	27,804	44,641	27,804
	1,743,322	1,403,470	1,744,392	1,407,966

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18. PROVISION FOR RESTRUCTURING

	Branch		Consolidated	
	2009	2008	2009	2008
At beginning of the year	-	-	-	-
Additional provisions	671,102	-	671,102	-
Used during the year	(131,484)	-	(131,484)	-
At the end of the year	539,618	-	539,618	-
Analysed as:				
Current	539,618	-	539,618	-
Non current	-	-	-	-
	539,618	-	539,618	-

The restructure was designed to better enable the organisation to achieve its strategic and business objectives. The full amount of the estimated costs to be incurred has been recognised in 2009. The provision of \$539,618 is expected to be fully utilised by the end of March.

19. OTHER INSURANCE LIABILITIES

Outstanding claims	10,801,827	1,883,036	10,801,827	1,883,036
Premiums received in advance and others	289,543	392,014	289,543	392,014
Total other insurance liabilities	11,091,370	2,275,050	11,091,370	2,275,050
Analysed as:				
Current	11,091,370	2,275,050	11,091,370	2,275,050
Non current	-	-	-	-
	11,091,370	2,275,050	11,091,370	2,275,050

20. OTHER FINANCIAL LIABILITIES

(a) Amounts due to related parties

Subsidiary of head office

AIA Financial Services Network Limited	5,928	6,722	-	-
<u>Other related parties</u>				
American International Assurance Company (Hong Kong) Limited	189,135	160,824	189,135	160,824
American International Reinsurance Company Limited	-	60,617	-	60,617
AIG Global Services Inc. from USA (former AIG Technologies Inc.)	37,393	14,368	37,393	14,368
AIG Asset Management (Asia) Limited (former AIG Global Investment Corporation (Asia) Limited)	-	18,833	-	18,833
American Home Assurance Company (Australia) Limited	-	4,544	-	4,544
American International Assurance (Bermuda) Hong Kong	-	16,058	-	16,058
American Home Assurance Company (NZ) Limited	-	600	-	600
	232,456	282,566	226,528	275,844

(b) Derivatives

Opening balance	672,620	232,738	672,620	232,738
Movement in fair value during the year	(1,850)	439,882	(1,850)	439,882
Closing balance	670,770	672,620	670,770	672,620
Total other financial liabilities	903,226	955,186	897,298	948,464
Analysed as:				
Current	232,456	282,566	226,528	275,844
Non current	670,770	672,620	670,770	672,620
	903,226	955,186	897,298	948,464

**American International Assurance Company (Bermuda) Limited-
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21. POLICYHOLDER LIABILITIES

	Branch		Consolidated	
	2009	2008	2009	2008
Opening net policyholder liabilities	25,574,836	16,833,596	25,574,836	16,833,596
Movement in policyholder liabilities - Insurance contracts	(562,263)	6,976,794	(562,263)	6,976,794
Movement in policyholder liabilities - Investment contracts	90,601	212,835	90,601	212,835
Movement in policyholder liabilities per income statement	(471,662)	7,189,629	(471,662)	7,189,629
Universal life premiums received	91,791	123,101	91,791	123,101
Universal life payments to policyholders	(218,488)	(1,289,046)	(218,488)	(1,289,046)
Movement in deferred tax	207,697	2,717,556	207,697	2,717,556
Closing net policyholder liabilities	25,184,174	25,574,836	25,184,174	25,574,836
<i>Closing policyholder liabilities contain the following components:</i>				
Insurance contracts				
Future premiums	(87,621,191)	(101,611,202)	(87,621,191)	(101,611,202)
Future policy benefits	167,295,394	153,503,380	167,295,394	153,503,380
Future expenses	15,700	15,303,180	15,700	15,303,180
Planned margin	4,173,529	13,383,748	4,173,529	13,383,748
Renewable risk deferred acquisition costs	(74,638,876)	(72,740,936)	(74,638,876)	(72,740,936)
Other ex-Alico benefits	1,301,421	275,150	1,301,421	275,150
Gross insurance contract liabilities	10,525,977	8,113,320	10,525,977	8,113,320
Investment contracts				
Future policy benefits	2,992,879	3,028,974	2,992,879	3,028,974
Gross investment contract liabilities	2,992,879	3,028,974	2,992,879	3,028,974
Total gross policyholder liabilities	13,518,856	11,142,294	13,518,856	11,142,294
Assets arising from reinsurance contracts	(26,611,052)	(23,636,131)	(26,611,052)	(23,636,131)
Deferred tax	38,276,370	38,068,673	38,276,370	38,068,673
Total net policyholder liabilities	25,184,174	25,574,836	25,184,174	25,574,836
Analysed as:				
Current	(7,302,269)	(7,086,871)	(7,302,269)	(7,086,871)
Non current	32,486,443	32,661,707	32,486,443	32,661,707
	25,184,174	25,574,836	25,184,174	25,574,836

22. SOLVENCY RESERVES

Based on actuarial advice, the Directors have determined that the additional Branch solvency liabilities are as follows:

Equity and head office account	65,463,916	57,176,237	65,921,059	57,447,714
Additional solvency liabilities	63,187,562	55,388,431	63,187,563	55,388,431
Equity excess	2,276,354	1,787,806	2,733,496	2,059,283

The basis of calculation of the solvency reserves follows the requirements set out in the New Zealand Society of Actuaries Professional Standard No. 5.01 'Solvency Reserving for Life Insurance Business' (PS5.01), with the proviso that some minor lines of ex-Alico business have been valued on the Hong Kong statutory net premium basis.

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23. HEAD OFFICE ACCOUNT

	Branch		Consolidated	
	2009	2008	2009	2008
Head office account				
Opening balance at 1 December	19,972,435	19,972,435	19,972,435	19,972,435
New contributions /(withdrawals)	-	-	-	-
Closing balance at 30 November	19,972,435	19,972,435	19,972,435	19,972,435

The head office account is interest free and repayable at the discretion of the head office.

24. SHARE CAPITAL

Share capital				
Opening balance at 1 December	-	-	86,500	86,500
New issues/(cancellations)	-	-	-	-
Closing balance at 30 November	-	-	86,500	86,500

Share capital is represented by 10 ordinary shares of AIA FSN issued and fully paid. All ordinary shares rank equally with one vote attached to each fully paid share.

25. RETAINED EARNINGS

Retained earnings				
Opening balance at 1 December	35,494,375	24,340,209	35,679,352	24,399,221
Net profit for the year	7,325,246	11,154,166	7,510,912	11,280,131
Closing balance at 30 November	42,819,621	35,494,375	43,190,264	35,679,352

26. RESERVES

Available for sale financial assets reserve				
Opening balance at 1 December	1,709,427	(12,203)	1,709,427	(12,203)
Unrealised gain / (losses) on equity securities	569	(11,229)	569	(11,229)
Loss transferred to the income statement on impairment of equity securities	78	12,903	78	12,903
Unrealised gain on debt securities	961,786	1,954,349	961,786	1,954,349
Tax on gains and losses	-	(234,393)	-	(234,393)
Closing balance at 30 November	2,671,860	1,709,427	2,671,860	1,709,427

Changes in the fair value of investments classified as available for sale financial assets, are taken to the available for sale financial assets reserve. Amounts are recognised in profit and loss when the associated assets are sold or impaired.

27. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	221,809	34,215	224,970	37,534
Deposits at call	17,336,999	23,788,346	17,811,942	24,068,837
Total cash and cash equivalents	17,558,808	23,822,561	18,036,912	24,106,371

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statements as follows:

Balance as above	17,558,808	23,822,561	18,036,912	24,106,371
Bank overdrafts	(104,477)	(211,832)	(104,477)	(211,832)
Closing balance per cash flow statement	17,454,331	23,610,729	17,932,435	23,894,539

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27. CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of profit after taxation to net cash inflow from operating activities

	Branch		Consolidated	
	2009	2008	2009	2008
Profit after taxation for the year	7,325,246	11,154,166	7,510,912	11,280,131
Add / (less) non cash items				
Depreciation	455,156	426,551	455,705	427,327
Amortisation of intangibles	173,876	244,322	173,876	244,322
Property, plant and equipment written off	21,682	7,713	21,682	7,713
Intangible assets written off	33,456	-	33,456	-
Unrealised (gain) losses from derivatives	(1,850)	439,882	(1,850)	439,882
Impairment of AFS financial assets	78	12,903	78	12,903
Amortisation of debt securities	(101,080)	(321,695)	(101,080)	(321,695)
Movement in policyholder liabilities	(598,359)	6,023,684	(598,359)	6,023,684
Deferred tax	(31,543)	2,469,758	(31,543)	2,469,758
	(48,584)	9,303,118	(48,035)	9,303,894
Add / (less) movements in working capital relating to operating activities				
(Increase) / decrease in loans and receivables	(3,638,572)	8,720,926	(3,638,758)	8,724,923
Decrease in income tax assets	123,941	832,748	125,759	830,334
Increase / (decrease) in trade and other payables	1,190,576	(1,675,825)	1,201,163	(1,680,455)
Increase / (decrease) in employee benefits	339,852	(1,051)	336,426	1,455
Increase in provision for restructuring	539,618	-	539,618	-
Increase / (decrease) in other insurance liabilities	8,816,320	(3,114,936)	8,816,320	(3,114,936)
(Decrease) / increase in amounts due to related parties	(50,110)	148,862	(49,316)	142,140
	7,321,625	4,910,724	7,331,212	4,903,461
Net cash inflow from operating activities	14,598,287	25,368,008	14,794,089	25,487,486

28. DISAGGREGATED INFORMATION

Investment linked business is business for which the insurer issues a contract where the benefit amount is directly linked to the market value of the investments held in the particular investment linked fund. Non-investment linked business is insurance business other than investment-linked business.

This note is required only for Life Insurance Operations under NZ IFRS 4 'Insurance Contracts'. Consequently, no consolidated position is required.

As at 30 November 2009	Investment linked policies	Non- investment linked policies	Branch Total
Investment assets			
Cash and cash equivalents	3,010,269	14,548,539	17,558,808
Other assets	-	121,926,686	121,926,686
	3,010,269	136,475,225	139,485,494
Policyholder liabilities			
Policyholder liabilities	2,992,879	10,525,977	13,518,856
Liabilities other than policyholder liabilities	-	60,502,722	60,502,722
Retained profits attributable to head office	17,391	65,446,525	65,463,916
	3,010,270	136,475,224	139,485,494
Premium revenue from insurance contracts			
Outwards reinsurance expense	(71)	(35,177,781)	(35,177,852)
Investment income	180,656	5,986,223	6,166,879
Fee and other income	-	127,286	127,286
Claims expense	(110,535)	(49,612,486)	(49,723,021)
Reinsurance recovery revenue	-	34,328,005	34,328,005
Other operating expenses	-	(43,962,243)	(43,962,243)
Movement in policyholder liabilities	(90,601)	562,263	471,662
Profit before taxation	(20,551)	5,809,975	5,789,424
Income tax credit	-	1,535,822	1,535,822
Profit after taxation for the year	(20,551)	7,345,797	7,325,246

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As at 30 November 2008	Investment linked policies	Non- investment linked policies	Branch Total
Investment assets			
Cash and cash equivalents	3,045,111	20,777,450	23,822,561
Other assets	-	94,303,184	94,303,184
	3,045,111	115,080,634	118,125,745
Policyholder liabilities	3,028,974	8,113,320	11,142,294
Liabilities other than policyholder liabilities	657	49,806,557	49,807,214
Retained profits attributable to head office	15,480	57,160,757	57,176,237
	3,045,111	115,080,634	118,125,745
Premium revenue from insurance contracts	-	96,146,032	96,146,032
Outwards reinsurance expense	(31)	(35,675,323)	(35,675,354)
Investment income	210,332	6,022,298	6,232,630
Fee and other income	-	428,091	428,091
Claims expense	(30,972)	(34,752,691)	(34,783,663)
Reinsurance recovery revenue	-	24,769,858	24,769,858
Other operating expenses	(851)	(40,068,106)	(40,068,957)
Movement in policyholder liabilities	(212,835)	(6,976,794)	(7,189,629)
Profit before taxation	(34,357)	9,893,365	9,859,008
Income tax credit	-	1,295,158	1,295,158
Profit after taxation for the year	(34,357)	11,188,523	11,154,166

29. OWNERSHIP AND TRANSACTIONS WITH RELATED PARTIES

(a) Immediate and ultimate controlling party

At the balance sheet date, AIA-B NZ was a Branch of American International Assurance Company (Bermuda) Limited (AIA-B), incorporated in Bermuda. The immediate parent company of AIA-B is American International Assurance Company, Limited (AIA), a company incorporated in Hong Kong.

Prior to 30 November 2009, the immediate controlling party of AIA was AIRCO, a Bermuda company whose ultimate parent company was AIG, an insurance and financial services group in the United States of America.

In September 2008, AIG entered into a US\$85 billion revolving credit agreement (the 'Credit Agreement') and a guarantee and pledge agreement with the Federal Reserve Bank of New York (the 'FRBNY'). In conjunction with the Credit Agreement, AIG agreed to issue a series of convertible participating preferred stock ('the Series C Preferred Stock') to a trust to be established for the sole benefit of the United States Treasury (the 'AIG Credit Facility Trust'). The Series C Preferred Stock was issued to the AIG Credit Facility Trust on 4 March 2009. The Series C Preferred Stock is entitled to vote with the AIG common stock on all matters, and holds approximately 79.8% of the aggregate voting power of AIG shareholders entitled to vote, on an as converted basis. The AIG Credit Facility Trust has three independent trustees. Pursuant to the terms of the Trust Agreement, the trustees have absolute discretion and ultimate control over the preferred stock, subject to the terms of the Trust Agreement, and exercise all rights, powers and privileges of a shareholder of AIG.

The direct shareholders of AIA did not change as a result of the actions described above. However, a change of control occurred at the level of AIG, the ultimate parent of AIA. Through its ownership of the Series C Preferred Stock, the AIG Credit Facility Trust owns an indirect interest in all domestic and international subsidiaries owned directly or indirectly by AIG, and is the ultimate controlling party of AIG.

On 2 March 2009, AIG and the FRBNY announced their intent to enter into certain transactions that would, amongst other things, reduce AIG's obligations under the Credit Agreement mentioned above. Accordingly, the FRBNY Agreement was entered into on 25 June 2009. The following transactions were effected in accordance with the FRBNY Agreement:

- on 11 August 2009, AIG Life Holdings (International) LLC ('AIG Life') formed a special purpose vehicle, AIA Aurora LLC;
- on 24 August 2009, AIA Aurora LLC formed AIA Group Limited;
- on 8 October 2009, AIG Life transferred AIA Aurora LLC to AIRCO;
- on 30 November 2009, AIRCO transferred AIA to AIA Group Limited;
- on 1 December 2009, AIRCO transferred to the FRBNY a preferred interest, with a US\$16 billion liquidation preference, in AIA Aurora LLC;
- AIG retained 100% of the common interest of AIA Aurora LLC (1% directly and 99% indirectly through AIRCO) as at 1 December 2009; and
- as consideration for the preferred interests in AIA Aurora LLC received by the FRBNY, the outstanding balance owed by AIG under the Credit Agreement was reduced by US\$16 billion.

Accordingly, with effect from 30 November 2009, AIA Group Limited became the immediate controlling party of AIA, after AIRCO, the former immediate parent company of AIA, transferred AIA to AIA Group Limited.

**American International Assurance Company (Bermuda) Limited-
New Zealand Branch**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2009

(b) Transactions with related parties

The Branch entered into transactions with its related parties in the normal course of business. The aggregate amount of income and expenses arising from these transactions during the year with the related parties are as follows:

Transaction description	Branch		Consolidated	
	2009	2008	2009	2008
<u>Subsidiary of head office</u>				
Commissions expenses	246,483	190,586	-	-
Reimbursement of various expenses incurred by subsidiary	174,557	213,308	-	-
<u>Other related parties</u>				
Data processing cost	194,238	180,830	194,238	180,830
Network maintenance expenses	260,815	176,493	260,815	176,493
Payroll software, consultancy and training cost	52,626	42,408	52,626	42,408
Investment service and administration fee	38,263	34,118	38,263	34,118
Catastrophe reinsurance expense	144,982	94,414	144,982	94,414
Group service fees	576,284	-	576,284	-
Other worldwide allocated expenses	-	46,341	-	46,341
Travel insurance reinsurance premiums paid	44,370	56,848	44,370	56,848
Tax losses sold	1,504,279	3,510,575	1,504,279	3,510,575
	3,236,897	4,545,921	2,815,857	4,142,027

(c) Key management personnel compensation

The compensation for key management personnel during the year was as follows:

Salaries and other short term benefits, including terminations	1,689,997	1,074,000	1,689,997	1,074,000
Post-employment benefits	21,800	15,200	21,800	15,200
Other long-term benefits	2,683	1,373	2,683	1,373
	1,714,480	1,090,573	1,714,480	1,090,573

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Branch and consolidated entity directly or indirectly.

30. CONTINGENT LIABILITIES

There are no material contingent liabilities at balance date (2008: nil).

31. CAPITAL COMMITMENTS

There are no material capital commitments at balance date (2008: nil).

32. OPERATING LEASES

Future operating non cancellable lease commitments on premises and assets leased are as follows:

	Branch		Consolidated	
	2009	2008	2009	2008
Period from balance date payable:				
Less than 1 year	599,122	635,441	640,355	696,241
1-5 years	1,852,168	886,404	1,852,168	926,937
5+	541,125	74,840	541,125	74,840
	2,992,415	1,596,685	3,033,648	1,698,018

These operating lease agreements have varying terms, escalation clauses and renewal rights.

**American International Assurance Company (Bermuda) Limited-
New Zealand Branch**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2009

33. SEGMENTAL INFORMATION

At balance date the Branch and consolidated entity operate predominantly in one industry segment being life insurance and one geographic location being New Zealand.

34. EVENTS OCCURRING AFTER BALANCE DATE

On 1 March 2010, AIG announced that it had entered into a definitive agreement to sell AIA Group Limited ("the AIA Group") to Prudential plc. The transaction is subject to approval of Prudential plc shareholders, regulatory approvals and customary closing conditions. AIA-B NZ is in the process of evaluating the contractual, regulatory and legal impacts of the change in control that would arise on completion of this transaction. In connection with this transaction, interim operating covenants have been imposed on the AIA Group which restrict it from engaging in certain transactions without the prior consent of Prudential plc and establish a protocol for the approval of certain actions.

Auditors' Report

To the Directors of American International Assurance Company (Bermuda) Limited
– New Zealand Branch

We have audited the financial statements on pages 2 to 42. The financial statements provide information about the past financial performance and cash flows of the New Zealand operations of American International Assurance Company (Bermuda) Limited (New Zealand Branch) and Group for the year ended 30 November 2009 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 6 to 17.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which present fairly the financial position of the New Zealand Branch and Group as at 30 November 2009 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the New Zealand Branch, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the New Zealand Branch or its controlled entity other than in our capacities as auditors and tax advisors.

