PRUDENTIAL PLC
Form 6-K
March 01, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For the month of March, 2010

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

**LAURENCE POUNTNEY HILL,
LONDON, EC4R 0HH, ENGLAND**
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F X Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Enclosures: Prudential plc: Acquisition of AIA Pt4

APPENDIX V: THREE YEAR RESULTS FOR THE AIA GROUP

The following is a summary of certain information that has been derived from AIA Group's unaudited results of operations. This information has not been audited and is subject to completion and issuance of the AIA Group's audited financial statements. In addition, the AIA Group's financial information has not been prepared in accordance with Prudential's accounting policies and is not directly comparable to Prudential's financial information.

OVERVIEW

Overview of the Business

The AIA Group is a leading life insurance organisation in Asia Pacific that traces its roots in the region back more than 90 years. It provides individuals and businesses with products and services for their evolving insurance, protection, savings, investments and retirement needs. As of 30 November 2009, the AIA Group had approximately 23,500 employees serving the holders of its more than 23 million in-force policies and more than 10 million participating members of its clients for group life, medical, credit life coverage and pension products. Since 1931 the AIA Group has been building a tied agency force that spans the Asia Pacific region from developed urban centres to rural areas. As of 30 November 2009, the AIA Group's tied agency force consisted of more than 320,000 agents. More recently, it has expanded, and continues to expand, its other distribution channels, particularly bancassurance and direct marketing, to create a multi-channel distribution platform that is tailored to the unique characteristics of its geographical markets. The AIA Group derives all of its premiums from its 15 geographical markets across the Asia Pacific region. Its individual local operating units are significant businesses in their own right, with Hong Kong, Singapore and Thailand each generating more than USD350 million of operating profit in FY 2009. At the same time, the AIA Group's business is well diversified with no more than 25 per cent. of TWPI arising from any one geographical market in FY 2008 and FY 2009.

Financial Overview of the Business

The AIA Group had TWPI and operating profit before tax of USD11,632 million and USD1,835 million, respectively, in FY 2009, USD12,203 million and USD1,943 million, respectively, in FY 2008 and USD11,358 million and USD1,742 million, respectively, in FY 2007. Applying the average U.S. dollar exchange rates for a particular fiscal year to results reported in local currency for the previous fiscal year, which it refers to as "on a constant exchange rate basis", the increase in TWPI from FY 2008 to FY 2009 was 1.1 per cent. and the increase in TWPI from FY 2007 to FY 2008 was 6.7 per cent.

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

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

			Year ended 30 N
	2007	**2008**	**2009**
			(in US$ mill
		TWPI	
Hong Kong	2,845	2,916	2,861
Thailand...	2,164	2,351	2,373
Singapore...	1,514	1,641	1,524
Malaysia...	667	727	707
China...	806	934	1,018
Korea...	2,178	2,268	1,759
Other Markets(2)	1,184	1,366	1,390
Corporate and Other...	-	-	-
Total..	**11,358**	**12,203**	**11,632**

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

Major Factors Affecting the AIA Group's Financial Condition and Results of Operations

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

Economic Conditions and Demographic Fundamentals in the Asia Pacific Region

The Asia Pacific region's economic growth trends, household savings rates, demographic profiles and life insurance penetration rates are some of the key factors affecting the performance of the region's life insurance industry. The AIA Group believes that the scale of its business, breadth of its product offering and diversity of its geographic coverage across the Asia Pacific region will enable it to benefit from the continued growth in the region's life insurance industry, adapt to changing customer and market needs and diversify its risk profile. Conversely, if the economic conditions in the Asia Pacific region deteriorate, or the impact on the AIA Group's business is different from what it expects, its business may be materially and adversely affected.

Fluctuations in Market Interest Rates and Credit Risk

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

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

Fluctuations in Equity Markets

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

Sales of investment-linked products typically decrease in periods of protracted or steep declines in equity markets and increase in periods of rising equity markets. In the AIA Group's experience, customers are generally reluctant to commit to new investment-linked savings products in times of uncertainty or market volatility, although some customers with regular premium paying policies may choose to maintain their payments of regular premiums as markets decline, following a strategy of dollar cost averaging. Policy loans, surrenders and withdrawals may increase at times of declining equity markets. This trend may result in cash payments by the AIA Group requiring the sale of invested assets at a time when prices are depressed, which may result in realised investment losses. Lower investment returns for investment-linked contracts would also reduce the asset management and other fees earned by the AIA Group, certain of which are based on the account balance of these contracts.