Auditors' Report

American International Assurance Company (Bermuda) Limited – New Zealand Branch

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion, the financial statements on pages 2 to 42 present fairly the financial position of the New Zealand Branch and Group as at 30 November 2009 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 29 April 2010 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants

Auckland



American International Assurance Company (Bermuda) Limited

**Financial Information
under the Hong Kong Insurance Companies Ordinance
for the year ended 30 November 2009**

BUSINESS & REGISTRIES
BRANCH, AUCKLAND.

27 MAY 2010

RECEIVED





Report of Directors

The Directors of American International Assurance Company (Bermuda) Limited (the "Company") have pleasure in submitting their report together with the Annual Filing of the Company for the year ended 30 November 2009.

Principal Activities

The Company is principally engaged in life and general insurance business.

Insurance Operations

Net premiums and fee income for the year were \$3,644 million (2008: \$3,631 million), representing a 0.35% increase over the preceding year. Benefits amounting to \$4,980 million (2008: (\$448 million)) were accrued to policyholders and beneficiaries during the year. Mortality and loss experience continued at favourable levels.

Reinsurance Arrangements

Material reinsurance arrangements subsisting at the end of the year or at any time during the year are as follows:

Life, Accident and Health Insurance:

For new business, directly written or assumed through inward reinsurance, the Company manages its retention limit of US\$1,500,000 per life through external reinsurance. The financial effect of any catastrophic losses is substantially reduced through reinsurance under a catastrophe treaty with Partner Re and AIRCO.

General Insurance:

Accident and health business is reinsured through facultative reinsurance. A block of inward mortgage reinsurance, which is in runoff, is retroceded to AIG United Guarantee Re.

Investments

Investment income derived from insurance and other business operations, which comprise interest, dividends and rents, amounted to \$944 million (2008: \$ 736 million), representing a 28% increase over the preceding year. Investment experience amounting to \$2,072 million (2008: loss of \$ 3,801 million) were recognised during the year.

Transfer to reserves

Profits attributable to shareholders, before dividends, of \$554 million (2008: \$297 million) have been transferred to reserves. Other movements in reserves are set out in the statement of changes in equity.

No interim dividend (2008: US\$80,000) were paid in 2009. The directors do not recommend the payment of a dividend for the year ended 30 November 2009.

Share capital

Details of the movements in share capital of the Company during the year are set out in note 29 to the financial statements.

Subsequent Events

Details of significant events after the year ended 30 November 2009 are set out in note 39 to the financial statements.

Directors' Interests in Contracts

No contracts of significance in relation to the Company's business to which the Company, any of its fellow subsidiaries or any of its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



Report of Directors (continued)

Directors

The Directors who held office during the year and up to the date of this report were:

Mr. Mark Andrew WILSON

Mr. Stephen Bernard RODER (Resigned on 22nd April 2010)

Mr. Stephen George CUBBON

Mr. David Lawrence HERZOG (Appointed on 19th April 2010)

Ms Martina Kit Hung CHUNG (Appointed on 21st May 2009)

Mr. Tak Chi CHENG (Appointed on 21st May 2009 and resigned on 3rd June 2009)

Mr. Edmund Sze Wing TSE (Resigned on 21st May 2009)

Mr. Lars Roland BERGQUSIT (Resigned on 21st May 2009)

Mr. Derek Kai Ming YUNG (Resigned on 21st May 2009)

Mr. Gordon Timmins WATSON (Resigned on 21st May 2009)

Mr. Anthony Myles PHILIP (alternate to Mr Lars Roland BERGQUSIT and Mr Stephen George CUBBON) (Resigned on 21st May 2009)

In accordance with the provisions of the Company's Articles of Association, all remaining Directors retire from the Board and are eligible for re-election.

Controllers

American International Group, Inc

AIG Life Holdings (International) LLC

American International Reinsurance Company, Limited

AIA Group Limited

American International Assurance Company, Limited

Directors' Benefits from Rights to Acquire Shares or Debentures

Under the stock option plans of American International Group, Inc. ("AIG"), options to purchase a certain number of shares of AIG common stock have been granted to officers and other key employees of AIG and its subsidiaries at prices not less than the fair value at date of grant.

During the period ended 30 November 2009, AIG employees had received compensation pursuant to awards under seven different share-based employee compensation plans:

- (i) AIG 1999 Stock Option Plan, as amended (1999 Plan);
- (ii) AIG 1996 Employee Stock Purchase Plan, as amended (1996 Plan) – the subscriptions were cancelled from October 2007 based on the current market value of the common stock of AIG;
- (iii) AIG 2002 Stock Incentive Plan, as amended (2002 Plan) under which AIG has issued time-vested restricted stock units (RSUs) and performance restricted stock units (performance RSUs);
- (iv) AIG 2007 Stock Incentive Plan, as amended (2007 Plan);
- (v) SICO's Deferred Compensation Profit Participation Plans (SICO Plans);
- (vi) AIG's 2005 – 2006 Deferred Compensation Profit Participation Plan (AIG DCPPP) – the AIG DCPPP was adopted as a replacement for the SICO Plans for the 2005 – 2006 period. Share-based employee compensation earned under the AIG DCPPP was granted as time-vested RSUs under the 2002 Plan; and



Report of Directors (continued)

Directors' Benefits from Rights to Acquire Shares or Debentures (continued)

- (vii) The AIG Partners Plan; this replaced the AIG DCPPP. Share-based employee compensation awarded under the AIG Partners Plan was granted as performance-based RSUs under the 2002 Plan, except for the December 2007 grant which was made under the 2007 Plan.

Although awards granted under all the plans described above remained outstanding at 30 November 2009, future grants of options, RSUs and performance RSUs can be made only under the 2007 Plan. AIG currently settles share option exercises and other share awards to participants by issuing shares it previously acquired and holds in its treasury account, except for share awards made by SICO, which are settled by SICO.

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

During the year, Mr. Mark Andrew Wilson, Mr. Stephen Bernard Roder, Mr. Stephen George Cubbon, Ms. Martina Kit-Hung Chung, Mr. Tak-Chi Cheng, Mr. Edmund Sze-Wing Tse, Mr. Lars Roland Bergquist, Mr. Derek Kai-Ming Yung and Mr. Gordon Timmins Watson held (or whose nominees held) shares or rights to acquire shares in AIG under the arrangements described above. Refer to Note 33 for additional information relating to these plans.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment, and a resolution to this effect will be proposed at the Annual General Meeting.

By order of the Board

A handwritten signature in black ink, appearing to be 'M. A. Wilson', written over a horizontal line.

Director



Income Statement

For the year ended 30 November 2009

(expressed in thousands of United States Dollars)

US\$'000	Notes	Year ended 30 November 2009	Year ended 30 November 2008 (restated)
Revenue			
<i>Turnover</i>	5		
Premiums and fee income		3,721,819	3,964,588
Premiums ceded to reinsurers		(78,059)	(334,084)
Net premiums and fee income		3,643,760	3,630,504
Investment return / (loss)	6	3,016,632	(3,064,400)
Other operating revenue	6	829	447,928
Total revenue		6,661,221	1,014,032
Expenses			
Insurance and investment contract benefits		5,037,553	(232,843)
Insurance and investment contract benefits ceded		(57,896)	(215,444)
Net insurance and investment contract benefits		4,979,657	(448,287)
Commission and other acquisition expenses		783,453	649,112
Operating expenses		232,317	303,062
Restructuring and separation cost		16,696	297
Investment management expenses		12,128	9,789
Finance costs		50,980	137,806
Total expenses	7	6,075,231	651,779
Profit before tax		585,990	362,253
Tax expense	8	(31,498)	(65,648)
Net profit		554,492	296,605
Attributable to:			
Owners of the Company		554,492	296,605



Balance Sheet

As at 30 November 2009

(expressed in thousands of United States Dollars)

US\$'000	Notes	30 November 2009	30 November 2008 (restated)
Assets			
Intangible assets	11	12,770	6,705
Investments in subsidiaries	37	546,974	571,738
Investments in associates and joint ventures	12	77,147	56,156
Property, plant and equipment	13	27,390	26,228
Reinsurance assets	14	77,193	662,719
Deferred acquisition and origination costs	15	4,536,135	4,264,226
Financial investments:	16		
Loans and receivables		1,190,303	728,754
Available for sale			
Debt securities		16,295,433	11,863,109
Equity securities – shares in AIG		58,573	82,590
At fair value through profit or loss			
Debt securities		399,656	347,257
Equity securities		6,518,597	3,303,700
Derivative financial instruments	17	2,857	-
Other assets	19	317,144	253,960
Cash and cash equivalents	20	1,197,000	1,969,976
Assets of disposal groups held for sale	9	57,749	-
Total assets		31,314,921	24,137,118
Liabilities			
Insurance contract liabilities	21	18,320,611	15,194,321
Investment contract liabilities	22	5,787,365	3,658,910
Borrowings	24	198,547	198,714
Obligations under securities lending	25	-	1,900,421
Derivative financial instruments	17	6,570	7,386
Provisions	27	70,909	30,500
Deferred tax liabilities	8	178,771	38,977
Current tax liabilities		31,944	50,701
Other liabilities	28	474,369	484,668
Liabilities of disposal groups held for sale	9	57,749	-
Total liabilities		25,126,835	21,564,598



Balance Sheet (continued)

As at 30 November 2009

(expressed in thousands of United States Dollars)

US\$'000	Notes	30 November 2009	30 November 2008 (restated)
Equity			
Issued share capital	29	3,600	3,600
Share premium and capital contribution	29	1,529,830	1,293,830
Other reserves		1,417	1,021
Retained earnings		4,123,769	3,569,277
Fair value reserve		691,282	(1,862,141)
Foreign currency translation reserve		(161,812)	(433,067)
Total equity		6,188,086	2,572,520
Total liabilities and equity		31,314,921	24,137,118

Approved by the Board of Directors on 29th April 2010

Countersigned


 Director


 Director



Statement of Changes in Equity

US\$'000	Notes	Issued share capital and share premium	Other reserve	Retained earnings	Fair value reserve	Foreign currency translation reserve	Total equity
Balance at 1 December 2007		567,953	278	3,352,672	2,333,783	-	6,254,686
Net Profit		-	-	296,605	-	-	296,605
Change in fair value of available for sales financial assets		-	-	-	(4,295,071)	-	(4,295,071)
Realized gain on financial assets		-	-	-	(17,880)	-	(17,880)
Impairment of available for sale financial assets		-	-	-	98,543	-	98,543
Deferred tax		-	-	-	23,488	-	23,488
Shadow adjustment		-	-	-	(5,004)	-	(5,004)
Currency translation differences		-	-	-	-	(433,067)	(433,067)
Capital contributions		729,477	-	-	-	-	729,477
Other movement		-	743	-	-	-	743
Dividend paid		-	-	(80,000)	-	-	(80,000)
Balance at 30 November 2008 (restated)		1,297,430	1,021	3,569,277	(1,862,141)	(433,067)	2,572,520
Net Profit		-	-	554,492	-	-	554,492
Change in fair value of available for sales financial assets		-	-	-	2,388,238	-	2,388,238
Realized loss on financial assets		-	-	-	176,825	-	176,825
Impairment of available for sale financial assets		-	-	-	63,191	-	63,191
Deferred tax		-	-	-	(74,831)	-	(74,831)
Currency translation differences		-	-	-	-	271,255	271,255
Capital contributions		236,000	-	-	-	-	236,000
Other movement		-	396	-	-	-	396
Balance at 30 November 2009		1,533,430	1,417	4,123,769	691,282	(161,812)	6,188,086



Statement of Cash Flows

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

US\$'000	Notes	Year ended 30 November 2009	Year ended 30 November 2008 (restated)
Cash flows from operating activities			
Profit before tax		585,990	362,253
Gain on reinsurance recapture		-	(446,998)
Financial instruments	16	(4,038,401)	5,318,005
Insurance and investment contract liabilities	21	4,069,235	(1,714,740)
Obligations under securities lending	25	(1,900,421)	(2,378,530)
Other non-cash operating items		(650,498)	(860,966)
Operating cash items:			
Interest received		899,939	659,824
Dividends received		13,780	22,362
Interest paid		(3,999)	(137,805)
Tax paid		(20,803)	(76,830)
Net cash used in operating activities		(1,045,178)	746,575
Cash flows from investing activities			
Payments for investments in associates	12	(18,738)	(9,477)
Acquisitions of subsidiaries	37	(1,825)	-
Acquisition of foreign operation, net of cash acquired		40,628	-
Payments for property, plant and equipment	13	(7,594)	(14,425)
Proceeds from sale of property, plant and equipment		-	6,347
Payments for intangible assets	11	(7,813)	(418)
Net cash used in investing activities		4,658	(17,973)
Cash flows from financing activities			
Dividends paid during the year	10	-	(80,000)
Proceed from borrowing	24	-	198,598
Repayment of borrowing		-	(784,566)
Capital contribution		236,000	729,477
Net cash provided by financing activities		236,000	63,509
Net (decrease)/increase in cash held		(804,520)	792,111
Cash and cash equivalents at beginning of the financial year		1,969,976	1,232,516
Effect of exchange rate changes on cash		31,544	(54,651)
Cash and cash equivalents at the end of the financial year		1,197,000	1,969,976



Notes to the Financial Statements and Significant Accounting Policies

1. Corporate information

American International Assurance Company (Bermuda) Limited ('the Company') principal activity is the writing of life insurance business, providing life, pensions and accident and health insurance throughout Asia, and distributing related investment and other financial services products to its customers.

The Company was incorporated in Bermuda on 15 January 1959 and registered in Hong Kong as a non Hong Kong company under the Part XI of the Hong Kong Companies Ordinance on 27 October 1967.

The Company is a limited liability company incorporate in Bermuda. The address of its registered office is American International Building, 29 Richmond Road, Pembroke HM 08, Bermuda. The main places of business of the Company are Bermuda, Hong Kong and South Korea.

AIA Group Limited and its subsidiaries (the "AIA Group") were formed following several steps in the reorganisation of the Asia Pacific life insurance operations of American International Group, Inc. ('AIG'). These included the reorganisation steps required under the purchase agreement dated 25 June 2009 between AIG, American International Reinsurance Company, Ltd ('AIRCO'), the Company's immediate parent company prior to the completion of the reorganisation and a fellow subsidiary of AIG, and the Federal Reserve Bank of New York (the 'FRBNY') ('the FRBNY Agreement') under which AIG agreed to contribute the equity of the Company to a special purpose vehicle, AIA Aurora LLC, the details of which are set out in Note 38, Immediate and ultimate controlling party. The main steps in the reorganisation are summarised as follows:

- on 19 February 2009, American International Assurance Company, Limited ('AIA') entered into a series of agreements with AIRCO in respect of the transfer of the Company, AIA Australia Limited (previously known as American International Assurance Company (Australia) Limited) and AIA Pension and Trustee Co. Ltd (including, as of the transaction date, all of their subsidiaries, joint ventures and associates, and other investments) to AIA. These transactions completed on 28 February 2009;
- on 1 June 2009, American Life Insurance Company ('ALICO'), a fellow subsidiary of AIG, transferred its Taiwan branch together with the branch's life insurance and related business to the Company;
- on 13 August 2009, the Company entered into an agreement with AIG in respect of the transfer of AIG Global Investment Corporation (Asia) Limited to AIG. This transaction completed on 25 November 2009;



2. Significant accounting policies

2.1 Basis of preparation and statement of compliance

The financial statements have been prepared in accordance with IFRS. The Company's financial statements for previous periods were prepared in accordance with HKFRS. Refer to note 3 for further details.

IFRS 1, *First Time Adoption of International Financial Reporting Standards* has been applied in preparing the financial statements. These financial statements are the first set of the Company's financial statements prepared in accordance with IFRS.

The financial statements have been approved for issue by the Board of Directors on 29th April 2010.

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

The Company is a wholly-owned subsidiary of another body corporate and therefore, in accordance with the criteria set out in paragraph 10 of IAS 27, "Consolidated and separate financial statements", the company is exempt from the preparation of consolidated financial statements because AIA Group Limited, the intermediate parent of the company, produces consolidated financial statements in accordance with IFRSs which are available for public use.

The Company has applied all IFRS standards and interpretations effective for accounting periods starting on or after 1 December 2008, unless otherwise stated.

The following new standards, amendments to standards and interpretations have been early adopted by the Company and applied consistently in preparing the financial statements:

- IFRS 8, *Operating Segments*; and
- Revised IAS 23R, *Borrowing Costs*.

The following new standards, amendments and interpretations which are not effective for the year ended 30 November 2009 have not been adopted in these financial statements:

- Revised IAS 1, *Presentation of Financial Statements*;
- IFRS 9, *Financial Instruments*;
- Amendment to IFRS 7, *Financial Instruments: Disclosures*;
- Revised IFRS 3, *Business Combinations*; and
- Amendment to IAS 27, *Consolidated and Separate Financial Statements*.

The following new interpretations have not been applied because they have no material impact for the Company:

- IFRIC 9, *Reassessment of embedded derivatives*;
- IFRIC 12, *Service concession arrangements*;
- IFRIC 13, *Customer loyalty programmes*;
- IFRIC 14, *IAS19, The limit on a defined benefit asset, minimum funding requirements and their interaction*;
- IFRIC 15, *Agreements for the construction of real estate*;
- IFRIC 16, *Hedges of a net investment in a foreign operation*;
- IFRIC 17, *Distributions of non-cash assets to owners*;
- IFRIC 18, *Transfers of assets from customers*; and
- IFRIC 19, *Extinguishing financial liabilities with equity instruments*.

IFRIC 16 can only be applied by the Company prospectively and hence has no impact for the Company in the current period.



2. Significant accounting policies (continued)

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

- Amendments to IAS 24, *Related Party Disclosure: Revised definition of Related Parties*;
- Amendments to IFRS 2, *Share Based Payments, Vesting conditions and cancellations*;
- Amendments to IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*: Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations;
- Amendments to IFRS 7, *Financial Instruments: Disclosures, Reclassifications of financial assets* and IAS 39, *Financial Instruments*;
- Amendments to IAS 32, *Financial Instruments: Presentation* and IAS 1, *Presentation of financial instruments, Puttable financial instruments and obligations arising on liquidations*;
- Amendments to IAS 39, *Financial Instruments: Recognition and Measurement, Eligible hedged items* (see note 2.6.4);
- Amendments to IAS 38, *Intangible Assets*: Additional consequential amendments arising from revised IFRS 3 and measuring the fair value of an intangible asset acquired in a business combination;
- Amendments to IAS 7, *Statement of Cash Flows*: Classification of expenditure on unrecognised assets;
- Amendments to IAS 17, *Leases*: Classification of leases of land and buildings; and
- Amendments to IAS 36, *Impairment of Assets*: Unit of accounting for goodwill impairment test.

Items included in the financial statements of each of the Company's operating units are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The financial statements are presented in thousands of US Dollars (US\$'000) unless otherwise stated, which is the functional currency and the presentation currency of the Company.