Fluctuations in Foreign Exchange Rates

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

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

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

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

Regulatory Environment

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

Customer Sentiment and Policyholder Behaviour

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

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

Claims Experience

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

Product Mix and Multi-Channel Distribution

The AIA Group designs and distributes a broad range of insurance products. The performance of AIA's businesses, and the revenue it generates, are affected by its ability to deliver the most suitable products to its targeted customer segments through multiple distribution channels in each of its Key Markets on a timely basis. In addition to customer demand, the AIA Group takes into account various factors when determining its optimal product mix, including product price and margin, flexibility and product features, marketing and distribution arrangements, brand and name recognition, as well as the risk profile of its insurance liabilities, at both the group and operating unit level. Its ability to expand and build alternative distribution channels, including bancassurance, direct marketing and IFA/brokerage channels, may impact the performance of the AIA Group's businesses.

Competition in the AIA Group's Geographical Markets

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

Revenues, Expenses and Profitability

The AIA Group derives its revenues primarily from:

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

The AIA Group's expenses consist primarily of:

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

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

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

– the extent to which its actual expenses and investment performance meet assumptions;

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its ability to actively manage its investment portfolio to earn an acceptable return while managing liquidity, credit and duration risks in its asset and policy portfolios through asset liability management; and

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its ability to control expenses in order to maintain the target margins for its insurance products.

BASIS OF PRESENTATION

The AIA Group was formed following the combination of the branches and subsidiaries of AIA Limited, AIA's chief operating subsidiary, with certain of the Asia Pacific life insurance operations of the AIG Group. AIA is the parent company of the AIA Group and is referred to throughout this section as AIA. The AIA Group reorganisation and business combinations arising from transfers of interests in entities that are under the common control of AIG throughout all periods presented in the Financial Information have been accounted for as if they had occurred at the beginning of the earliest period presented. Accordingly, the Financial Information presents the results of operations of the AIA Group as if it had been in existence throughout the period from 1 December 2006 to date.

The AIA Group has also identified certain accounting policies that are significant to the preparation of its financial information.

Operating Profit and Operating Profit After Tax

Operating profit and operating profit after tax are key measures of the performance of each of the AIA Group's reportable segments, as well as at the AIA Group level.

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

While these excluded non-operating items are significant components in the AIA Group's profit, the AIA Group considers that the presentation of operating profit enhances the understanding and comparability of its performance and that of its operating segments. It considers that trends can be more clearly identified without the fluctuating effects of these non-operating items, many of which are largely dependent on market factors. Operating profit after tax is the amount attributable to shareholders of AIA, after deducting non-controlling interests. The terms "operating profit" and "operating profit after tax" are used consistently with these meanings throughout this section " - Financial Information".

Operating profit and operating profit after tax are provided as additional information to assist in the comparison of business trends in different reporting periods on a consistent basis, and enhance overall understanding of the AIA Group's current financial performance and prospects for the future. Operating profit and operating profit after tax form part of its results of operations presented in accordance with IFRS, but should not be considered a substitute for or superior to net profit presented in accordance with IFRS. In addition, the AIA Group's calculation of operating profit and operating profit after tax may be different from the calculation used by other companies, and therefore comparability may be limited.

Net Profit

Net profit is the profit for the year attributable to shareholders of AIA, after deducting taxes and non-controlling interests. The term "net profit" is used consistently with this meaning throughout this section "- Financial Information".

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial information requires the AIA Group to select accounting policies and make estimates and assumptions that affect items reported in the consolidated financial information. The AIA Group considers its critical accounting policies to be those accounting policies where a diverse range of accounting treatments is permitted by IFRS and significant judgments and estimates are required. The critical accounting policies adopted are described below.

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, which the AIA Group refers to as participating business, have discretionary participation features ("DPF"), which may entitle the customer to receive, as a supplement to guaranteed benefits, additional non-guaranteed benefits, such as policyholder dividends or bonuses. The AIA Group applies the same accounting policies for the recognition and measurement of obligations arising from investment contracts with DPF as it does for insurance contracts.