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

2.2 Critical accounting policies and the use of estimates

Critical accounting policies

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, balance sheet, other primary statements and notes to the financial statements. The Company 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 Company 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 Company 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 Company to pay significant additional benefits to its customers. In the event the Company 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*, is 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 Company 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 financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs.



2. Significant accounting policies (continued)

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

IFRS 4 permits a wide range of accounting treatments to be adopted for the recognition and measurement of insurance contract liabilities, including liabilities in respect of insurance and investment contracts with DPF. The Company 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 country, 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 Company exercises significant judgment in making appropriate assumptions.

For contracts with an explicit account balance, such as universal life and investment-linked contracts, insurance contract liabilities 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. Significant judgment is exercised in making appropriate estimates of gross profits, which are also regularly reviewed by the Company.

Participating business, consisting of contracts with DPF, is distinct from other insurance and investment contracts as the Company has discretion as to either the amount or the timing of the benefits declared. The Company accounts for 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 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 at the time 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 income statement.

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

Deferred acquisition costs for universal life and investment-linked contracts are amortised over the expected life of the contracts 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 Company'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 new 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 financial statements as deferred acquisition and origination costs and insurance and investment contract benefits.



2. Significant accounting policies (continued)

Liability adequacy testing

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

For traditional life insurance contracts, the insurance contract liability, reduced by deferred acquisition costs, is 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 is written down to the extent of the deficiency. If, after writing down deferred acquisition costs for the specific portfolio of contracts to nil, a deficiency still exists, the net liability is increased by the amount of the remaining deficiency.

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

Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. The judgments exercised in liability adequacy testing affect amounts recognised in the 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 Company designates financial assets at fair value through profit or loss if this eliminates or reduces an accounting mismatch between the recognition and measurement of its assets and liabilities, or if the related assets and liabilities are actively managed on a fair value basis. This is the case for:

- financial assets held to back investment-linked contracts;
- 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 Company's holding of shares of AIG and the Company's portfolio of debt securities (other than those backing investment-linked contracts). Available for sale financial assets are initially recognised at fair value plus attributable transaction costs and are subsequently measured at fair value. Changes in the fair value of available for sale securities, except for impairment losses and foreign exchange gains and losses on monetary items, are recorded in a separate fair value reserve within total equity, until such securities are disposed of.

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

Fair values of financial assets

The Company 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 to back the Company's investment-linked contracts result in a corresponding change in insurance and investment contract liabilities. Both of the foregoing changes are also reflected in the income statement.



2. Significant accounting policies (continued)

Impairment of financial assets

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

Use of estimates

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

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

Item	Accounting policy
Insurance and investment contract liabilities	2.4
Deferred acquisition and origination costs	2.4
Liability adequacy testing	2.4.1
Impairment of financial instruments classified as available for sale	2.5.3
Fair value of financial instruments not traded in active markets	2.5.2

Further details of estimation uncertainty in respect of the valuation and impairment of financial instruments are given in Notes 18 and 26 respectively. Further details of the estimation of amounts for insurance and investment contract liabilities and deferred acquisition and origination costs are given in Notes 21, 22, 23 and 15 respectively.

2.3 The Company's investments

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

2.4 Insurance and investment contracts

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

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.



2. Significant accounting policies (continued)

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

The Company 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 Company refers to such contracts as participating business.

The Company'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 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 liabilities and additional insurance benefits are recorded	Not applicable as such contracts generally contain significant insurance risk
Investment-linked	These may be primarily savings products or may combine savings with an element of protection.	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 either measured at fair value (determined with reference to the accumulation value)

The basis of accounting for insurance and investment contracts is discussed in Notes 2.4.1 and 2.4.2 below.



2. Significant accounting policies (continued)

2.4.1 Insurance contracts

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 investment-linked contracts, are accumulated as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration, and surrenders during the period.

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 income statement over the estimated life of the business.

Deferred acquisition costs

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

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

Deferred acquisition costs for universal life and investment-linked contracts are amortised over the expected life of the contracts 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.

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



2. Significant accounting policies (continued)

Bifurcation

To the extent that certain of the Company'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 contract 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 participating business), surrenders and expenses, which remain locked in thereafter, unless a deficiency arises on liability adequacy testing (see below).

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

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

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

The Company accounts for 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 Company'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, 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 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. Significant accounting policies (continued)

2.4.2 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 service are provided. Deferred origination costs are tested for recoverability at each reporting date.

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

Investment contract liabilities

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

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

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

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



2. Significant accounting policies (continued)

2.4.3 Insurance and investment contracts

Reinsurance

The Company 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 income statement and balance sheet.

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 balance sheet 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 Company reduces the carrying amount accordingly and recognises that impairment loss in the 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 Company may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Company will receive from the reinsurer can be reliably measured.

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 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 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 Company 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 balance sheet.



2. Significant accounting policies (continued)

2.5 Financial instruments

2.5.1 Classification of and designation of financial instruments

Financial instruments at fair value through profit or loss

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

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

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

- financial assets held to back investment-linked contracts;
- other financial assets managed on a fair value basis; consisting of the Company's equity portfolio (other than its holding of shares of AIG which are now managed on a fair value basis); 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 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 Company's debt securities (other than those backing investment-linked contracts) and the Company's holding of shares in AIG. Available for sale financial assets are initially recognised at fair value plus attributable transaction costs. For available for sale debt securities, the difference between their cost and par value is amortised. Available for sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available for sale is recognised in investment income in the income statement using the effective interest method.

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

Changes in the fair value of securities classified as available for sale, except for impairment losses and relevant foreign exchange gains and losses, are recorded in a separate fair value reserve within equity.

Realised gains and losses on financial assets

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

Recognition of financial instruments

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



2. Significant accounting policies (continued)

Derecognition and offset of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership. If the Company 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 Company 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 Company is exposed to changes in the fair value of the asset.

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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 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 16 Loans and Receivables. Deposits are stated at face value.

Cash and cash equivalents

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

2.5.2 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 Company 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 balance sheet. The quoted market price used for financial assets held by the Company is the current bid price. The fair values of financial instruments that are not traded in active markets are determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions at the date of each balance sheet. 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 balance sheet.



2. Significant accounting policies (continued)

2.5.3 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 Company 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 Company about the following events:

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

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

Available for sale financial instruments

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

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

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



2. Significant accounting policies (continued)

Loans and receivables

For loans and receivables impairment is considered to have taken place if it is probable that the Company 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.

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

Embedded derivatives

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

2.6 Foreign currency translation

Income statement and cash flows of foreign operating units are translated into the Company's presentation currency at average exchange rates for the year as this approximates to the exchange rates prevailing at the transaction date. Their balance sheets 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 income statement as part of the gain or loss on sale. As permitted by IFRS 1, the cumulative translation differences were deemed to be nil at the transition date to IFRS.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies into functional currency, are recognised in the 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 income statement. Foreign exchange movements arising on non-monetary equities that are accounted for as available for sale, are included in the fair value reserve.



2. Significant accounting policies (continued)

2.7 Property, plant and equipment

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

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

Subsequent costs are included in the carrying amount or recognised as a separate asset, as appropriate, when it is probable that future economic benefits will flow to the Company. Repairs and maintenance are charged to the 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 or 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 income statement.

The Government of the Hong Kong Special Administrative Region owns all the land in Hong Kong and permits its use under leasehold agreements. Where the cost of such leasehold is known, or can be reliably determined at the inception of the lease, the Company records its interest in leasehold land and land use rights separately as operating leases. These leases are recorded at original cost and amortised over the term of the lease (see 2.17).

2.8 Investment properties

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

Investment property comprises freehold land and buildings. Buildings located on land held on an operating lease are classified as investment property if held for long term rental and not occupied by the Company. Where the cost of the land is known, or can be reliably determined at the inception of the lease, the Company records its interest in leasehold land and land use rights separately as operating leases (see 2.17). 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 Company, these elements are recorded separately within property, plant and equipment and investment property respectively, where the component used as investment property would be capable of separate sale or finance lease.



2. Significant accounting policies (continued)

2.9 Intangible assets

Intangible assets

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 Company 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 income statement under 'operating expenses'.

2.10 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 Company's operating segments, the lowest level for which separately identifiable cash flows are reported. The carrying value of intangible assets with indefinite useful lives is reviewed at least annually or when circumstances or events indicate that there may be uncertainty over this value.

2.11 Securities lending

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

Assets sold under repurchase agreements (repos)

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

Assets purchased under agreements to resell (reverse repos)

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



2. Significant accounting policies (continued)

Collateral

The Company 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 Company, is recognised as an asset on the balance sheet with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the balance sheet unless the Company 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 Company is derecognised from the balance sheet 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 balance sheet within the appropriate financial instrument classification.

2.12 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 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.

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



2. Significant accounting policies (continued)

2.14 Revenue

Investment return

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

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

Other fee and commission income

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

2.15 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 Company operates funded and unfunded 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 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 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 balance sheet.

For each plan, AIA Company 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 income statement over the expected average remaining service periods of the employees participating in the plans.



2. Significant accounting policies (continued)

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

Share based compensation and cash incentive plans

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

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

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

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

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

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

2.16 Provisions and contingencies

Provisions are recognised when the Company 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 Company 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 Company 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.

2.17 Leases

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



2. Significant accounting policies (continued)

2.17 Leases (continued)

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

2.18 Share capital

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

Share issue costs

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

Dividends

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

2.19 Disposal groups classified as held for sale

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

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

2.20 Presentation of the balance sheet

The Company'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 Company's products. Accordingly, the Company presents the assets and liabilities in its balance sheet in approximate order of liquidity, rather than distinguishing current and non-current assets and liabilities. The Company 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 Company.

2.21 Fiduciary activities

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

2.22 Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included in borrowings in the balance sheet.

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. Significant accounting policies (continued)

2.23 Related party transactions

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

2.24 IFRS 1 – Adoption of IFRS

The Company is required to determine its IFRS accounting policies and apply them retrospectively to establish its opening balance sheet under IFRS. However, IFRS 1 (revised), *First-Time Adoption of International Financial Reporting Standards* allows a number of exceptions and exemptions on adoption of IFRS for the first time. The date of adoption to IFRS for the Company is 1 December 2007.

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

Cumulative translation differences

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

Share based payment plans

The provisions of IFRS 2, *Share Based Payments*, have not been applied to options and awards granted on or before 7 November 2002 which had not vested by 1 December 2007.

Employee post retirement benefits

As permitted by IFRS 1, the Company has elected to recognise all cumulative actuarial gains and losses as at 1 December 2007, notwithstanding that the Company has elected to use the corridor approach for later actuarial gains and losses. This election has been applied consistently to all plans.

Designation of previously recognised financial instruments

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

- investments held to back investment-linked contracts;
- assets that are actively managed on a fair value basis, such as the majority of the Company's equity; and
- compound instruments containing an embedded derivative that would otherwise require to be bifurcated.

2.25 Change in presentation

The financial information notes and disclosures have been align with those adapted by its new parent company.



3. Changes in accounting policies

As a consequence of the group restructuring described in note 1, the Company has become an indirect subsidiary of AIA Group Limited which prepares consolidated financial statements in accordance with IFRS. As such, the Company has ceased to prepare consolidated financial statements (see note 2.1) and has elected to change its basis of accounting from HKFRS to IFRS, with the IFRS accounting policies being aligned with those of AIA Group Limited. These policies are summarised in note 2. The following table sets out information on the effect of significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

Profit for the year ended 30 November 2008	Note	US\$'000
Profit for the year ended 30 November 2008 as reported under HKFRS		1,260,251
Adjusted for:-		
Financial instruments designation and reclassification	(a)	(333,486)
Change in insurance contract liabilities valuation methodology	(b)	(632,466)
Others		2,306
Profit for the year ended 30 November 2008 as reported under IFRS		296,605
 Equity at 30 November 2008 and 1 December 2007	 Note	 1 December 2007
		US\$'000
Total equity and reserve as reported under HKFRS		4,355,498
Adjusted for:-		
Classification and measurement of contracts with policyholders	(b)	1,916,460
Others		(17,272)
Total equity and reserve as reported under IFRS		6,254,686
	 Note	 30 November 2008
		US\$'000
Total equity and reserve as reported under HKFRS		1,579,417
Adjusted for:-		
Classification and measurement of contracts with policyholders	(b)	989,607
Others		3,496
Total equity and reserve as reported under IFRS		2,572,520



3. Changes in accounting policies (continued)

(a) Financial instruments designation and classification

Upon adoption of IFRS, the Company has designated financial instruments consistently with the IFRS accounting policies of its intermediate parent company as permitted under IFRS 1.

These policies include the designation of certain assets for measurement at fair value through profit or loss in order to reduce measurement and inconsistencies.

- all equity securities (excluding shares in AIG);
- all emerging market bond portfolios;
- financial assets held by unit-linked funds.

The effect of adopting the above designations was an increase in equity and reserves of US\$3.5M at 30 November 2008 compared to amounts previously reported under HKFRS, and a reduction in profit for the year of US\$296.6M.

(b) Classification and movement of contracts with policyholders

Under HKFRS, insurance contract liabilities were measured by applying the Hong Kong Long Term valuation basis. At inception of the contract, the Company determined assumptions in relation to future deaths (or other morbidity rate for critical illness, hospitalization, accident and disability), investment returns and administration expenses. These assumptions were used for calculating the liabilities during the life of contract. A margin for risk and uncertainty was added to these assumptions. Subsequently, new estimates were developed at each reporting date to determine whether liabilities were adequate in the light of the latest current estimates.

As described in the Company's accounting policies, contracts with policyholders are classified as insurance contracts if significant insurance risk is transferred from the policyholder to the Company. Upon adoption of IFRS the company has aligned its measurement policies for insurance contracts with the IFRS accounting policies of its intermediate parent company into which it is consolidated. These policies apply a net level premium valuation method which represents the present value of estimated liabilities to be paid, less the present value of estimated future net premiums to be collected from policyholders. The method uses best estimate assumptions adjusted for a provision for the risk of adverse deviation, for mortality, morbidity, expected investment yields, dividends, surrenders and expenses set at the policy inception date, which remain locked in thereafter, unless a deficiency arises on liability adequacy testing. The Company's accounting policies for insurance contracts under its previous accounting basis followed the requirements of the Hong Kong Insurance Companies Ordinance and included a re-estimation of assumption at each reporting date.

Upon adoption of IFRS, the company has confirmed to account for contracts that do not transfer significant insurance risk as financial instruments and service contracts, as applicable. Unlike the measurement basis previously applied, the company amortised capitalized incremental cost and deferred revenue as a straight line basis under its newly adopted IFRS accounting policies.

The effect of the change in methodology was an increase in equity and reserves of US\$989.6M and a reduction in profit for the year of US\$632.5M.

4. Disposal of subsidiary

In November 2009, the Company sold its 100% interest in AIG Global Investment Corporation (Asia) Limited to parent company, American International Group, Inc ("AIG") for US\$86.7m. The transaction is incurred by exchange the ownership to a promissory note resulting to a gain before tax of US\$10m (Investment cost: \$76.6m). Meanwhile, the above gain is recorded under the investment gain or loss (note 6) of the income statement.



5. Premium income

For management decision making and internal performance management purposes, the Company measures business volumes using a performance measure referred to as total weighted premium income (TWPI). Total weighted premium income consists of 100% of renewal premiums, 100% of first year premiums and 10% of single premiums and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the Company's accounting policies.

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

US\$'000	2009	2008
Total weighted premium income	4,758,088	5,326,603
First year premiums	696,649	1,103,899
Single premiums	280,530	957,966
Renewal premiums	4,033,386	4,126,907



6. Revenue

Investment return

US\$'000	Year ended 30 November 2009	Year ended 30 November 2008
Interest income	925,702	678,443
Dividend income	13,736	21,988
Other	4,729	35,712
Investment income	944,167	736,143
Available for sale		
Net realised (losses) / gains from debt securities	(176,825)	17,880
Impairment of debt securities	(63,191)	(98,543)
Net loss of available for sale financial assets reflected in the income statement	(240,016)	(80,663)
At fair value through profit or loss		
Net gains / (losses) of debt securities	91,507	(392,553)
Net gains / (losses) of equity securities	2,241,116	(3,366,745)
Net fair value movement on derivatives	33,802	(2,646)
Net gains / (losses) in respect of financial assets at fair value through profit and loss	2,366,425	(3,761,944)
Net foreign exchange (losses) / gains	(98,979)	28,855
Other realised gains	45,035	13,209
Investment experience	2,072,465	(3,800,543)
Investment return	3,016,632	(3,064,400)

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

US\$'000	Year ended 30 November 2009	Year ended 30 November 2008
Foreign exchange gain / (losses)	13,463	(7,346)

Other operating revenue

US\$'000	Year ended 30 November 2009	Year ended 30 November 2008
Gain on recapture of reinsurance from former parent company	-	446,998
Other revenue	829	930
Other operating revenue	829	447,928



7. Expenses

	Year ended 30 November 2009	Year ended 30 November 2008
US\$'000		
Insurance contract benefits	1,675,453	1,414,738
Change in insurance contract liabilities	1,694,502	1,140,457
Investment contract benefits	1,667,598	(2,788,038)
Insurance and investment contract benefits	5,037,553	(232,843)
Insurance and investment contract benefits ceded	(57,896)	(215,444)
Insurance and investment contract benefits, net of ceded reinsurance	4,979,657	(448,287)
Commissions and other acquisition expenses incurred	720,321	759,362
Deferral and amortisation of acquisition costs	63,132	(110,250)
Commission and other acquisition expenses	783,453	649,112
Employee benefit expenses (see below)	109,228	122,364
Depreciation	12,360	12,210
Amortisation	2,048	1,146
Operating lease rentals	59,175	61,983
Other operating expenses	49,506	105,359
Operating expenses	232,317	303,062
Restructuring costs	1,176	297
Separation costs	15,520	-
Restructuring and separation costs	16,696	297
Investment management expenses	12,128	9,789
Finance costs	50,980	137,806
Total expenses	6,075,231	651,779

Other operating expenses include auditors' remuneration of US\$1.3m (2008: US\$1.6m). Operating expenses include strategic initiative expenses of US\$9.9m (2008: US\$3.9m). Strategic initiative expenses consist of expenses for enhancing distribution capability and operational efficiency and are approved by the Company's Strategic Initiative Office.

Finance costs may be analysed as:

	Year ended 30 November 2009	Year ended 30 November 2008
US\$'000		
Interest expense:		
Securities lending (see Note 25)	33,875	98,402
Bank and other loans	4,372	23,871
Related party borrowings	12,733	15,533
Finance costs	50,980	137,806

Interest expense includes \$4m (2008: \$24m) on bank loans, overdrafts and related party loans wholly repayable within five years.

Employee benefit expenses consist of:

	Year ended 30 November 2009	Year ended 30 November 2008
US\$'000		
Wages and salaries	87,702	89,384
Share based payment expense	919	1,804
Pension costs - defined contribution plans	2,884	8,449
Pension costs - defined benefit plans	5,359	6,412
Other employee benefit expenses	12,364	16,315
Total employee benefits	109,228	122,364



8. Income tax

	Year ended 30 November 2009	Year ended 30 November 2008
US\$'000		
Tax (credited)/charged in the income statement		
Current income tax - Hong Kong Profits Tax	22,245	28,428
Current income tax - Overseas	(21,846)	91,310
Deferred income tax on temporary differences	31,099	(54,090)
Tax charged in the income statement	31,498	65,648

The provision for Hong Kong Profits Tax is calculated at 16.5%, starting from the year of assessment 2008/09. In previous periods, the Profits Tax rate in Hong Kong was 17.5%. Taxation of overseas branches is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions of which the most significant jurisdictions are outlined below.

	Year ended 30 November 2008	Year ended 30 November 2009
Hong Kong	16.50%	16.50%
Korea	24.20%	24.20%
New Zealand	30%	30%
Taiwan	25%	25%

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



8. Income tax (continued)

	Year ended 30 November 2009	Year ended 30 November 2008
US\$'000		
Income tax reconciliation		
Profit before income tax	585,990	362,253
Tax calculated at domestic tax rates applicable to profits in the respective countries	87,459	88,466
Reduction in tax payable from:		
Life insurance tax	(49,315)	(8,862)
Exempt investment income	(478)	(472)
Changes in tax rate and law	(5,521)	(11,025)
Amounts over provided in prior years	(4,221)	-
Release of provisions for uncertain tax position	-	(5,188)
Disallowed expenses	-	(1,041)
Other	(245)	-
Increase in tax payable from:		
Disallowed expenses	2,386	-
Provision for uncertain tax positions	1,433	-
Amounts over provided in prior years	-	188
Other	-	3,582
Total income tax expense	31,498	65,648

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



8. Income tax (continued)

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

US\$'000	Net deferred tax asset/(liability) at 1 December	(Charged)/ credited to the income statement	(Charged)/credited to statement of change in equity		Net deferred tax asset/(liability) at 30 November
			Fair value reserve	Foreign exchange	
30 November 2009					
Revaluation of financial instruments	83,531	(15,579)	(74,831)	(17,788)	(24,667)
Deferred acquisition costs	(178,924)	(58,180)	-	(27,098)	(264,202)
Insurance and investment contract liabilities	71,060	29,282	-	14,197	114,539
Provision for expenses	(3,270)	(3,721)	-	(32)	(7,023)
Other	(11,374)	17,099	-	(3,143)	2,582
Total	(38,977)	(31,099)	(74,831)	(33,864)	(178,771)
30 November 2008					
Revaluation of financial instruments	(37,695)	53,627	23,488	44,111	83,531
Deferred acquisition costs	(570,950)	207,161	-	184,865	(178,924)
Insurance and investment contract liabilities	377,810	(167,455)	-	(139,295)	71,060
Provision for expenses	60,832	(35,135)	-	(28,967)	(3,270)
Losses available for offset against future taxable income	(247)	56	-	191	-
Other	(5,272)	(4,164)	-	(1,938)	(11,374)
Total	(175,522)	54,090	23,488	58,967	(38,977)

Note: (1) Of the fair value reserve deferred tax charge of US\$ (75m) for 2009, US\$ (81m) (2008: Nil) relates to fair value gains/(losses) on available for sale financial assets and US\$ 6m (2008: US\$ 23m) relates to fair value gains/(losses) on available for sale financial assets transferred to income on disposal and impairment.



9. Disposal groups held for sale

On 28 August 2009, the Company agreed to sell AIA (Bermuda) Services Inc and transfer a block of life insurance policies underwritten through a business transfer to ALICO for cash consideration of US\$1.

As a result, the assets and liabilities have been presented as held for sale as 30 November 2009. The following table shows the assets and liabilities of the disposal group classified as held for sale.

US\$'000	30 November 2009
Available for sale – debt securities	49,969
Other assets	5,241
Cash and cash equivalents	2,539
Total assets	57,749
Insurance contract liabilities	57,173
Other liabilities	576
Total liabilities	57,749

10. Dividends

	Year ended 30 November 2009 US\$'000	Year ended 30 November 2008 US\$'000
Ordinary dividends declared and charged to equity in the period	-	80,000

No dividend in respect of 2009 (2008: Nil) was proposed after the end of the reporting period.



11. Intangible assets

US\$'000	Computer software	Distribution and other rights	Total
Cost			
At 1 December 2007	14,071	5,156	19,227
Additions	418	-	418
Disposals	(8,468)	-	(8,468)
Foreign exchange movements	(1,858)	17	(1,841)
At 30 November 2008	4,163	5,173	9,336
Additions	7,813	-	7,813
Foreign exchange movements	952	-	952
At 30 November 2009	12,928	5,173	18,101
Accumulated amortisation and impairment			
At 1 December 2007	(10,566)	(292)	(10,858)
Amortisation charge for the year	(1,014)	(132)	(1,146)
Disposals	8,427	-	8,427
Foreign exchange rate movements	946	-	946
At 30 November 2008	(2,207)	(424)	(2,631)
Amortisation charge for the year	(1,918)	(130)	(2,048)
Foreign exchange rate movements	(652)	-	(652)
At 30 November 2009	(4,777)	(554)	(5,331)
Net book value			
At 30 November 2008	1,956	4,749	6,705
At 30 November 2009	8,151	4,619	12,770

Of the above, \$10.7m (2008: \$5.5m) is expected to be recovered more than 12 months after the end of the reporting period.

12. Investments in associates and joint ventures

US\$'000	As at 30 November 2009	As at 30 November 2008
Unlisted shares, at cost	77,147	56,156

The Company's interest in its principal associates is as follows:

	Country of incorporation	Type of Shares held	Percentage interest held	
			As at 30 November 2009	As at 30 November 2008
American International Assurance Company (Trustee) Limited	Hong Kong	Ordinary	20%	20%
Tata AIG Life Insurance Company Limited	India	Ordinary	26%	26%

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



13. Property, plant and equipment

US\$'000

Fixtures and fittings

Cost

At 1 December 2007	81,767
Additions	14,425
Disposals	(3,981)
Other Movement	(2,767)
Foreign exchange movements	(18,353)
At 30 November 2008	71,091
Additions	7,594
Disposals	(3,024)
Other Movement	3,265
Foreign exchange movements	10,072
At 30 November 2009	88,998

Accumulated depreciation

At 1 December 2007	(50,670)
Depreciation charge	(12,211)
Disposals	2,656
Other Movement	4,332
Foreign exchange movements	11,030
At 30 November 2008	(44,863)
Depreciation charge	(12,360)
Disposals	2,518
Other Movement	(912)
Foreign exchange movements	(5,991)
At 30 November 2009	(61,608)

Net book value

At 30 November 2008	26,228
At 30 November 2009	27,390

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



14. Reinsurance assets

	As at 30 November 2009	As at 30 November 2008
US\$'000		
Amounts recoverable from reinsurers	12,693	640,263
Ceded insurance and investment contract liabilities	64,500	22,456
Total	77,193	662,719

15. Deferred acquisition costs and related items

	As at 30 November 2009	As at 30 November 2008
US\$'000		
Carrying amount		
Deferred acquisition costs on insurance contracts	3,733,527	3,297,204
Deferred origination costs on investment contracts	802,608	967,022
Total	4,536,135	4,264,226
Movements in the year		
At 1 December	4,264,226	4,201,501
Deferral and amortisation of acquisition costs	50,584	110,250
Foreign exchange movements	370,523	(551,389)
Recapture of reinsurance treaty	-	505,000
Impact of assumption changes	(113,716)	-
Other movements	(35,482)	(1,136)
At 30 November	4,536,135	4,264,226

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



16. Financial investments

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

Policyholder and Shareholder Investments are distinct from Investment-linked Investments as there is no direct contractual or regulatory requirement governing the amount, if any, for allocation to policyholders. The Company has elected to apply the fair value option for equity securities in this category and the available for sale classification in respect of the majority of debt securities in this category. The investment risk from investments in this category directly impacts the Company's financial statements. Although a proportion of investment return may be allocated to policyholders through policyholder dividends, the Company's accounting policy for insurance and investment contract liabilities utilises a net level premium methodology that includes best estimates as at the date of issue for non-guaranteed participation. To the extent investment return from these investments is varies from the best estimates, it will impact the Company's profit before tax.

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

Debt securities

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

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

Debt securities by type comprise the following:

US\$'000	Rating	Policyholder and shareholder		Investment -	Total
		AFS	FVTPL	linked FVTPL	
30 November 2009					
Government bonds – issued in local currency					
Korea	A	1,538,649	-	3,881	1,542,530
Other ⁽¹⁾		252,961	4,198	-	257,159
Sub-total		1,791,610	4,198	3,881	1,799,689



16. Financial investments (continued)

US\$'000	Rating	Policyholder and shareholder		Investment - linked	Total
		AFS	FVTPL	FVTPL	
30 November 2009					
Government bonds – foreign currency					
Mexico	BBB	39,000	14,597	1,829	55,426
South Africa	BBB	15,222	1,671	1,983	18,876
Philippines	BB	25,126	10,218	-	35,344
Malaysia	A	65,635	-	1,348	66,983
Indonesia	BB	131,642	9,830	-	141,472
Korea	A	113,487	1,131	1,976	116,594
China	A	45,803	-	1,988	47,791
Other ⁽¹⁾		131,218	90,997	7,806	230,021
Sub-total		567,133	128,444	16,930	712,507
Government agency bonds²					
AAA		446,320	-	6,336	452,656
AA		182,206	-	1,838	184,044
A		1,500,293	-	28,150	1,528,443
BBB		8,723	-	-	8,723
Below investment grade		-	-	-	-
Not rated		-	-	3,925	3,925
Sub-total		2,137,542	-	40,249	2,177,791
Corporate bonds					
AAA		161,595	-	3,935	165,530
AA		1,053,899	-	-	1,053,899
A		6,331,295	60,511	-	6,391,806
BBB		3,478,188	34,794	-	3,512,982
Below investment grade		352,821	-	-	352,821
Not rated		-	27,996	-	27,996
Sub-total		11,377,798	123,301	3,935	11,505,034
Structured securities³					
AAA		-	21,809	-	21,809
AA		-	-	-	-
A		413,693	-	-	413,693
BBB		2,350	14,094	-	16,444
Below investment grade		3,437	42,715	-	46,152
Not rated		1,870	100	-	1,970
Sub-total		421,350	78,718	-	500,068
Total		16,295,433	334,661	64,995	16,695,089

Note: (1) Of the total government bonds listed as 'Other' at 30 November 2009, 83% is rated as investment grade and a further 11% is rated BB- and above. The balance is rated below BB- or unrated

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

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



16. Financial investments (continued)

US\$'000	Rating	Policyholder and shareholder		Investment - linked	Total
		AFS	FVTPL	FVTPL	
30 November 2008					
Government bonds – issued in local currency					
Korea	A	857,131	-	5,423	862,554
Other ⁽¹⁾		2,805	1,606	-	4,411
Sub-total		859,936	1,606	5,423	866,965
Government bonds –foreign currency					
Mexico	BBB	-	-	1,389	1,389
Thailand	A	5,220	-	-	5,220
Malaysia	A	133,627	-	1,373	135,000
Indonesia	BB	87,936	-	-	87,936
Korea	A	45,616	-	1,971	47,587
China	A	46,802	-	1,990	48,792
Other ⁽¹⁾		207,050	112,403	9,266	328,719
Sub-total		526,251	112,403	15,989	654,643
Government agency bonds²					
AAA		324,271	-	2,954	327,225
AA		253,747	-	1,831	255,578
A		1,279,268	-	13,885	1,293,153
BBB		5,625	-	765	6,390
Below investment grade		3,164	-	-	3,164
Not rated		-	-	2,504	2,504
Sub-total		1,866,075	-	21,939	1,888,014
Corporate bonds					
AAA		106,220	-	-	106,220
AA		959,968	20,658	-	980,626
A		4,481,821	15,396	-	4,497,217
BBB		2,367,393	41,362	2,914	2,411,669
Below investment grade		175,466	-	-	175,466
Not rated		-	21,458	-	21,458
Sub-total		8,090,868	98,874	2,914	8,192,656
Structured securities³					
AAA		434,650	13,101	-	447,751
AA		3,812	21,428	-	25,240
A		42,581	39,391	-	81,972
BBB		1,720	-	-	1,720
Below investment grade		36,212	460	-	36,672
Not rated		1,004	13,729	-	14,733
Sub-total		519,979	88,109	-	608,088
Total		11,863,109	300,992	46,265	12,210,366

Note: (1) Of the total government bonds listed as 'Other' at 30 November 2008, 75% is rated as investment grade and a further 23% is rated BB- and above. The balance is rated below BB- or unrated

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

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



16. Financial investments (continued)

Equity securities

Equity securities by type comprise the following:

US\$'000	Policyholder and shareholder		Investment - linked	Total
	AFS	FVTPL	FVTPL	
30 November 2009				
Ordinary shares	-	379,220	769,219	1,148,439
Shares in AIG	58,573	-	-	58,573
Interests in investment funds				
AIG managed	-	141,514	283,674	425,188
Non-AIG managed	-	1,161,816	3,783,154	4,944,970
	-	1,303,330	4,066,828	5,370,158
Total	58,573	1,682,550	4,836,047	6,577,170

US\$'000	Policyholder and shareholder		Investment - linked	Total
	AFS	FVTPL	FVTPL	
30 November 2008				
Ordinary shares	-	86,506	338,719	425,225
Shares in AIG	82,590	-	-	82,590
Interests in investment funds				
AIG managed	-	568,381	304,533	872,914
Non-AIG managed	-	56,212	1,949,349	2,005,561
	-	624,593	2,253,882	2,878,475
Total	82,590	711,099	2,592,601	3,386,290

US\$'000	As at 30 November 2009	As at 30 November 2008
Debt securities		
Listed		
Hong Kong	140,015	139,133
Overseas	11,209,377	3,793,326
	11,349,392	3,932,459
Unlisted	5,345,697	8,277,907
Total	16,695,089	12,210,366
Equity securities		
Listed		
Hong Kong	118,923	6,371
Overseas	1,184,081	548,845
	1,303,004	555,216
Unlisted	5,274,166	2,831,074
Total	6,577,170	3,386,290



16. Financial investments (continued)

Loans and receivables

	As at 30 November 2009	As at 30 November 2008
US\$'000		
Policy loans	477,813	329,921
Mortgage loans on residential real estate	2,205	3,688
Intercompany loans to fellow subsidiaries of AIG (see Note 35)	127,001	50,000
Other loans	63,150	19,522
Allowance for loan losses	(2,191)	(2,215)
Loans	667,978	400,916
Due from insurance and investment contract holders	119,291	109,339
Due from agents, brokers and intermediaries	40,964	16,590
Insurance receivables	160,255	125,929
Related party receivables	18,229	32,232
Receivables from sales of investments	15,306	19,580
Other receivables	145,779	96,748
Receivables	339,569	274,489
Term deposits	182,756	53,349
Total¹	1,190,303	728,754

Note: (1) Of total loans and receivables, US\$34m of other loans (2008: Nil) are held for back investment-linked contracts.

Certain term deposits with financial institutions are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within the term deposits classification is US\$47m (2008: US\$38m).

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



17. Derivative financial instruments

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

US\$'000	Notional amount	Fair value	
		⁽¹⁾ Assets	⁽²⁾ Liabilities
30 November 2009			
Foreign exchange contracts:			
Forwards	111,527	1,433	3
Cross currency swaps	141,457	1,424	4,748
Total foreign exchange contracts	252,984	2,857	4,751
Other			
Commodity index swaps	10,000	-	1,819
Total contracts	262,984	2,857	6,570
30 November 2008			
Foreign exchange contracts:			
Forwards	100,000	-	3,576
Cross currency swaps	15,295	-	988
Total foreign exchange contracts	115,295	-	4,564
Other			
Commodity index swaps	10,000	-	2,822
Total contracts	125,295	-	7,386

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

(2) The notional amount of derivative financial instruments with related parties amounted to US\$38m (2008: US\$53m)

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

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

Derivative assets and derivative liabilities are recognised in the balance sheet as financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Company's derivative risk management policies are outlined in Note 31. The Company does not employ hedge accounting, although most of its derivative holdings may have the effect of an economic hedge of other exposures. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the balance sheet as they do not represent the fair value of these transactions. The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

Foreign exchange contracts

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



18. Fair value of financial instruments

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

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

US\$'000	Notes	Fair value		Amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
As at 30 November 2009						
Financial investments:	16					
Loans and receivables		-	-	1,190,303	1,190,303	1,153,320
Debt securities		399,656	16,295,433	-	16,695,089	16,695,089
Equity securities		6,518,597	58,573	-	6,577,170	6,577,170
Derivative financial instruments	17	2,857	-	-	2,857	2,857
Reinsurance receivables	14	-	-	12,693	12,693	12,693
Cash and cash equivalents	20	-	-	1,197,000	1,197,000	1,197,000
Financial assets		6,921,110	16,354,006	2,399,996	25,675,112	25,638,129
	Notes	Fair value through profit or loss	Amortised cost	Total carrying value	Total fair value	
Financial liabilities:						
Investment contract liabilities	22	5,442,899	344,466	5,787,365	5,787,365	
Borrowings	24	-	198,547	198,547	198,547	
Derivative financial instruments	17	6,570	-	6,570	6,570	
Other liabilities	28	-	474,369	474,369	474,369	
Current tax liabilities		-	31,944	31,944	31,944	
Financial liabilities		5,449,469	1,049,326	6,498,795	6,498,795	



18. Fair value of financial instruments (continued)

US\$'000	Notes	Fair value		Amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
As at 30 November 2008						
Financial investments	16					
Loans and receivables		-	-	728,754	728,754	727,514
Debt securities		347,257	11,863,109	-	12,210,366	12,210,366
Equity securities		3,303,700	82,590	-	3,386,290	3,386,290
Reinsurance receivables	14	-	-	640,263	640,263	640,263
Cash and cash equivalents	20	-	-	1,969,976	1,969,976	1,969,976
Financial assets		3,650,957	11,945,699	3,338,993	18,935,649	18,934,409
	Notes	Fair value through profit or loss		Amortised cost	Total carrying value	Total fair value
Financial liabilities						
Investment contract liabilities	22	3,472,398		186,512	3,658,910	3,658,910
Borrowings	24	-		198,714	198,714	198,714
Obligations under securities lending	25	-		1,900,421	1,900,421	1,900,421
Derivative financial instruments	17	7,386		-	7,386	7,386
Other liabilities	28	-		484,668	484,668	484,668
Current tax liabilities		-		50,701	50,701	50,701
Financial liabilities		3,479,784		2,821,016	6,300,800	6,300,800

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

Foreign currency exposure, including the net notional amount of foreign currency derivative positions, is shown in Note 31 for the Company's key foreign exchange exposures.

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

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

Fair value measurements on a recurring basis

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

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



18. Fair value of financial instruments (continued)

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

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

Financial assets and liabilities

Loans and receivables

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

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

Debt securities and equity securities

The fair values of equity securities are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. For holdings in hedge funds and limited partnerships, fair values are determined based on the net asset values provided by the general partner or manager of each investment, the accounts of which are generally audited on an annual basis. The transaction price is used as the best estimate of fair value at inception.