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

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

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

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

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

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

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

Deferred Policy Acquisition and Origination Costs

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

Deferred acquisition costs for traditional life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied 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. 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. The interest rate used to compute the present value of revised estimates of expected gross profits is based on the AIA Group's estimate of the investment performance of the assets held to match these liabilities. Estimated gross profits are revised regularly. Deviations of actual results from estimated experience are reflected in the AIA Group's earnings. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favourable investment performance, previously expensed acquisition costs are reversed, not exceeding the amount initially deferred.

The costs of acquiring investment contracts with investment management services, including commissions and other incremental expenses directly related to the issue of each new contract, are deferred and amortised in line with revenue generated by the investment management service provided. Such deferred origination costs are tested for recoverability at each reporting date. The costs of acquiring new investment contacts 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 policy acquisition and origination costs affect amounts recognised in the AIA Group's consolidated financial information as deferred acquisition and origination costs and insurance and investment contract benefits.

Liability Adequacy Testing

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

For traditional life insurance contracts, the insurance contract liabilities, reduced by DAC and value of business acquired on acquired insurance contracts, are compared with the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortised balance of DAC and value of business acquired on insurance contracts are written down to the extent of the deficiency. If, after writing down DAC to nil (for the specific portfolio of contracts) a deficiency still exists, the net liability is increased by the amount of the remaining deficiency. No such deficiency arose in FY 2009, FY 2008 or FY 2007.

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

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

Financial Investments

Financial Investments at Fair Value Through Profit or Loss

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

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financial assets held to back investment-linked contracts and held by participating funds;

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financial assets managed on a fair value basis; and

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

The classification and designation of financial investments at fair value through profit or loss, or as available for sale, determines whether movements in fair value are reflected in the AIA Group's consolidated income statement or in its consolidated statement of comprehensive income respectively.

Fair Values of Financial Assets

The AIA Group determines the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions and values obtained from current bid prices of comparable investments. More judgment is used in measuring the fair value of financial assets for which market observable prices are not available or are available only infrequently. As of 30 November 2009, financial assets with a total fair value of USD15,163 million, or 22.0 per cent., of the AIA Group's financial investments, were valued based upon quoted prices in active markets, while financial assets with a total fair value of USD52,784 million, or 76.7 per cent. of its financial investments, were valued based on observable inputs other than market prices.

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

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

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment regularly. This requires the exercise of significant judgment. A financial investment is impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the investment. The AIA Group recognised impairment losses of USD67 million in FY 2009, USD142 million in FY 2008 and nil in FY 2007.

KEY PERFORMANCE INDICATORS

Overview

The AIA Group believes the following performance measures are the key indicators of its performance. The table below provides a breakdown of the key performance indicators of the AIA Group presented on a consistent basis for the three years ended 30 November 2009, followed by a brief description of each performance indicator.

	Year ended 3	
	2007	**20**
	(in US$ millions	
TWPI.	11,358	12,203
Investment income(1)	2,706	3,144
Operating expenses	962	1,089
Operating profit..	1,742	1,943
Operating profit after tax..	1,270	1,588
Net profit..	1,914	408
Ratios(2) :		
Expense ratio..	8.5%	8.9%
Operating margin..	15.3%	15.9%
Operating return on allocated equity..	13.7%	15.1%
Net return on equity..	14.7%	3.7%

(1) Excludes investment income related to investment-linked contracts.
(2) Definitions of key performance indicators are set forth in the section headed "- Definitions of KPIs" below.