Derivative financial instruments

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

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance assets

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

Fair value of securities lending invested collateral and securities lending payables

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



18. Fair value of financial instruments (continued)

Other assets

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

Investment contract liabilities

For investment contract liabilities the fair values have been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts where the investment risk is borne by the policyholder the fair value generally equals the fair value of the underlying assets.

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured and classified according to the Company practice for insurance contract liabilities and hence are disclosed within Note 21. These are not measured at fair value as there is currently no agreed definition of fair value for investment and insurance contracts with DPF under IFRS. In the absence of any agreed methodology it is not possible to provide a range of estimates within which fair value is likely to fall. The IASB is expecting to address this issue in Phase II of its insurance contracts project.

Borrowings

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

Other liabilities

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



19. Other assets

	As at 30 November 2009	As at 30 November 2008
US\$'000		
Prepayments	19,951	16,274
Accrued investment income	297,193	237,686
Other assets	317,144	253,960

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

20. Cash and cash equivalents

Cash and deposits

	As at 30 November 2009	As at 30 November 2008
US\$'000		
Cash	521,552	285,961
Cash equivalents	675,448	1,684,015
Total	1,197,000	1,969,976

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

21. Insurance contract liabilities

	As at 30 November 2009	As at 30 November 2008
US\$'000		
At 1 December	15,194,321	16,421,409
Valuation premiums	3,250,076	3,469,411
Liabilities released for death or other termination and related expenses	(1,387,932)	(1,527,462)
Fees deducted from account balances	(416,547)	(378,629)
Accretion of interest	585,126	516,410
Foreign exchange movements	1,180,981	(2,167,944)
Change in asset values attributable to policyholders	600,204	(630,946)
Other movements	(685,618)	(507,928)
At 30 November	18,320,611	15,194,321

Insurance contract liabilities include amounts relating to investment-linked contract of \$1,757m (2008: \$884m).



21. Insurance contract liabilities (continued)

Business description

The tables below summarise the key variables on which insurance and investment contract cash flows depend.

Type of contract	Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting cash flows
Traditional participating life assurance with DPF	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends the timing or amount of which is at the discretion of the insurer taking into account factors such as investment experience	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	<ul style="list-style-type: none"> • Investment performance • Expenses • Mortality • Surrenders
Traditional non-participating life	Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	<ul style="list-style-type: none"> • Mortality • Morbidity • Lapses • Expenses
Accident and Health, personal accident	These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover	Benefits, defined in the insurance contract are determined by the contract and are not affected by investment performance or the performance of the contracts as a whole	<ul style="list-style-type: none"> • Mortality • Morbidity • Lapses • Expenses
Investment-linked	Investment-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitised funds	Benefits are based on the value of the unitised funds and death benefits	<ul style="list-style-type: none"> • Investment performance • Lapses • Expenses • Mortality
Universal life	The customer pays flexible premiums subject to specified limits accumulated in an account balance which are credited with interest at a rate either set by the insurer, and a death benefit which may be varied by the customer.	Benefits are based on the account balance and death benefit	<ul style="list-style-type: none"> • Investment performance • Crediting rates • Lapses • Expenses • Mortality



21. Insurance contract liabilities (continued)

Methodology and assumptions

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

Type of contract	Market and credit risk			Significant insurance and lapse risks
	Direct exposure		Indirect exposure	
	Insurance and investment contract liabilities	Risks associated with related investment portfolio		
Traditional participating life assurance with DPF	<ul style="list-style-type: none"> • Net neutral except for the insurer's share of participating investment performance • Guarantees 	<ul style="list-style-type: none"> • Net neutral except for the insurer's share of participating investment performance • Guarantees 	<ul style="list-style-type: none"> • Investment performance 	<ul style="list-style-type: none"> • Impact of persistency on future dividends • Mortality
Traditional non-participating life assurance	<ul style="list-style-type: none"> • Investment performance • Credit risk • Asset liability mismatch risk 	<ul style="list-style-type: none"> • Guarantees 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Mortality • Persistency • Morbidity
Accident and health, personal accident	<ul style="list-style-type: none"> • Loss ratio • Asset liability mismatch risk 	<ul style="list-style-type: none"> • Investment performance • Credit risk 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Claims experience • Morbidity • Persistency
Pensions	<ul style="list-style-type: none"> • Net neutral • Asset liability mismatch risk 	<ul style="list-style-type: none"> • Net neutral 	<ul style="list-style-type: none"> • Performance related investment management fees 	<ul style="list-style-type: none"> • Persistency
Investment-linked	<ul style="list-style-type: none"> • Net neutral 	<ul style="list-style-type: none"> • Net neutral 	<ul style="list-style-type: none"> • Performance related investment management fees 	<ul style="list-style-type: none"> • Persistency • Mortality
Universal life	<ul style="list-style-type: none"> • Guarantees • Asset liability mismatch risk 	<ul style="list-style-type: none"> • Investment performance • Credit risk 	<ul style="list-style-type: none"> • Spread between earned rate and crediting rate to policyholders 	<ul style="list-style-type: none"> • Mortality • Persistency • Withdrawals

The Company is also exposed to currency risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business. Expense assumptions applied in the Company's actuarial valuation models assume a continuing level of business volumes



22. Investment contract liabilities

US\$'000	As at 30 November 2009	As at 30 November 2008
At 1 December	3,658,910	5,605,746
Investment contract benefits	1,667,598	(2,788,038)
Fees charged	(300,246)	(400,954)
Net deposits and other movements	761,103	1,242,156
At 30 November	5,787,365	3,658,910

Investment contract liabilities include amounts relating to investment-linked contract liabilities of \$4,399m (2008:\$2,446m).

23. Effect of changes in assumptions and estimates

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

US\$'000	As at 30 November 2009	As at 30 November 2008
(Increase)/decrease in insurance contract liabilities, equity and profit before tax		
Interest rates +0.5%	1,824	3,422
Interest rates -0.5%	(1,728)	(3,324)
Expenses +10%	(1,256)	(1,297)
Mortality +5%	(8,823)	(5,398)
Lapse rates +5%	11,339	14,006

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

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

The impact of changes in assumptions on the valuation of insurance and investment contracts with DPF was \$73m decrease in profit (2008: US\$(1m)).



24. Borrowings

	As at 30 November 2009	As at 30 November 2008
US\$'000		
Bank overdrafts	75	116
Loans from fellow subsidiaries of AIG	198,472	198,598
Total	198,547	198,714

Interest on loans reflects market rates of interest which are repayable on demand. Interest expense on borrowings is shown in Note 7. Further information relating to interest rates and the maturity profile of borrowings is presented in Note 31.

25. Obligations under securities lending

The Company has entered into securities lending agreements whereby securities are loaned to both third parties and a related party.

The securities related to these agreements are not derecognised from the Company's balance sheet, but are retained within the appropriate financial asset classification. The following table specifies the amounts included within financial investments subject to securities lending agreements at each period end.

	As at 30 November 2009	As at 30 November 2008
US\$'000		
Debt securities:		
Securities lending		
Related parties	-	577,942
Others	-	1,620,034
Total	-	2,197,976



25. Obligations under securities lending (continued)

Collateral

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

Collateral received under securities lending typically consists of cash or debt securities. Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset on the balance sheet, with a corresponding liability for its repayment.

Non-cash collateral received is not recognised on the balance sheet unless the Company either sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability.

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

	As at 30 November 2009	As at 30 November 2008
US\$'000		
Debt securities		
Related parties	-	370,000
Total	-	370,000
Collateral available for pledge/sale	-	370,000

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

Obligations under securities lending comprise the following:

	As at 30 November 2009	As at 30 November 2008
US\$'000		
Securities lending		
Related parties	-	657,302
Others	-	1,243,119
Total	-	1,900,421

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

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

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

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



26. Impairment of financial assets

Impairment of financial assets

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

Available for sale debt securities

During the period to 30 November 2009, impairment losses of \$63m (2008: \$99m) were recognised in respect of available for sale debt securities.

In 2008 the global outlook worsened significantly as the impact of the credit crisis spread to other parts of the economy. As a result, a number of companies in the region as well as certain global financial institutions, including issuers of a number of available for sale debt securities held by the Company, experienced significant financial difficulties. The impairment charge for 2008 includes US\$Nil relating to bonds issued by Lehman Brothers, and \$41m relating to CDOs.

Loans and receivables

The Company's primary potential credit risk exposure in respect of loans and receivables arises in respect of policy loans and a small portfolio of high quality mortgage loans on residential and commercial real estate (see Note 16 Financial investments for further details). The Company's credit exposure on policy loans is mitigated because, if and when the total indebtedness on any policy, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Company has a first lien on all policies which are subject to policy loans.

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

27. Provisions

US\$'000	Employee benefits	Other	Total
At 1 December 2007	22,407	3,299	25,706
Charged to the income statement	6,319	10,047	16,366
Exchange differences	(8,470)	(830)	(9,300)
Contributions	-	-	-
Utilised during the period	(1,922)	(350)	(2,272)
At 30 November 2008	18,334	12,166	30,500
Charged to the income statement	5,660	58,620	64,280
Exchange differences	2,043	1,113	3,156
Contributions	(1,416)	-	(1,416)
Utilised during the period	-	(25,611)	(25,611)
At 30 November 2009	24,621	46,288	70,909

Further details of provisions for employee post retirement benefits are provided in Note 32.

Other provisions

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



28. Other liabilities

	As at 30 November 2009	As at 30 November 2008
US\$'000		
Trade and other payables	402,826	413,873
Payables from purchases of investments	37,613	3,075
Reinsurance payables	33,930	67,720
Total	474,369	484,668

Trade and other payables are all expected to be settled within 12 months after the end of the reporting period.

29. Share capital and reserves

Share capital

	As at 30 November 2009		As at 30 November 2008	
The Company	Shares '000	US\$'000	Shares '000	US\$'000
Authorised				
Ordinary shares of US\$1.2 each	3,000	3,600	3,000	3,600
Issued and fully paid				
At start of the reporting period	3,000	3,600	3,000	3,600
At end of the reporting period	3,000	3,600	3,000	3,600
Share premium	-	945	-	945
Capital contribution	-	1,528,885	-	1,292,885

There were no shares issued under share option schemes in the period. The Company has not undertaken any purchase, sale, or redemption of the Company's issued share capital in the reporting period.

Reserves

Fair value reserve

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

Foreign currency translation

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

Other reserves

Other reserves mainly includes the share based compensation.

At 30 November 2009, the Company does not have any distributable reserves.



30. Company capital structure

Objectives, policies and processes for managing capital

The Company's capital management objectives focus on maintaining a strong capital base to support the development of its business, satisfying regulatory capital requirements at all times, and supporting its credit rating targets. The Company recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain an appropriate balance.

The Company's capital management function oversees all capital related activities of the Company and assists senior management in making capital decisions. The capital management function participates in decisions concerning asset-liability management exposures, asset-liability proposals and strategic asset allocation. The capital management function also engages in ongoing active capital and solvency management, including maintaining active dialogue and relationships with our regulators and ratings agencies. The Company has also incorporated the capital management framework into its budgeting process to ensure capital and dividend policies and programmes are implemented within the guidelines set forth by the Company.

Externally imposed capital requirements

The Company is in compliance with the solvency and capital adequacy requirements of its regulators. The Company's primary insurance regulator at the company level is the Hong Kong Office of the Commissioner of Insurance ('HK OCI'), which requires that the Company meet the solvency margin requirements of the Hong Kong Insurance Companies Ordinance. The Hong Kong Insurance Companies Ordinance (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The HK OCI requires the Company to maintain an excess of assets over liabilities of not less than the required minimum solvency margin. The amount required under the Hong Kong Insurance Companies Ordinance as the minimum solvency margin can be determined and may be treated as 100% of that amount. The excess of assets over liabilities to be maintained by the Company required by the HK OCI is not less than 150% of that amount.

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

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

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



30. Company capital structure (continued)

Capital and Regulatory Orders Specific to the Company

Following the AIG events as described in note 38, certain regulators of the Company imposed additional requirements or restrictions on certain of its branches. These requirements and restrictions may be amended or revoked at the relevant regulator's discretion. As of the date hereof, the requirements and restrictions summarized below remain in effect.

Hong Kong Office of the Commissioner of Insurance

A letter dated 17 September 2008 was issued from the HK OCI to the Company ('Section 35 Order') requiring the Company including all of its branches as appropriate:

- 1) to ensure that all insurance business and all transactions with any "specified person" (which includes but is not limited to its branches, directors, controllers, shareholders and associates or group companies) is on normal commercial terms;
- 2) to ensure that it not place any deposit with or transfer assets (except for normal insurance transactions) or provide financial assistance to any specified person without first obtaining written consent from the HK OCI; and
- 3) to inform the HK OCI as soon as practicable of any circumstances which may put the interest of policyholders or potential policyholders at risk.

Among other consequences, the Section 35 Order places restrictions on the ability of the Company to engage in capital related transactions with specified persons. Accordingly, the Section 35 Order restricts the ability of the Company to pay dividends to its parent companies, and limits its ability to engage in intercompany transactions with specified persons, such as payment of intercompany service fees without first obtaining written consent from the HK OCI.

By a further letter dated 18 September 2008 to the Company, the HK OCI required that the Company not acquire a new controller without first obtaining written consent from the OCI.

By a further letter to the Company dated 15 March 2010, the HK OCI confirmed that the requirements contained in its letters dated 17 and 18 September 2008 remained in force.

Bermuda Monetary Authority

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

In the Letter of Undertaking, AICO:

- 1) undertakes to ensure that the Company would seek prior approval from the BMA before entering into transactions outside the normal course of business; and
- 2) undertakes to submit a daily basis report to the BMA on: (i) transfers of more than US\$1,000,000 per transaction or an aggregate amount of greater than US\$1,000,000 per day from the Company to another jurisdiction other than where the fund originated; (ii) transactions of greater than US\$15,000,000 whether incoming or outgoing; (iii) all material issues having an impact threshold of equal to or greater than 10% of the Company's total statutory capital and surplus.

Other Orders

Correspondence has also been issued to the Company by the regulators in Taiwan. Pursuant to this correspondence, regular updates are to be provided to the regulator, and the regulator must provide their consent before assets are transferred or transactions are entered into with connected parties.



30. Company capital structure (continued)

Company capital position

The Company defines 'capital' as the amount of assets in excess of liabilities measured in accordance with the Hong Kong Insurance Companies Ordinance. The Company defines total available capital as the amount of assets in excess of liabilities measured in accordance with the Insurance Companies Ordinance and 'required capital' as the minimum required margin of solvency calculated in accordance with the Insurance Companies Ordinance. The solvency margin ratio is the ratio of total available capital to required capital. A number of transactions undertaken in 2008 and 2009 enhanced the solvency position of the Company.

In January 2009, the HK OCI introduced temporary relief measures to all Hong Kong regulated long-term and composite insurers in response to the unprecedented level of volatility in global capital markets and low interest rate environment. These measures apply to financial years running from 2008 to 2010, after which a review will be conducted.

The capital position is illustrated in the table:

US\$m	30 November 2008			30 November 2009		
	Total available capital	Required capital	Solvency margin %	Total available capital	Required capital	Solvency margin %
Company	1,469	684	215	2,742	911	301



31. Risk management

Risk management framework

The managed acceptance of risk is fundamental to the Company's insurance business model. The Company's risk management framework seeks to effectively manage, rather than eliminate, the risks the Company faces.

The Company's central risk management framework requires all operations to establish processes for identifying, evaluating and managing the key risks faced by the organisation. This risk management framework has evolved in recent years and now encompasses an established risk governance structure with clear oversight and assignment of responsibility for monitoring and management of strategic, operational and financial risks.

Insurance and financial risk exposures

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

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

Insurance risk

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

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

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

Product design risk

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

There is a strong focus within the Company on actively managing each part of the actuarial control cycle to minimise risk in the in-force book as well as for new business acceptances.



31. Risk management (continued)

Insurance risk (continued)

Pricing and underwriting risk

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

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

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

Claims risk

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

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

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

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

Lapse risk

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

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

Concentrations of insurance risk

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

The Company operates in a number of jurisdiction across Asia and its results are not dependent upon a single market. As a consequence of the Company's exposure to Asia, it may be relatively more exposed to pandemics localised in Asia than insurance groups with a world-wide presence.



31. Risk management (continued)

Insurance risk (continued)

Concentrations of insurance risk (continued)

Although long-term insurance and investment business are the Company's primary operations, the Company has a range of product offerings, such as term life, accident and health, participating, annuity and investment-linked, which vary in the extent and nature of risk coverage and thereby reduce exposures to concentrations of mortality or morbidity risk. For example, the insured risk for certain annuity products is survival of the annuitant, whereas the insured risk for a term life product is the death of the policyholder.

As a result of the Company's history and scale, a substantial volume of experience data has been accumulated which assists in evaluation and pricing of insurance risk. The Company's capital position combined with its profitable product portfolio are factors in management's decision to retain (rather than reinsure) a high proportion of its written insurance risks.

Concentrations of risk are managed within each market through the monitoring of product sales and size of the in-force book by product group. Actuarial analyses are also performed to establish the impact of changes in mortality and morbidity experience for use in financial reporting, pricing and the Company's assessment of reinsurance needs.

Credit risk

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

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

The Company has in place a credit analysis process that accounts for diverse factors, including market conditions, industry specific conditions, company cash flows and quality of collateral. The Company also has a monitoring programme in place whereby the Company's credit analysis teams review the status of the obligor on a regular basis to anticipate any credit issues.

Cross-border investment exposures are controlled through the assignment of individual country counterparty risk limits by the CRM.

The Company monitors its credit exposures to any single unrelated external reinsurer or group.

The maximum exposure to credit risk for loans and receivables, debt securities and cash and cash equivalents is the carrying value in the balance sheet, net of allowances.

Market risk

Market risk arises from the possibility of financial loss caused by changes in financial instrument fair values or future cash flows due to fluctuations in key variables, including interest rates, equity market prices and foreign exchange rates.

The Company manages the risk of market-based fluctuations in the value of the Company's investments, as well as liabilities with exposure to market risk.