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

TWPI was USD11,632 million in FY 2009, a 4.7 per cent. decrease compared to FY 2008. This decrease was influenced by foreign currency movements; on a constant exchange rate basis, TWPI increased by 1.1 per cent. over the period. Renewal premiums represented 84.1 per cent. of TWPI in FY 2009 compared with 80.5 per cent. in FY 2008. Despite growth in most of its geographical markets, operating profit decreased 5.6 per cent. to USD1,835 million in FY 2009 compared with USD1,943 million in FY 2008, due to the effects of the depreciation of most of the currencies in the Asia Pacific region, other than the Renminbi, against the U.S. Dollar. Of the geographical markets in which the AIA Group operates, the most significant impact of local currency depreciation was in Korea, where the average Korean Won exchange rate depreciated against the U.S. Dollar by 22.9 per cent. between FY 2008 and FY 2009, from 1,047.12 Korean Won to 1 U.S. Dollar in FY 2008 to 1,287.00 Korean Won to 1 U.S. Dollar in FY 2009. On a constant exchange rate basis, the decrease in operating profit was 0.1 per cent. over the period. Factors affecting the profitability of each of the geographical markets are discussed in greater detail in "- Segmental Information" in this section. The AIA Group's expense ratio decreased to 8.4 per cent. in FY 2009 compared with 8.9 per cent. in FY 2008 due to expense reduction from operational efficiency initiatives, and in spite of further investments in strategic initiatives, such as broadening its distribution capability, which increased by 148.0 per cent. from USD25 million in FY 2008 to USD62 million in FY 2009. The AIA Group's operating margin was 15.8 per cent. in FY 2009, a slight decrease from 15.9 per cent. in FY 2008. Operating return on allocated equity declined to 12.0 per cent. in FY 2009 compared with 15.1 per cent. in FY 2008, primarily reflecting the growth of its capital base between FY 2008 and FY 2009, in the absence of significant dividends in FY 2009. Net profit increased by 329.9 per cent. to USD 1,754 million in FY 2009 compared with USD408 million in FY 2008, driven in part by the increase in non-operating investment return to a net positive of USD665 million in FY 2009 compared with a net negative of USD2,412 million in FY 2008. The increase in non-operating investment return in FY 2009 compared with FY 2008 contributed to a significant improvement in the AIA Group's net profit and its net return on equity, which increased to 14.7 per cent. in FY 2009 compared with 3.7 per cent. in FY 2008. Excluding the effects of its securities lending activities, from which it withdrew in FY 2009, the AIA Group's non-operating investment return would have been a net positive of USD802 million in FY 2009, compared with a net negative of USD2,325 million in FY 2008, its operating profit would have been USD1,851 million in FY 2009 and USD1,949 million in FY 2008, and its net profit would have been USD1,907 million in FY 2009, compared with a net profit of USD501 million in FY 2008.

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

The aggregate increase in TWPI was 7.4 per cent. in FY 2008 from FY 2007. The biggest contributor to the AIA Group's TWPI was renewal premiums, representing 80.5 per cent. of TWPI in FY 2008, compared with 78.1 per cent. in FY 2007. Operating profit increased by 11.5 per cent. to USD1,943 million in FY 2008 from USD1,742 million in FY 2007, primarily due to an increase in renewal premiums and increased investment income, which collectively grew at a faster rate than the AIA Group's expense base, as well as the beneficial effect of a reinsurance recapture described below. Its expense ratio increased to 8.9 per cent. in FY 2008 compared with 8.5 per cent. in FY 2007 principally due to the effect of recapturing a portfolio of business previously reinsured to another company in the AIG Group and costs associated with strategic initiatives in certain geographical markets primarily associated with expanding the AIA Group's multi-channel distribution capability. The recapture was effective from 1 March 2008 and increased its operating expense ratio related to such business. Overall, the recapture was beneficial to the AIA Group in increasing operating profit by an estimated USD90 million in addition to generating non-operating income in FY 2008 of USD447 million. Following the AIG Events and the significant declines in the global capital markets during the fourth quarter of FY 2008, the AIA Group experienced a significant increase in policy surrenders in certain of its geographical markets. This generated surrender fee income which more than offset the acceleration of DAC amortisation relating to these surrendered policies. Net profit decreased 78.7 per cent. to USD408 million in FY 2008 from USD1,914 million in FY 2007. This decrease was principally a result of the adverse investment return of USD2,412 million caused by declines in market values compared with a net gain of USD837 million in FY 2007, partially offset by the increase in operating profit, a USD447 million gain arising on the reinsurance recapture, and the release of a withholding tax provision of USD275 million on the clarification of a tax treaty. Excluding the effect of the AIA Group's securities lending activities, from which it withdrew in FY 2009, its non-operating investment return would have been a net negative of USD2,325 million compared with a net positive of USD837 million in FY 2007, its operating profit would have been USD1,949 million in FY 2008 compared with USD1,742 million in FY 2007, and its net profit would have been USD501 million in FY 2008 compared with USD1,911 million in FY 2007.

Definition of KPIs

TWPI provides an indicative volume measure of revenue in the reporting period that has the potential to generate profits for shareholders. TWPI consists of 100 per cent. of renewal premiums, 100 per cent. of first year premiums and 10 per cent. of single premiums (referred to as weighted single premiums) across all lines of business. The AIA Group applies a factor of 10 per cent. to single premiums because such weighting makes the value of a single premium sale broadly equivalent to the same dollar amount of first year premiums. As such, it provides an indication of longer term business volumes by taking into account changes in the mix of regular and single premium business.