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



31. Risk management (continued)

Market risk (continued)

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

Interest rate risk

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

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

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

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

Exposure to interest rate risk

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

US\$'000	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 2009				
Financial assets				
Loans and receivables	351,905	497,113	341,285	1,190,303
Equity securities	-	-	6,577,170	6,577,170
Debt securities	768,089	15,927,000	-	16,695,089
Derivative financial instruments	-	-	2,857	2,857
Reinsurance receivables	-	-	12,693	12,693
Cash and cash equivalents	1,146,752	-	50,248	1,197,000
Total financial assets	2,266,746	16,424,113	6,984,253	25,675,112
Financial liabilities				
Insurance contract liabilities (net of reinsurance)	-	-	18,256,111	18,256,111
Investment contract liabilities	-	-	5,787,365	5,787,365
Borrowings	198,547	-	-	198,547
Derivative financial liabilities	-	-	6,570	6,570
Current tax liabilities	-	-	31,944	31,944
Other liabilities	-	-	474,369	474,369
Total financial liabilities	198,547	-	24,556,359	24,754,906
Net financial assets and liabilities	2,068,199	16,424,113	(17,572,106)	920,206



31. Risk management (continued)

Market risk (continued)

Exposure to interest rate risk (continued)

US\$'000	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 2008				
Financial assets				
Loans and receivables	162,678	298,356	267,720	728,754
Equity securities	-	-	3,386,290	3,386,290
Debt securities	240,337	11,922,610	47,419	12,210,366
Reinsurance receivables	-	-	640,263	640,263
Cash and cash equivalents	1,585,086	-	384,890	1,969,976
Total financial assets	1,988,101	12,220,966	4,726,582	18,935,649
Financial liabilities				
Insurance contract liabilities (net of reinsurance)	-	-	15,171,865	15,171,865
Investment contract liabilities	-	-	3,658,910	3,658,910
Borrowings	-	-	198,714	198,714
Obligations under securities lending agreements	1,900,421	-	-	1,900,421
Derivative financial liabilities	-	-	7,386	7,386
Current tax liabilities	-	-	50,701	50,701
Other liabilities	-	-	484,668	484,668
Total financial liabilities	1,900,421	-	19,572,244	21,472,665
Net financial assets and liabilities	87,680	12,220,966	(14,845,662)	(2,537,016)



31. Risk management (continued)

Market risk (continued)

Foreign exchange rate risk

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

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

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

2.2.1.1 Net exposure

US\$'000	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korean Won
30 November 2009							
Equity analysed by original currency	5,601,956	(648,038)	(2,521)	7,874	629	92,568	915,765
Net notional amounts of currency derivative positions	(236,833)	-	-	-	-	-	100,426
Currency exposure	5,365,123	(648,038)	(2,521)	7,874	629	92,568	1,016,191
5% strengthening of original currency							
Impact on profit before tax	8,124	(70,195)	(126)	394	31	4,628	1,427
5% strengthening of the US dollar							
Impact on shareholders' equity	(8,124)	-	-	-	-	-	(49,383)
30 November 2008							
Equity analysed by original currency	3,578,042	(710,277)	(2,358)	(5,921)	(1,981)	65,173	590,382
Net notional amounts of currency derivative positions	110,132	-	-	-	-	-	(96,035)
Currency exposure	3,688,174	(710,277)	(2,358)	(5,921)	(1,981)	65,173	494,347
5% strengthening of original currency							
Impact on profit before tax	6,983	(35,514)	(118)	(296)	(99)	3,259	298
5% strengthening of the US dollar							
Impact on shareholders' equity	(1,983)	-	-	-	-	-	(29,222)



31. Risk management (continued)

Market risk (continued)

Equity market price risk

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

Sensitivity analysis

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in Note 23. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices the Company has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support investment-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Information is presented to illustrate the estimated impact on profits and equity arising from a change in a single variable before taking into account the effects of taxation.

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

	30 November 2009		30 November 2008	
	Impact on profit before tax	Impact on net assets (before the effects of taxation)	Impact on profit before tax	Impact on net assets (before the effects of taxation)
US\$'000				
Interest rate risk				
+50 basis points shift in yield curves	(7,771)	(735,897)	(1,746)	(457,980)
-50 basis points shift in yield curves	7,771	735,897	1,746	457,980
Equity risk				
10 per cent increase in equity prices	168,255	174,112	71,110	79,369
10 per cent decrease in equity prices	(168,255)	(174,112)	(71,110)	(79,369)



31. Risk management (continued)

Liquidity risk

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

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

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

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

US\$'000	Total	No fixed maturity	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
30 November 2009						
Financial assets:						
Loans and receivables	1,190,303	303,007	540,448	49,776	30,055	267,017
Equity securities	6,577,170	6,577,170	-	-	-	-
Debt securities	16,695,089	-	287,866	2,654,770	3,160,708	10,591,745
Reinsurance receivables	12,693	-	12,693	-	-	-
Derivative financial instruments	2,857	-	2,857	-	-	-
Cash and cash equivalents	1,197,000	-	1,197,000	-	-	-
Total	25,675,112	6,880,177	2,040,864	2,704,546	3,190,763	10,858,762
Financial liabilities and insurance contracts:						
Insurance and investment contract liabilities (net of reinsurance)	24,043,476	-	(392,597)	474,976	2,904,250	21,056,847
Borrowings	198,547	198,547	-	-	-	-
Derivative financial instruments	6,570	-	775	1,980	2,869	946
Current tax liabilities	31,944	-	31,944	-	-	-
Other liabilities	474,369	-	474,369	-	-	-
Total	24,754,906	198,547	114,491	476,956	2,907,119	21,057,793



31. Risk management (continued)

Liquidity risk (continued)

US\$'000	Total	No fixed maturity	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
30 November 2008						
Financial assets:						
Loans and receivables	728,754	178,096	496,080	33,876	1,328	19,374
Equity securities	3,386,290	3,386,290	-	-	-	-
Debt securities	12,210,366	-	373,481	1,682,833	3,622,886	6,531,166
Reinsurance receivables	640,263	-	640,263	-	-	-
Cash and cash equivalents	1,969,976	-	1,969,976	-	-	-
Total	18,935,649	3,564,386	3,479,800	1,716,709	3,624,214	6,550,540
Financial liabilities and insurance contracts:						
Insurance and investment contract liabilities (net of reinsurance)	18,830,775	-	(769,504)	(1,159,591)	1,075,916	19,683,954
Borrowings	198,714	198,714	-	-	-	-
Obligations under securities lending	1,900,421	-	1,900,421	-	-	-
Derivative financial instruments	7,386	-	7,386	-	-	-
Current tax liabilities	50,701	-	50,701	-	-	-
Other liabilities	484,668	-	484,668	-	-	-
Total	21,472,665	198,714	1,673,672	(1,159,591)	1,075,916	19,683,954



32. Employee benefits

Defined benefit plans

US\$'000	As at 30 November 2009	As at 30 November 2008
Present value of unfunded obligations	7,212	15,062
Present value of funded obligations	31,596	14,793
Total present value of obligations	38,808	29,855
Fair value of plan assets	(13,007)	(9,095)
Present value of net obligations	25,801	20,760
Unrecognised actuarial gains	(1,189)	(2,426)
Net recognised defined benefit obligations	24,612	18,334
Recognised defined benefit deficits	24,612	18,334
Recognised defined benefit surpluses	-	-

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

Plan assets comprise:

US\$'000	As at 30 November 2009	As at 30 November 2008
Other asset	13,007	9,095
Total	13,007	9,095

Movement in the present value of the defined benefit obligations

US\$'000	As at 30 November 2009	As at 30 November 2008
At 1 December	29,855	33,749
Benefits paid by the plan	(1,768)	(1,464)
Current service costs and interest (see next page)	5,997	7,655
Actuarial losses/(gains)	1,710	(675)
Foreign exchange movements	3,014	(9,410)
At 30 November	38,808	29,855



32. Employee benefits (continued)

Defined benefit plans (continued)

Movement in the fair value of plan assets

	As at 30 November 2009	As at 30 November 2008
US\$'000		
At 1 December	9,095	11,504
Contributions paid into the plan	2,550	3,494
Benefits paid by the plan	(1,768)	(1,356)
Expected return on plan assets	500	514
Actuarial gains/(losses)	152	(160)
Foreign exchange movements	2,478	(4,901)
At 30 November	13,007	9,095

Expense recognised in income statement

	Year ended 30 November 2009	Year ended 30 November 2008
US\$'000		
Current service costs	4,349	5,327
Interest on obligation	1,648	1,654
Expected return on plan assets	(500)	(506)
Settlement/curtailment gains recognised	(138)	(63)
Total	5,359	6,412

The expense is recognised within the operating expenses line in the income statement.

Actuarial assumptions

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

	As at 30 November 2009	As at 30 November 2008
Expected return on plan assets at the start of the reporting period	2.75% - 5.00%	5.25%
Future salary increases	3.00% - 7.00%	3.00 - 10.00%
Healthcare trend rate:		
Immediate trend rate	5.00%	4.00%
Ultimate trend rate	5.00%	4.00%
Year in which the ultimate trend rate is reached	2010	2009
Discount rate at the end of the reporting period	1.50 - 9.00%	1.50 - 15.00%

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



32. Employee benefits (continued)

Defined benefit plans (continued)

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

	Hong Kong
Retirement age	65
Average life expectancy on retirement	
Males	18.46 years
Females	20.41 years

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

US\$'000	1% increase		1% decrease	
	2009	2008	2009	2008
Effect on the aggregate service and interest cost	471	237	(313)	(89)
Effect on defined benefit obligation	1,434	2,905	(1,028)	(2,003)

Historical information

US\$'000	As at 30 November 2009	As at 30 November 2008
Present value of the defined benefit obligation	38,808	29,855
Fair value of plan assets	(13,007)	(9,095)
Deficit in the plan	25,801	20,760
Experience (loss) / gain arising on plan liabilities	(1,710)	675
Experience (gain) / loss arising on plan assets	(152)	160

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

Defined contribution plans

The Company operates a number of defined contribution pensions plans. The total expense relating to these plans in the current period was US\$2.9m (2008: US\$2.8m).

The outstanding liability for defined contribution benefit plans is nil. (2008: Nil).



33. Share based compensation

Stock compensation plans

The Company's employees have participated in seven different stock based compensation arrangements of AIG; the AIG 1999 Stock Option Plan, as amended ('the 1999 plan'), the AIG 1996 Employee Stock Purchase Plan, as amended ('the 1996 plan'), the 2002 and 2007 AIG Stock Incentive Plans, as amended (collectively 'the AIG stock incentive plans'), various SICO Plans, the Deferred Compensation Profit Participation Plan ('DCPPP') and the Partners Plan.

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

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

The 1999 plan

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

	Year ended 30 November 2009		Year ended 30 November 2008	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options				
Outstanding at 1 December	2,601	1,231	2,071	1,233
Granted	-	-	-	-
Transfers in	230	1,245	579	1,222
Exercised	-	-	-	-
Transfers out	(175)	1,239	(45)	1,238
Forfeited or expired	(267)	1,189	(4)	-
Outstanding at 30 November	2,389	1,231	2,601	1,231
Options exercisable at 30 November	2,252	1,225	2,085	1,217
Weighted average fair value per share of options granted during the year		N/A		N/A



33. Share based compensation (continued)

Information about options outstanding and options exercisable by the Company's employees and directors at the date of the balance sheet for the period are as follows:

Range of exercise prices	<i>Options outstanding</i>			<i>Options exercisable</i>		
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price US\$	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price US\$
Year ended 30 November 2009						
Less than or equal to US\$1,000	312	3.25	940	312	3.25	940
US\$1,000.01 – US\$1,100	-	-	-	-	-	-
US\$1,100.01 – US\$1,200	340	5.83	1,187	340	5.83	1,187
US\$1,200.01 – US\$1,300	1,111	4.18	1,268	1,111	4.18	1,268
US\$1,300.01 – US\$1,400	593	6.08	1,320	456	6.08	1,320
More than US\$1,400.01	33	2.17	1,592	33	2.17	1,592
Total	2,389	4.74	1,231	2,252	4.66	1,225
Year ended 30 November 2008						
Less than or equal to US\$1,000	328	4.25	940	328	4.25	940
US\$1,000.01 – US\$1,100	-	-	-	-	-	-
US\$1,100.01 – US\$1,200	419	6.83	1,187	312	6.83	1,187
US\$1,200.01 – US\$1,300	1,188	5.21	1,268	1,076	5.12	1,266
US\$1,300.01 – US\$1,400	634	7.08	1,320	336	7.08	1,320
More than US\$1,400.01	32	3.17	1,592	33	3.17	1,592
Total	2,601	5.78	1,231	2,085	5.52	1,217



33. Share based compensation (continued)

The 1996 plan

Under the 1996 plan, full time employees of AIG and its subsidiaries who have been employed for one or more years of service at the time of offering are eligible to purchase common stock of AIG at 85% of the fair market value as at the date of grant of the purchase right. Purchase rights of eligible employees are granted quarterly and are limited to the number of whole shares that can be purchased by an amount equal to 10% of their annual basic salary (excluding year end bonus) to a maximum of US\$10,000 payable in 12 monthly instalments and may be cancelled at any time after commencement but before the last instalment date and receive a full return of contribution to date.

For the year ended 30 November 2009, nil shares were purchased by employees of the company (2008: nil shares purchased).

The subscriptions were cancelled from October 2007 based on the market value of the common stock of AIG.

The AIG stock incentive plans

These plans provide equity based or equity related awards to employees of AIG and its subsidiaries.

Prior to March 2008, substantially all time-vested RSUs were scheduled to vest on the fourth anniversary of the date of grant. Effective March 2008, the vesting of the December 2005 and 2006 and 2007 grants was accelerated to vest on the third anniversary of the date of grant.

SICO plans

Starr International Company Inc ('SICO') provided compensation participation plans ('SICO plans') to certain Company employees. The SICO plans came into being in 1975 when the voting shareholders and the board of directors of SICO, a private holding company whose principal asset consisted of common stock in AIG, decided that a portion of the capital value of SICO should be used to provide an incentive plan for current and succeeding management of all companies in the wider group headed by AIG. Certain directors and employees of the Company participate in the SICO plans. Historically, SICO's board of directors could elect to pay participants cash in lieu of shares of common stock of AIG. On 9 December 2005, SICO notified participants that essentially all subsequent distributions would be made only in shares, and not cash.

DCPPP

Effective from 21 September 2005, AIG adopted the DCPPP, which provides equity based compensation to key employees of the wider group, including senior executive officers. The DCPPP was modelled on the SICO plans.

The DCPPP contingently allocated a fixed number of shares to each participant if AIG's cumulative adjusted earnings per share for 2005 and 2006 exceeded that for 2003 and 2004. This goal was met. At the end of the performance period, common shares are contingently allocated. The service period and related vesting consists of three pre-retirement tranches and a final retirement tranche at age 65. Due to a modification in March 2008 the vesting period was shortened to vest in three instalments, with the final instalment vesting in January 2012.



33. Share based compensation (continued)

Partners plan

On 26 June 2006, AIG's Compensation Committee approved two grants under the Partners Plan. The first grant has a performance period which runs from 1 January 2006 through 31 December 2007. The second grant has a performance period which runs from 1 January 2007 through 31 December 2008.

In December 2007, the Compensation Committee approved a grant with a performance period from 1 January 2008 through 31 December 2009. The Compensation Committee approved the performance metrics for this grant in the first quarter of 2008. The first and the second grants vest 50% on the fourth and sixth anniversaries of the first day of the related performance period. The third grant vest 50% on the third and fourth anniversaries of the first day of the performance period.

Similar to the stock option plan, each vesting tranche is accounted for as a separate grant for the purpose of recognising the expense over the vesting period.

All grants were modified in March 2008. In 2007 and 2008 no compensation cost was recognised as the performance targets for these awards were not met, and the compensation cost recognised in 2006 was reversed as a result.

Valuation methodology

The Company utilises a binominal lattice model to calculate the fair value of AIG stock option grants. A more detailed description of the valuation methodology is provided below.

The following weighted average assumptions were used for stock options granted for the following periods:

	Year ended 30 November 2009	Year ended 30 November 2008
%		
Expected annual dividend yield	N/A	3.77%
Expected volatility	N/A	53.27%
Risk free interest rate	N/A	4.43%
Expected term	N/A	4 years

The dividend yield is determined at the grant date. The expected volatility is the average of historical volatility (based on seven years of daily stock price changes) and the implied volatility of actively traded options on AIG's shares and the interest rate curves used in the valuation model were the US Treasury STRIP rates with terms from three months to ten years. In 2008, the expected term is four years based on the average time to exercise which is derived from the output of the valuation model. In 2007 and 2006, the contractual term of the option is generally ten years with an expected term of seven years calculated based on an analysis of historical employee exercise behaviour and employee turnover (post vesting terminations). The early exercise rate is a function of time elapsed since the grant. Fifteen years of historical data was used to estimate the early exercise rate.

The fair value of each award granted under the 1996, 1999 and the AIG stock incentive plans, the DCPPP, the Partners Plan and the SICO Plans considers, as required, the above factors as well as the closing price of the former ultimate parent company's stock on the date of grant.



33. Share based compensation (continued)

A summary of shares relating to outstanding awards to the Company's employees and directors unvested under the AIG stock incentive plans, SICO plans, DCPPP and Partners Plan is presented below:

	<i>Number of shares</i>				<i>Weighted average grant date fair value (US\$)</i>			
	AIG stock incentive plans	SICO	DCPPP	Partners Plan	AIG stock incentive plans	SICO	DCPPP	Partners Plan
Year ended 30 November 2009								
At 1 December	3,056	-	648	903	1,205	-	1,165	1,126
Granted	-	-	-	-	-	-	-	-
Transfers in	382	100	140	220	1,200	1,165	1,149	1,089
Issued/exercised	(699)	-	(240)	-	1,246	-	1,165	-
Transfers out	(299)	-	-	-	1,205	-	-	-
Forfeited	(520)	-	-	(595)	1,191	-	-	1,136
At 30 November	1,920	100	548	528	1,193	1,165	1,161	1,122
Year ended 30 November 2008								
At 1 December	1,131	-	648	591	1,325	-	1,165	1,184
Granted	1,586	-	-	252	1,096	-	-	1,178
Transfers in	602	-	-	60	1,315	-	-	1,113
Issued/exercised	(54)	-	-	-	1,259	-	-	-
Forfeited	(209)	-	-	-	1,238	-	-	-
At 30 November	3,056	-	648	903	1,211	-	1,165	1,126



33. Share based compensation (continued)

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to share based compensation awards granted under the 1996 plan, the 1999 plan, the AIG stock incentive plans, the DCPPP, the Partners Plan and the SICO Plans are as follows:

	Year ended 30 November 2009	Year ended 30 November 2008
US\$'000		
1996 plan	-	40
1999 plan	25	235
AIG stock incentive plans	936	2,095
DCPPP	3	-
Partners Plan	-	(355)
SICO Plans	2	-
Total	966	2,015

Unrecognised compensation cost

The total unrecognised compensation costs (net of expected forfeitures) related to non-vested share based compensation awards granted under the 1999 and the AIG stock incentive plans, the DCPPP, the Partners Plan and the SICO Plans are as follows:

	Remaining weighted average vesting period at 30 November 2009	Unrecognised compensation costs at 30 November 2009
US\$'000		
1999 plan	3 years	1
AIG stock incentive plans	Within 1 year	594
DCPPP	Within 1 year	57
Partners Plan	Within 1 year	17
Total AIG plans	3 years	669
SICO plans	5 years	77
Total		746



34. Remuneration of directors and key management personnel

Directors' remuneration

US\$'000	Year ended 30 November 2009	Year ended 30 November 2008
For management	561	667
Share-based payments	(193)	196
Total	368	863

Note: (1) In March 2010, share and cash awards with a total value of \$4.7 million were granted to a director in respect of 2009 remuneration, in addition to the figures listed above. The cost associated with these awards does not form part of 2009 financial statements as the awards were not made during the year ended 30 November 2009.