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

Selected Results of Operations

	2007
TWPI	**11**
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	8
Investment income[1]	2
Total revenue	**11**
Net insurance and investment contract benefits[2]	7
Commission and other acquisition expenses	
Operating expenses	
Investment management expenses and finance costs [3]	
Total expenses	**9**
Share of loss from associates and joint ventures	
Operating profit	**1**
Tax on operating profit	(461
Sub-total	1
Less: amounts attributable to non-controlling interests	(11
Operating profit after tax[4]	**1**
Operating profit may be reconciled to net profit as follows:	
Operating profit	**1**
Add: non-operating investment return(5)	

Add: non-operating item - gain on recapture of reinsurance from former parent company.....		
Add: non-operating item - restructuring and separation costs...		
Profit/(loss) before tax..		**2**
Tax on operating profit...	(461	
Add: tax on non-operating items..	(190	
Add: other non-operating tax items..		
Tax (expense)/credit...	**(651**	
Sub-total..		1
Less: amounts attributable to non-controlling interests...		
Net profit[4]		**1**

(1) Excludes investment income related to investment-linked contracts.
(2) Excludes corresponding changes in insurance and investment contract liabilities from investment experience for investment-linked contracts and participating funds and investment income related to investment-linked contracts.
(3) Excludes investment management expenses related to investment-linked contracts.
(4) Operating profit after tax and net profit are amounts attributable to shareholders of AIA, excluding amounts attributable to non-controlling interests.
(5) Non-operating investment return consists of investment experience, investment income related to investment-linked contracts, corresponding changes in insurance and investment contract liabilities for investment-linked contracts and participating funds and changes in third party interests in consolidated investment funds.

Selected Balance Sheet Information

		As of 3
	2007	
		(in US
Assets		
Deferred acquisition and origination costs..	10,044	10,0

Financial investments	70,630	55,3
Assets - other than the above	7,518	6,6
Total assets	**88,192**	**72,0**
Liabilities		
Insurance and investment contract liabilities	63,666	57,0
Borrowings	1,461	6
Obligations under securities lending and repurchase agreements	5,395	2,7
Liabilities - other than the above	4,179	2,6
Total liabilities	**74,701**	**63,0**
Equity		
Issued share capital and shares yet to be issued, share premium and other reserves	699	1,4
Retained earnings	9,431	9,4
Allocated equity	**10,130**	**10,9**
Amounts reflected in other comprehensive income	3,310	(2,02
Total equity attributable to shareholders of AIA	**13,440**	**8,9**
Non-controlling interests	51	
Total equity	**13,491**	**8,9**
Total liabilities and equity	**88,192**	**72,0**

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

Discussion of Selected Results of Operations

TWPI

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

	Year ended 30 November 2008			
	Renewal premium	First year Premium	Weighted single premium	TWPI
	(in US$ millions)			
TWPI includes:				
Ordinary individual life insurance...	6,651	761	27	7,439
Investment-linked insurance products..................................	1,526	831	175	2,532
Standalone A&H...	1,077	348	1	1,426
Group...	530	165	9	704
Other...	43	14	45	102
Total..	**9,827**	**2,119**	**257**	**12,203**

	Year ended 30 November 2009			
	Renewal premium	First year Premium	Weighted single premium	TWPI
	(in US$ millions)			
TWPI includes:				
Ordinary individual life insurance..	6,342	884	58	7,284
Investment-linked insurance products...................................	1,741	295	33	2,069
Standalone A&H..	1,089	261	1	1,351
Group..	573	293	10	876
Other...	34	11	7	52
Total..				

9,779	**1,744**	**109**	**11,632**

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

The trend in TWPI was also impacted by the fall in first year premiums of USD375 million, or 17.7% (10.3% on a constant exchange rate basis), which the AIA Group believes was mainly due to the impact of the global financial crisis and the AIG Events. New business activity recovered in the second half of FY 2009, with first year premiums and weighted single premiums growing at 33.4% and 93.5%, respectively, between the first and second halves of FY 2009. Most of the AIA Group's geographical markets experienced this improvement in first year premiums in the second half of FY 2009, with Hong Kong and Thailand leading with higher sales of ordinary individual life insurance.