Directors' remuneration as directors and for management mainly consists of salary payments.

The aggregate amount of the emoluments paid to the highest paid director was US\$368 (2008: US\$863)

Key management personnel have been identified as the members of the AIAB Company's Board of Directors.



35. Related party transactions

Transactions with related parties

US\$'000	Year ended 30 November 2009	Year ended 30 November 2008
Transactions with related parties		
Reinsurance related parties (income)/expense		
Premiums assumed	(106,969)	(96,180)
Premiums ceded to reinsurers	14,325	136,210
Claims recovered from reinsurers	(5,367)	(66,359)
Claims paid on inwards reinsurance	54,611	41,583
Recapture fee	-	446,998
Commissions and fee income	1,018	(9,637)
	(42,382)	452,615
Non-insurance related party income		
Interest income	(298)	23,976
Income from services provided	(28,822)	(30,313)
	(29,120)	(6,337)
Non-insurance related party expenses		
Interest expense	12,677	7,660
Purchases of services	28,778	30,915
Corporate service fees	17,861	26,275
	59,316	64,850
Total	(12,186)	511,128
Payment / (Receipt) on behalf of related party		
Amounts paid on behalf of related parties	161	503
Amounts received on behalf of related parties	(3,364)	(17,647)
Total	(3,203)	(17,144)
Amounts due from related parties		
Insurance related amounts receivable	6,489	73,629
Loans receivable	127,001	50,000
Other amounts receivable	18,229	32,232
Total	151,719	155,861
Amounts due to related parties		
Insurance related amounts payable	7,917	57,001
Loans payable	198,472	198,598
Other amounts payable	57,948	35,829
Total	264,337	291,428



35. Related party transactions (continued)

Transactions with related parties are transactions with fellow subsidiaries of AIG with the exception of premiums assumed from joint ventures and associates of US\$nil for 2009 & 2008. The Company receive amounts on behalf of and pay amounts on behalf of fellow subsidiaries. These amounts are included within other amounts receivable/payable.

The recapture fee of US\$447m in 2008 relates to an amount paid by the Company to its then immediate parent, AIRCO, in full and final settlement of the recapture of the reinsurer's share of certain risks ceded.

The above amounts receivable from and due to related parties are all balances with fellow subsidiaries of AIG. Insurance related and other amounts due from/to related parties are unsecured, non-interest bearing balances which are expected to be settled within one year.

The Company has entered into securities lending agreements with related parties. During 2009, the Company sold certain debt securities for proceeds of US\$857m to related parties, resulting in a recognised realised loss of US\$90m. These debt securities were purchased with collateral received from the securities lending program. See Note 25 for further information.

Remuneration of directors and key management personnel is in Note 34.



36. Commitments and contingencies

Commitments under operating leases

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

	Year ended 30 November 2009	Year ended 30 November 2008
US\$'000		
Properties and others expiring		
Not later than one year	29,635	37,340
Later than one and not later than five years	23,471	39,900
Later than five years	672	414
Total	53,778	77,654

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

Investment commitments

	Year ended 30 November 2009	Year ended 30 November 2008
Not later than one year	89,750	107,481
Later than one and not later than five years	36,115	37,776
Later than five years	-	-
Total	125,865	145,257

Contingencies

The Company is subject to regulation in each of the geographical markets in which it operates from insurance, securities, capital markets, pension, data privacy and other regulators and is exposed to the risk of regulatory actions in response to perceived or actual non-compliance with regulations relating to suitability, sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties. The Company believes that these matters have been adequately provided for in these financial statements.

The Company is exposed to legal proceedings, complaints and other actions from its activities including those arising from sales practices, suitability of products, policy and claims. The Company believes these matters are adequately provided for in these financial statements.

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



36. Commitments and contingencies (continued)

Contingencies (continued)

The Company provided reinsurance and retrocession of general insurance business which was primarily underwritten in the 1970s and 1980s. In the absence of any reported unsettled claims for a period of three years, the Company does not expect any further material liabilities to arise. At the time the Company was transferred to the AIA Group pursuant to the Reorganisation, AIRCO, the former owner of the Company, provided AIA with an uncapped indemnification for losses with respect to claims made before 1 November 2010 that result from the underwriting activities of the Bermuda office of the Company prior to 28 February 2009.

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

37. Investment in subsidiaries

The principal subsidiaries of the Company which hold a material element of its investment in subsidiaries are as follows:

				30 November 2009	30 November 2008
Unlisted shares, at cost				546,974	571,738
	Place of incorporation and operation	Principal activity	Issued share capital	Company's interest %	
				30 November 2009	30 November 2008
American International Assurance Co. (Vietnam) Limited	Vietnam	Life Insurance	Contributed capital of VND 960,902,899,000	100%	100%
P.T. AIA Financial (formerly known as P.T.AIG Life)	Indonesia	Life Insurance	477,711,032 shares of Rp1,000 each	100%	100%
Grand Design Development Limited	British Virgin	Investment Holding	10,000 shares of US\$100 each	100%	100%
Bayshore Development Limited	British Virgin	Property Holding	100 shares of US\$1 each	90%	90%

All subsidiaries are unlisted.



38. Immediate and ultimate controlling party

The immediate parent company of American International Assurance Company (Bermuda) Limited is American International Assurance Company, Limited (AIA), a company incorporate in Hong Kong.

Prior to 30 November 2009, the immediate controlling party of AIA was AIRCO, a Bermuda company whose ultimate parent company was AIG, an insurance and financial services group in the United States of America.

In September 2008, AIG entered into a US\$85 billion revolving credit agreement (the 'Credit Agreement') and a guarantee and pledge agreement with the Federal Reserve Bank of New York (the "FRBNY"). In conjunction with the Credit Agreement, AIG agreed to issue a series of convertible participating preferred stock ('the Series C Preferred Stock') to a trust to be established for the sole benefit of the United States Treasury (the 'AIG Credit Facility Trust'). The Series C Preferred Stock was issued to the AIG Credit Facility Trust on 4 March 2009. The Series C Preferred Stock is entitled to vote with the AIG common stock on all matters, and holds approximately 79.8% of the aggregate voting power of AIG shareholders entitled to vote, on an as converted basis. The AIG Credit Facility Trust has three independent trustees. Pursuant to the terms of the Trust Agreement, the trustees have absolute discretion and ultimate control over the preferred stock, subject to the terms of the Trust Agreement, and exercise all rights, powers and privileges of a shareholder of AIG.

The direct shareholders of AIA did not change as a result of the actions described above. However, a change of control occurred at the level of AIG, the ultimate parent of AIA. Through its ownership of the Series C Preferred Stock, the AIG Credit Facility Trust owns an indirect interest in all domestic and international subsidiaries owned directly or indirectly by AIG, and is the ultimate controlling party of AIG.

On 2 March 2009, AIG and the FRBNY announced their intent to enter into certain transactions that would, amongst other things, reduce AIG's obligations under the Credit Agreement mentioned above. Accordingly, the FRBNY Agreement was entered into on 25 June 2009. The following transactions were contemplated under the FRBNY Agreement:

- on 11 August 2009, AIG Life Holdings (International) LLC ('AIG Life') formed a special purpose vehicle, AIA Aurora LLC;
- on 24 August 2009, AIA Aurora LLC formed AIA Group Limited;
- on 8 October 2009, AIG Life transferred AIA Aurora LLC to AIRCO;
- on 3 November 2009, AIG and AIRCO transferred Philam to AIA;
- on 30 November 2009, AIRCO transferred AIA to AIA Group Limited;
- on 1 December 2009, AIRCO transferred to the FRBNY a preferred interest, with a US\$16 billion liquidation preference, in AIA Aurora LLC;
- AIG retained 100% of the common interest of AIA Aurora LLC (1% directly and 99% indirectly through AIRCO) as at 1 December 2009; and
- as consideration for the preferred interests in AIA Aurora LLC received by the FRBNY, the outstanding balance owed by AIG under the Credit Agreement was reduced by US\$16 billion.

Accordingly, with effect from 30 November 2009, AIA Group Limited became the immediate controlling party of AIA, after AIRCO, the former immediate parent company of AIA, transferred AIA to AIA Group Limited.

39. Events after the balance sheet date

On 27 January 2010, the sale of the disposal group held for sale (see note 9) was completed.

On 1 March 2010, AIG announced that it had entered into a definitive agreement to sell the AIA Group Limited ("the AIA Group") to Prudential plc. The transaction is subject to approval of prudential plc shareholders, regulatory approvals, and customary closing conditions. The AIA Group is in the process of evaluating the contractual, regulatory and legal impacts of the change in control that would arise on completion of this transaction. These financial statements do not reflect any impact arising from any requirement to sell or otherwise divest operations or other assets to complete the transaction. In connection with this transaction, interim operating covenants have been imposed on the AIA Group which restrict it from engaging in certain transaction without the prior consent of Prudential Plc and establish a protocol for the approval of certain actions.



40. Balance Sheet presented under Hong Kong Insurance Companies Ordinance

40.1 Basis of preparation

The Hong Kong Insurance Companies Ordinance requires that general business and other business assets of the Company be valued in accordance with the Insurance Companies (General Business) (Valuation) Regulation ("the Valuation Regulation")

Long term business liabilities are required to be determined based on the Insurance Companies (Determination of Long Term Liabilities) Regulation ("the Long Term Liabilities Determination Regulation").

Appropriate adjustments have therefore been made to restate the relevant assets and liabilities, as prepared in accordance with IFRS, in order to comply with the Valuation Regulation and Long Term Liabilities Determination Regulation.

The principal accounting policies stated in note 2 above, are policies adopted by the Company and its subsidiaries before apply the Valuation Regulation and Long Term Liabilities Determination Regulation, in determining net income or in stating the financial position.




40. Balance Sheet presented under Hong Kong Insurance Companies Ordinance (continued)

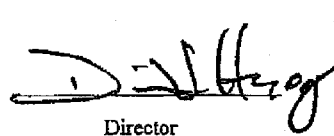
40.2 Assets, liabilities and net assets as at 30 November 2009

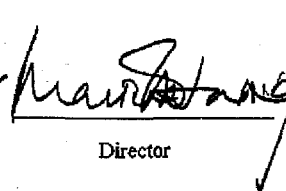
US\$'000	Notes	Long term business	General & Other Business	Total
Assets				
Property, plant and equipment		27,389	-	27,389
Investment in ultimate holding company – available-for-sale	40.4	58,573	-	58,573
Investment in subsidiaries		555,816	84,568	640,384
Investment in associates		-	26,853	26,853
Financial assets				
Equity Securities – fair value through income	40.4	6,518,453	45	6,518,498
Debt Securities – available for sale	40.4	16,295,433	-	16,295,433
Debt Securities – fair value through income	40.4	399,656	-	399,656
Loans and receivables, including insurance receivables		1,055,297	55,033	1,110,330
Derivative assets		2,857	-	2,857
Debtors and other assets		372,504	1,317	373,821
Deferred tax assets		514,154	-	514,154
Reinsurance assets	40.6	43,190	2	43,192
Cash and cash equivalents		646,310	550,690	1,197,000
Total assets		26,489,632	718,508	27,208,140
Liabilities				
Long term business liabilities under Insurance Companies Ordinance	40.6	21,028,982	-	21,028,982
Other insurance reserves	40.7	-	26,301	26,301
Policy and contract claims	40.7	204,551	7,596	212,147
Dividend payable to policyholders		2,339,451	-	2,339,451
Other payables		574,390	240,687	815,077
Deferred and current tax liabilities		43,416	-	43,416
Total liabilities		24,190,790	274,584	24,465,374
NET ASSETS UNDER INSURANCE COMPANIES ORDINANCE		2,298,842	443,924	2,742,766
Represented by:				
Share capital and capital contributions				1,533,430
Investment revaluation reserve				690,769
Exchange reserve and other reserve				(492,779)
Retained earnings	42			1,051,773
Adjustments under the Valuation Regulation other than Section 14 & Section 15	40.8			137,316
Adjustments under Section 14 & Section 15 of the Valuation Regulation	40.9			(177,743)
				2,742,766

Approved by the Board of Directors on 29th April 2010

Countersigned


 Chief Executive


 Director


 Director



40. Balance Sheet presented under Hong Kong Insurance Companies Ordinance (continued)

40.3 Assets, liabilities and net assets as at 30 November 2008

US\$'000	Notes	Long term business	General & Other Business	Total
Assets				
Property, plant and equipment		28,182	-	28,182
Investment in ultimate holding company – available-for-sale	40.4	82,590	-	82,590
Investment in subsidiaries		501,007	58,542	559,549
Investment in associates		-	18,199	18,199
Financial assets				
Equity securities – available for sale	40.4	444,520	-	444,520
Equity Securities – fair value through income	40.4	3,299,463	-	3,299,463
Debt Securities – available for sale	40.4	10,590,069	19,315	10,609,384
Debt Securities – fair value through income	40.4	88,445	-	88,445
Loans and receivables, including insurance receivables		1,056,628	5,847	1,062,475
Debtors and other assets		357,111	33,920	391,031
Interest bearing bank deposits		642,974	785,279	1,428,253
Financial assets held under securities lending arrangement		1,593,677	-	1,593,677
Deferred tax assets		200,928	-	200,928
Deferred incremental cost intangible assets		654,956	-	654,956
Reinsurance assets	40.6	22,303	-	22,303
Cash and cash equivalents		46,411	-	46,411
Total assets		19,609,264	921,102	20,530,366
Liabilities				
Long term business liabilities under Insurance Companies Ordinance	40.6	13,442,383	-	13,442,383
Other insurance reserves	40.7	-	37,560	37,560
Policy and contract claims	40.7	170,058	-	170,058
Dividend payable to policyholders		2,129,420	-	2,129,420
Deferred income liability		631,564	-	631,564
Securities lending payable		1,581,338	319,083	1,900,421
Other payables		457,276	217,388	674,664
Deferred and current tax liabilities		56,437	18,723	75,160
Total liabilities		18,468,476	592,754	19,061,230
NET ASSETS UNDER INSURANCE COMPANIES ORDINANCE		1,140,788	328,348	1,469,136
Represented by:				
Share capital and capital contributions				1,224,291
Investment revaluation reserve				(1,959,962)
Exchange reserve				205,807
Retained earnings	42			2,109,281
Adjustments under the Valuation Regulation other than Section 14	40.8			(25,911)
Adjustments under Section 14 & Section 15 of the Valuation Regulation	40.9			(84,370)
				1,469,136



40. Balance Sheet presented under Hong Kong Insurance Companies Ordinance (continued)

40.4 Available for sale and fair value through income financial assets

40.4.1 Available for sale financial assets

US\$'000	As at 30 November 2009			As at 30 November 2008		
	Long term business	General & Other Business	Total	Long term business	General & Other Business	Total
Equity securities						
Listed	58,573	-	58,573	141,855	-	141,855
Unlisted	-	-	-	385,255	-	385,255
	58,573	-	58,573	527,110	-	527,110
Debt securities						
Government bond – fixed interest rate	2,358,743	-	2,358,743	1,492,047	-	1,492,047
Listed – fixed interest rate	8,839,990	-	8,839,990	4,695,125	-	4,695,125
Listed – floating interest rate	221,138	-	221,138	117,943	-	117,943
Listed – non-interest bearing	-	-	-	271,249	-	271,249
Unlisted – fixed interest rate	4,737,948	-	4,737,948	3,664,773	19,315	3,684,088
Unlisted – floating interest rate	137,614	-	137,614	122,394	-	122,394
Unlisted – non-interest bearing	-	-	-	226,538	-	226,538
	16,295,433	-	16,295,433	10,590,069	19,315	10,609,384
Total	16,354,006	-	16,354,006	11,117,179	19,315	11,136,494

40.4.2 Fair value through income financial assets

US\$'000	As at 30 November 2009			As at 30 November 2008		
	Long term business	General & Other Business	Total	Long term business	General & Other Business	Total
Equity securities						
Listed	1,244,287	45	1,244,332	-	-	-
Unlisted	5,274,166	-	5,274,166	3,299,463	-	3,299,463
	6,518,453	45	6,518,498	3,299,463	-	3,299,463
Debt securities						
Government bond – fixed interest rate	153,453	-	153,453	22,133	-	22,133
Listed – fixed interest rate	42,591	-	42,591	-	-	-
Listed – floating interest rate	18,346	-	18,346	-	-	-
Unlisted – fixed interest rate	29,710	-	29,710	66,312	-	66,312
Unlisted – floating interest rate	155,556	-	155,556	-	-	-
	399,656	-	399,656	88,445	-	88,445
Total	6,918,109	45	6,918,154	3,387,908	-	3,387,908



40. Balance Sheet presented under Hong Kong Insurance Companies Ordinance (continued)

40.5 Premiums and insurance balance receivable / (payable)

US\$'000	As at 30 November 2009			As at 30 November 2008		
	Long term business	General & Other Business	Total	Long term business	General & Other Business	Total
Receivable						
Direct insurance						
Due from:						
Others	125,302	7,224	132,526	103,468	7,726	111,194
Inward reinsurance						
Due from:						
Parent company and fellow subsidiaries	5,865	-	5,865	14,665	70	14,735
Outward reinsurance						
Due from:						
Parent company and fellow subsidiaries	277	-	277	237,069	88	237,157
Others	12,416	-	12,416	48,723	-	48,723
	143,860	7,224	151,084	403,925	7,884	411,809
Adjustment under Section 9 of the Valuation Regulation	-	(6,072)	(6,072)	-	(1,990)	(1,990)
	143,860	1,152	145,012	403,925	5,894	409,819
Payables						
Direct insurance						
Due from:						
Others	24,594	2,201	26,795	10,720	-	10,720
Inward reinsurance						
Due from:						
Parent company and fellow subsidiaries	7,570	-	7,570	56,993	8	57,001
Total	32,164	2,201	34,365	67,713	8	67,721



40. Balance Sheet presented under Hong Kong Insurance Companies Ordinance (continued)

40.6 Long term business liabilities under Insurance Companies Ordinance

A review is made annually into the financial condition of the life insurance operations by the designated actuaries of the Company. The assets available for its life insurance operations are more than adequate to meet its long-term liabilities.

The estimated liability for future benefits under life and annuity contracts is computed on the basis of Hong Kong statutory minimum reserve requirements using prudent interest and mortality assumptions, by territories of operation and by major policy type, after deduction of estimated reinsurance.

Provision is made for the surplus attributable to participating policyholders arising under local statutory restrictions.