Ordinary individual life insurance premiums decreased 2.1% to USD7,284 million in FY 2009 from USD7,439 million in FY 2008. On a constant exchange rate basis, TWPI for ordinary individual life increased 2.6%, led by strong growth in first year premiums and single premiums of 23.0% and 125.3%, respectively, in FY 2009. The growth in first year premiums was particularly evident in Hong Kong (growth of USD136 million or 142.0%), Thailand (growth of USD32 million, or 11.7% on a constant exchange rate basis), China (growth of USD24 million, or 31.1% on a constant exchange rate basis). The growth in single premiums was led by Singapore (USD121 million or 126.6% on a constant exchange rate basis), China (USD118 million or 1,050.2% on a constant exchange rate basis) and Hong Kong (USD97 million, or 2,332.0% on an actual exchange rate basis). These positive trends were muted by a decline in Korea, where renewal premiums fell by USD24 million, or 3.9% on a constant exchange rate basis, and Other Markets, decline of USD17 million or 3.2% on a constant exchange rate basis. A&H riders on ordinary individual life insurance policies are included within the ordinary individual life product line and account for approximately 20% of premium income for FY 2009, as compared with 18% in FY 2008. Overall, ordinary individual life assurance accounted for 62.6% of TWPI in FY 2009, as compared to 61.0% in FY 2008, as the AIA Group focused on providing protection based products to its customers, given the recent economic uncertainties.

Investment-linked insurance premiums decreased 18.3% to USD2,069 million from USD2,532 million in FY 2008. Despite a 13.2% decrease on a constant exchange rate basis, most Key Markets experienced increases in renewal premiums for investment-linked products. This trend was consistent with FY 2008 which also saw growth in renewal premiums. This was offset by a fall in first year premiums for investment-linked products led by Korea (decrease of USD239 million or 59.0% on a constant exchange rate basis), Hong Kong (decrease of USD183 million or 64.3%) and Singapore (decrease of USD13 million or 38.1% on a constant exchange rate basis). The AIA Group believes this reflected customers' reluctance to commit to new investment-linked savings products due to the uncertain economic outlook and equity capital market volatility. With improving economic conditions at the end of 2009, the AIA Group experienced an increase in sales of investment-linked products in the last quarter of FY 2009.

Standalone A&H insurance premiums decreased 5.3% to USD1,351 million in FY 2009 from USD1,426 million in FY 2008, but increased 6.4% on a constant exchange rate basis. The AIA Group experienced a decrease in first year premiums of 25.0%, or 15.9% on a constant exchange rate basis, mainly attributable to its Korean operations, the results of which were adversely affected in the first half of 2009 by their association with the AIG brand, prior to re-branding as AIA Life Korea in May 2009, as well as by the effects of the depreciation of the Korean Won. Despite this, the AIA Group's renewal premiums grew 1.1% (or 13.6% on a constant exchange rate basis) from USD1,077 million in FY 2008, to USD1,089 million in FY 2009, growing on a constant exchange rate basis in all reporting segments. On a constant exchange rate basis, this growth was led by Korea at USD73 million, or 15.3%, Other Markets at USD18 million or 21.3%, China at USD16 million or 14.9% and Hong Kong at USD11 million or 9.2%.

Group insurance premiums continued an upward trend from FY 2008, increasing by 24.4% to USD876 million in FY 2009 from USD704 million in FY 2008. On a constant exchange rate basis the increase was 31.9%. China and Other Markets were the main contributors to this increase, growing at 52.6% and 59.6%, respectively, between FY 2008 and 2009. The AIA Group's operations in Australia, part of the Other Markets segment, continued to experience strong growth in group products, with TWPI for this product line increasing 69.6% year-on-year. Australia represented 45.3% of total TWPI with respect to group premiums in FY 2009 as compared to 33.2% in FY 2008, due mainly to the acquisition of a number of large new corporate accounts during FY 2009.

Other product lines, which include annuities and personal lines, collectively decreased to USD52 million in FY 2009 compared to USD98 million in FY 2008 largely due to the effects of foreign exchange and a decrease in Korean annuities business during FY 2009.

Net Premiums, Fee Income and Other Revenues

	Year ended
	2008
	(in US$
Net premiums..	9,416
Fee income..	866
Other revenues..	79
Total...	