US\$'000	Note	As at 30 November 2009	As at 30 November 2008
Long-term business			
Life and annuity	41.2	13,184,631	8,869,865
Linked long term	41.3	7,602,428	4,371,840
Capital redemption	41.4	1,280	1,776
Retirement scheme management			
Categories I and II	41.5	186,070	163,884
Category III	41.6	11,383	12,715
		<u>20,985,792</u>	<u>13,420,080</u>

40.7 Reserve for losses and loss expenses

US\$'000	As at 30 November 2009	As at 30 November 2008
General business		
Reported claims:		
Gross	<u>26,301</u>	<u>30,204</u>
	<u>26,301</u>	<u>30,204</u>
Claims incurred but not reported:		
Gross and net	<u>7,596</u>	<u>7,356</u>
	<u>7,596</u>	<u>7,356</u>
	<u>33,897</u>	<u>37,560</u>



40. Balance Sheet presented under Hong Kong Insurance Companies Ordinance (continued)

40.8 Adjustments under the Valuation Regulation other than Section 14 & Section 15

	The Company	
	As at 30 November 2009	As at 30 November 2008
US\$'000		
Long-term business		
Investment in subsidiaries (Section 5, 6 and 7)	336,391	259,530
General business and other business		
Debt Securities – available for sale (Sections 4 and 8)	-	(12,022)
Equity Securities – fair value through profit and loss	(36)	-
Premium and insurance balances receivable (Section 9)	(1,822)	(1,949)
Investment in subsidiaries (Sections 5, 6 and 7)	(185,481)	(249,294)
Investment in associated companies (Sections 5, 6 and 7)	(11,736)	(22,176)
	137,316	(25,911)

40.9 Adjustments under Section 14 & Section 15 of the Valuation Regulation

	The Company	
	As at 30 November 2009	As at 30 November 2008
US\$'000		
General business and other business		
Debt Securities – available for sale (Section 14)	-	(16,750)
Equity Securities – fair value through profit and loss (Section 14)	(64)	-
Non-insurance balances receivable - net and unsecured (Section 14)	(81,442)	(29,225)
Investment income due and accrued (Section 14)	-	(40)
Investment in subsidiaries (Section 14 & Section 15)	(57,499)	(22,425)
Investment in associated companies (Section 14)	(38,558)	(15,782)
Other assets (Section 14)	(180)	(148)
	(177,743)	(84,370)



41. Revenue account information presented under the Hong Kong Insurance Companies Ordinance

41.1 Basis of preparation

The revenue account information, and profit and loss account information included in this note and in note 42, represent an allocation of the Company's income and expenses across classes of insurance business set out in the Hong Kong Insurance Companies Ordinance.

Certain items, such as premiums received, are presented on a gross basis in the revenue accounts.

Adjustments required in order to report under IFRS, and income and expenses that are not allocated to revenue accounts, are included in the profit and loss account in note 42.

The profit and loss account also presents on allocation of the retained earnings reserve at the end of the year across classes of insurance business.

This allocation is made entirely at the discretion of the directors of the Company.

41.2 Life and annuity

US\$'000	Note	As at 30 November 2009	As at 30 November 2008
Future policy benefits at the beginning of the year		8,869,865	7,688,533
Premiums	41.8	3,049,584	2,818,610
Net investment income	41.9	843,810	411,272
Fee income		6,603	-
(Losses) / gains on real estate and investments		(193,829)	15,502
Asset transfer from co-insurance recapture		-	2,492,467
Foreign exchange difference on future policy benefits		846,811	(1,123,469)
Foreign exchange gains / (losses)		51,732	(16,112)
Other receipts / (expenses)		26,111	(59,806)
		<u>13,500,687</u>	<u>12,226,997</u>
Claims and other benefits paid and outstanding	41.10	1,396,700	1,175,970
Dividends to policyholders		115,774	23,964
Commissions	41.11	428,476	313,567
Management and other expenses		154,437	243,828
Co-insurance recapture fee		-	190,000
Transfer to policyholders' fund		99,163	91,231
Future policy benefits at the end of the year	40.6	<u>13,184,631</u>	<u>8,869,865</u>
		<u>15,379,181</u>	<u>10,908,425</u>
(Loss) / income before taxation		(1,878,494)	1,318,572
Tax credit / (expense)		560,349	(86,450)
Net (loss) / income		<u>(1,318,145)</u>	<u>1,232,122</u>
Retained profit at the beginning of the year		1,939,323	829,154
Change in basis for preparation	42	<u>(144,036)</u>	-
Transfer from / (to) profit and loss accounts		228	(121,953)
Retained profits at end of the year	42	<u>477,370</u>	<u>1,939,323</u>



41. Revenue account information presented under the Hong Kong Insurance Companies Ordinance (continued)

41.3 Linked long term

US\$'000	Note	As at 30 November 2009	As at 30 November 2008
Segregated fund balance at the beginning of the year		2,709,624	5,744,154
Future policy benefits at the beginning of the year		1,662,216	2,301,923
Premiums	41.8	1,492,349	2,370,198
Net investment income / (losses)	41.9	2,204,036	(5,599)
Gains / (losses) on real estate and investments		24,218	(2,927,606)
Fee income		777,630	498,463
Decrease in deferred fee income		-	587,797
Foreign exchange difference on future policy benefits & segregated fund balance		358,592	(437,614)
Other deduction		(22)	-
		<u>9,228,643</u>	<u>8,131,716</u>
Claims and other benefits paid and outstanding	41.10	777,976	2,268,836
Commissions	41.11	251,977	551,620
Dividend to policyholders		10,578	31,948
Decrease in deferred incremental cost		-	724,687
Management and other expenses		98,581	166,465
Future policy benefits at the end of the year	40.6	778,734	1,662,216
Segregated fund balance at the end of the year	40.6	<u>6,823,694</u>	<u>2,709,624</u>
		<u>8,741,540</u>	<u>8,115,396</u>
Income before taxation		487,103	16,320
Taxation		(9,172)	-
Net income		<u>477,931</u>	<u>16,320</u>
Accumulated losses at the beginning of the year		(237,305)	(253,625)
Change in basis for preparation	42	(18,583)	-
Transfer to profit and loss accounts		-	-
Retained profits / accumulated losses at the end of the year	42	<u>222,043</u>	<u>(237,305)</u>



41. Revenue account information presented under the Hong Kong Insurance Companies Ordinance (continued)

41.4 Capital redemption

US\$'000	Note	As at 30 November 2009	As at 30 November 2008
Future policy benefits at the beginning of the year		1,776	1,053
Future policy benefits at the end of the year	40.6	<u>1,280</u>	<u>1,776</u>
Gain / (Loss) before taxation		496	(723)
Taxation		-	-
Net income / (loss)		<u>496</u>	<u>(723)</u>
Retained earnings at the beginning of the year		<u>49</u>	<u>772</u>
Transfer to profit and loss accounts		-	-
Retained earnings at the end of the year	42	<u>545</u>	<u>49</u>



41. Revenue account information presented under the Hong Kong Insurance Companies Ordinance (continued)

41.5 Retirement schemes management categories I and II

US\$'000	Note	As at 30 November 2009	As at 30 November 2008
Balance of fund at the beginning of the year		163,884	115,932
Contributions	41.8	61,076	80,175
Net investment return	41.9	14,056	1,580
Foreign exchange gains		-	171
		<u>239,016</u>	<u>197,858</u>
Benefits paid and outstanding	41.10	51,978	33,974
Management and other expenses		968	-
Taxation		-	-
		<u>-</u>	<u>-</u>
Balance of fund at the end of the year	40.6	<u>186,070</u>	<u>163,884</u>

41.6 Retirement scheme management category III

US\$'000	Note	As at 30 November 2009	As at 30 November 2008
Future policy benefits at the beginning of the year		12,715	11,650
Premiums	41.8	29,392	34,860
Net investment income	41.9	2,130	524
Fee income		117	-
Gain on real estate and investments		-	4,146
Foreign exchange difference on future policy benefits		740	(2,144)
Other receipts		60	-
		<u>45,154</u>	<u>49,036</u>
Claims and other benefits paid and outstanding	41.10	15,180	17,527
Dividends to policyholders		2,315	3,688
Commissions	41.11	2,764	2,325
Management and other expenses		4,084	4,425
Future policy benefits at the end of the year	40.6	11,383	12,715
		<u>35,726</u>	<u>40,680</u>
Income before taxation		9,428	8,356
Taxation		(1,949)	-
Net income		<u>7,479</u>	<u>8,356</u>
Retained profit at the beginning of the year		42,806	34,450
Transfer from profit and loss accounts		-	-
		<u>-</u>	<u>-</u>
Retained profits at end of the year	42	<u>50,285</u>	<u>42,806</u>



41. Revenue account information presented under the Hong Kong Insurance Companies Ordinance (continued)

41.7 Accident and health

US\$'000	Note	As at 30 November 2009	As at 30 November 2008
Unearned premiums at the beginning of the year		30,205	23,301
Premiums	41.8	101,382	111,501
Net investment income	41.9	20,137	4,041
Fee income		90	-
Gains on real estate and investments		-	932
Foreign exchange difference on unearned premiums		3,546	(25,055)
Other receipts		1,571	94
		<u>156,931</u>	<u>114,814</u>
Claims paid and outstanding	41.10	98,084	77,056
Commissions	41.11	42,300	7,928
Management and other expenses		31,991	7,322
Unearned premiums at the end of the year		<u>23,003</u>	<u>30,205</u>
		<u>195,378</u>	<u>122,511</u>
Loss before taxation		(38,447)	(7,697)
Tax credit / (expense)		<u>16,825</u>	<u>(18)</u>
Net loss		<u>(21,622)</u>	<u>(7,715)</u>
Retained earnings at the beginning of the year		73,043	80,758
Transfer from / (to) profit and loss accounts		-	-
Retained earnings at the end of the year	42	<u>51,421</u>	<u>73,043</u>



41. Revenue account information presented under the Hong Kong Insurance Companies Ordinance (continued)

41.8 Premiums

US\$'000	Year ended 30 November 2009				Year ended 30 November 2008			
	Direct	Assumed	Ceded	Net	Direct	Assumed	Ceded	Net
Long term business								
Life and annuity								
First year	296,193	689	1,020	295,862	368,252	(2,597)	22,169	343,486
Renewal	2,631,091	112,738	49,541	2,694,288	2,445,925	84,459	187,930	2,342,454
Single	59,434	-	-	59,434	132,670	-	-	132,670
	<u>2,986,718</u>	<u>113,427</u>	<u>50,561</u>	<u>3,049,584</u>	<u>2,946,847</u>	<u>81,862</u>	<u>210,099</u>	<u>2,818,610</u>
Linked long term								
First year	267,800	109	939	266,970	472,572	88	813	471,847
Renewal	1,018,352	3,064	8,833	1,012,583	1,209,085	1,470	5,567	1,204,988
Single	212,796	-	-	212,796	693,363	-	-	693,363
	<u>1,498,948</u>	<u>3,173</u>	<u>9,772</u>	<u>1,492,349</u>	<u>2,375,020</u>	<u>1,558</u>	<u>6,380</u>	<u>2,370,198</u>
Retirement scheme management								
Categories I and II	61,076	-	-	61,076	80,175	-	-	80,175
Category III	38,050	-	8,658	29,392	47,049	-	12,189	34,860
	<u>99,126</u>	<u>-</u>	<u>8,658</u>	<u>90,468</u>	<u>127,224</u>	<u>-</u>	<u>12,189</u>	<u>115,035</u>
Total long term business	4,584,792	116,600	68,991	4,632,401	5,449,091	83,420	228,668	5,303,843
General business								
Accident and health	110,449	-	9,067	101,382	111,840	-	339	111,501

41.9 Net investment income

The net investment income in the revenue and profit and loss accounts includes the following:

US\$'000	As at 30 November 2009	As at 30 November 2008
Income from listed investments	1,007,599	158,926
Income from unlisted investments	2,078,494	266,176
	<u>3,086,093</u>	<u>425,102</u>



41. Revenue account information presented under the Hong Kong Insurance Companies Ordinance (continued)

41.10 Claims paid and outstanding

US\$'000	Year ended 30 November 2009				Year ended 30 November 2008			
	Direct	Assumed	Ceded	Net	Direct	Assumed	Ceded	Net
Long term business								
Life and annuity								
Death	907,047	56,407	33,579	929,875	476,606	51,974	138,700	389,880
Maturity	153,740	-	-	153,740	291,029	-	-	291,029
Surrender	311,835	-	-	311,835	389,677	-	-	389,677
Others	1,250	-	-	1,250	105,384	-	-	105,384
	<u>1,373,872</u>	<u>56,407</u>	<u>33,579</u>	<u>1,396,700</u>	<u>1,262,696</u>	<u>51,974</u>	<u>138,700</u>	<u>1,175,970</u>
Linked long term								
Death	89,665	967	683	89,949	61,875	657	6,911	55,621
Maturity	93,081	-	-	93,081	111,993	-	-	111,993
Surrender	594,313	-	-	594,313	2,092,102	-	-	2,092,102
Others	633	-	-	633	9,120	-	-	9,120
	<u>777,692</u>	<u>967</u>	<u>683</u>	<u>777,976</u>	<u>2,275,090</u>	<u>657</u>	<u>6,911</u>	<u>2,268,836</u>
Retirement scheme management								
Categories I and II	51,978	-	-	51,978	33,974	-	-	33,974
Category III	20,960	-	5,780	15,180	27,150	-	9,623	17,527
	<u>72,938</u>	<u>-</u>	<u>5,780</u>	<u>67,158</u>	<u>61,124</u>	<u>-</u>	<u>9,623</u>	<u>51,501</u>
Total long term business	<u>2,224,502</u>	<u>57,374</u>	<u>40,042</u>	<u>2,241,834</u>	<u>3,598,910</u>	<u>52,631</u>	<u>155,234</u>	<u>3,496,307</u>
General business								
Accident and health	104,807	-	6,723	98,084	104,818	-	27,762	77,056
	<u>2,329,309</u>	<u>57,374</u>	<u>46,765</u>	<u>2,339,918</u>	<u>3,703,728</u>	<u>52,631</u>	<u>182,996</u>	<u>3,573,363</u>



41. Revenue account information presented under the Hong Kong Insurance Companies Ordinance (continued)

41.11 Commissions

US\$'000	Year ended 30 November 2009				Year ended 30 November 2008			
	Direct	Assumed	Ceded	Net	Direct	Assumed	Ceded	Net
Long term business								
Life and annuity								
First year	291,432	3,983	4,690	290,725	203,073	239	5,319	197,993
Renewal	126,307	2,143	3,515	124,935	114,506	3,049	6,282	111,273
Single	12,816	-	-	12,816	4,301	-	-	4,301
	<u>430,555</u>	<u>6,126</u>	<u>8,205</u>	<u>428,476</u>	<u>321,880</u>	<u>3,288</u>	<u>11,601</u>	<u>313,567</u>
Linked long term								
First year	202,010	92	766	201,336	357,273	44	412	356,905
Renewal	46,729	34	286	46,477	168,238	32	516	167,754
Single	4,164	-	-	4,164	26,961	-	-	26,961
	<u>252,903</u>	<u>126</u>	<u>1,052</u>	<u>251,977</u>	<u>552,472</u>	<u>76</u>	<u>928</u>	<u>551,620</u>
Retirement scheme management								
Category III	2,764	-	-	2,764	2,325	-	-	2,325
Total long term business	<u>686,222</u>	<u>6,252</u>	<u>9,257</u>	<u>683,217</u>	<u>876,677</u>	<u>3,364</u>	<u>12,529</u>	<u>867,512</u>
General business								
Accident and health	42,952	-	652	42,300	7,980	-	52	7,928
	<u>729,174</u>	<u>6,252</u>	<u>9,909</u>	<u>725,517</u>	<u>884,657</u>	<u>3,364</u>	<u>12,581</u>	<u>875,440</u>



42. Profit and loss account

US\$'000	Note	As at 30 November 2009	As at 30 November 2008
Net investment income	41.9	1,924	13,284
Fee income		22	-
Losses on real estate and investments		(27,605)	(952)
Foreign exchange gain		1,853	-
Management expenses		(17,222)	(440)
(Losses) / income before taxation		(41,028)	11,892
Taxation		-	-
Net (losses) / income		(41,028)	11,892
Retained earnings at the beginning of the year		291,365	237,520
Dividend paid		-	(80,000)
Transfer (to) / from Life and Annuity		(228)	121,953
Retained earnings at the end of the year		250,109	291,365

Retained earnings after Long Term Liabilities Determination Regulation at the beginning of the year, as previously reported

2,109,281

Net loss per Profit and Loss Account

(41,028)

Net loss per Revenue Account

(853,861)

Net IFRS adjustments due to change in basis for preparation

(162,619)

Retained earnings at the end of the year

1,051,773

Retained earnings / (accumulated losses) after adjustment under Determination of Long Term Liabilities Regulation is attributed at the end of the year is as follows:

US\$'000	Note	As at 30 November 2009	As at 30 November 2008
Life and annuity	41.2	477,370	1,939,323
Linked long term	41.3	222,043	(237,305)
Capital redemption	41.4	545	49
Retirement scheme management category III	41.6	50,285	42,806
Accident and health	41.7	51,421	73,043
Unallocated reserve		250,109	291,365
Retained earnings at the end of the year		1,051,773	2,109,281

AUDITORS' REPORT TO THE DIRECTORS OF AMERICAN INTERNATIONAL ASSURANCE COMPANY (BERMUDA) LIMITED (Incorporated in Bermuda with limited liability)

We have audited the financial information on pages 4 to 103 which have been prepared in accordance with the provisions of the Hong Kong Insurance Companies Ordinance (the "Ordinance").

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial information which includes a long term business balance sheet which, when read in conjunction with the financial information, gives a true and fair view of the financial position of the company's long term business. In preparing such financial information, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on that financial information and to report our opinion to you. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures of the financial information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial information, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

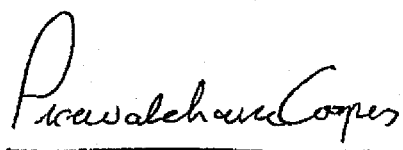
In respect of the company's general business, the relevant premium income, the relevant claims outstanding and the relevant amount applicable and attributable to general business, as defined in section 10 of the Ordinance, amounted to US\$101,382,000, US\$33,897,000 and US\$12,719,000, respectively, as at 30 November 2009.

In respect of the company's long term business, the required margin of solvency, as determined by the company's appointed actuary in accordance with the Insurance Companies (Margin of Solvency) Regulation, being greater than the relevant amount applicable, as defined in section 10 of the Ordinance, amounted to US\$898,998,000 as at 30 November 2009.

In our opinion:

- (i) proper records have been maintained in accordance with section 16 of the Ordinance in respect of the year ended 30 November 2009;
- (ii) the financial information set out on pages 4 to 103 has been properly prepared, in all material respects, in accordance with the provisions of the Ordinance and, on that basis, the long term business balance sheet in note 40.2, when read in conjunction with the financial information on pages 4 to 103 gives a true and fair view of the financial position of the company's long term business as at 30 November 2009; and
- (iii) the value of the assets of the company as stated in note 40.2 to the financial information exceeds its liabilities by not less than US\$911,717,000 as at 30 November 2009, being the aggregate of the relevant amount applicable and attributable to its general business and the required margin of solvency attributable to its long term business as at 30 November 2009.

This report is intended for filing with the Office of Commissioner of Insurance in Hong Kong and may not be used for any other purpose.



PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 29 April 2010