AIA International Limited-New Zealand Branch

Trading as AIA New Zealand

Financial Statements

For the year ended 30 November 2015

AIA International Limited - New Zealand Branch

YEAR ENDED 30 NOVEMBER 2015

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STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 November 2015

	Note	Consolidated		Branch	
		2015	2014	2015	2014
		$	$	$	$
Revenue and other income					
Premium revenue from insurance contracts		107,950,408	102,924,614	107,950,408	102,924,614
Less: Outward reinsurance expenses		(42,365,844)	(43,699,274)	(42,365,844)	(43,699,274)
Net premium revenue		65,584,564	59,225,340	65,584,564	59,225,340
Outward reinsurance commission income		7,385,199	7,889,247	7,385,199	7,889,247
Net investment income	4	12,561,799	13,838,890	12,561,279	13,825,491
Other income		57,483	150,559	12,542	15,505
Net operating income		**85,589,045**	**81,104,036**	**85,543,584**	**80,955,583**
Expenses					
Claims expenses		60,058,208	54,299,515	60,058,208	54,299,515
Less: Reinsurance recovery		(18,651,260)	(25,554,215)	(18,651,260)	(25,554,215)
Net claims expenses	5	41,406,948	28,745,300	41,406,948	28,745,300
Management and sales expenses	6	64,965,162	47,905,599	66,364,964	46,723,906
Movement in policyholder liabilities	21	(23,856,746)	(14,677,896)	(23,856,746)	(14,677,896)
Net claims and operating expenses		**82,515,364**	**61,973,003**	**83,915,166**	**60,791,310**
Income before taxation		**3,073,681**	**19,131,033**	**1,628,418**	**20,164,273**
Income tax expense	7(a)	2,855,687	2,403,713	2,451,013	2,757,209
Income/(loss) after taxation and total comprehensive income for the year	3	**217,994**	**16,727,320**	**(822,595)**	**17,407,064**

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

STATEMENTS OF FINANCIAL POSITION

As at 30 November 2015

	Note	Consolidated 2015 $	Consolidated 2014 $	Branch 2015 $	Branch 2014 $
Assets					
Cash and cash equivalents	9	7,697,788	10,284,754	7,058,058	9,468,031
Loans and receivables	8	15,196,236	18,738,849	15,190,308	20,274,154
Prepayments		137,024	271,398	115,252	258,835
Financial assets at fair value through profit or loss	10	137,260,735	167,852,591	137,260,735	167,852,591
Income tax asset	7(b)	2,359,122	-	2,330,168	-
Assets arising from reinsurance contracts	21	2,389,983	-	2,389,983	-
Property, plant and equipment	11	527,806	604,706	477,888	531,835
Intangible assets	12	4,864,718	3,562,048	4,864,718	3,562,048
Policyholder assets	21	17,144,979	833,998	17,144,979	833,998
Deferred tax assets	7(c)	7,262,642	2,762,602	7,262,642	2,409,106
Total Assets		**194,841,032**	**204,910,946**	**194,094,731**	**205,190,598**
Liabilities					
Trade and other payables	14	17,582,194	13,464,737	17,545,654	13,418,448
Employee benefit obligations	13	2,575,518	1,884,066	2,575,518	1,884,066
Other insurance liabilities	16	7,998,462	5,620,328	7,998,462	5,620,328
Other financial liabilities	18	887,249	377,797	987,943	393,545
Income tax payable	7(b)	-	104,986	-	185,045
Liabilities arising from reinsurance contracts	21	-	5,183,966	-	5,183,966
Deferred tax liabilities	7(c)	52,881,824	45,577,275	52,881,824	45,577,275
Total Liabilities		**81,925,247**	**72,213,155**	**81,989,401**	**72,262,673**
Net Assets		**112,915,785**	**132,697,791**	**112,105,330**	**132,927,925**
Equity and Head Office Account					
Share capital	23	86,500	86,500	-	-
Retained earnings / (Accumulated losses)	24	723,955	(316,634)	-	-
Total Equity / (Deficit)		**810,455**	**(230,134)**	-	-
Head office account	22	112,105,330	132,927,925	112,105,330	132,927,925
Total Equity and Head Office Account		**112,915,785**	**132,697,791**	**112,105,330**	**132,927,925**

The Financial Statements were approved for issue by the Board on 23 February 2016.

Gordon Timmins Watson
Director

Garth Brian Jones
Director

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

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STATEMENTS OF CHANGES IN EQUITY AND HEAD OFFICE ACCOUNT

For the year ended 30 November 2015

	Note	Head office account	Share capital	Accumulated (losses) / retained earnings	Total
Consolidated		$	$	$	$
Year ended 30 November 2015					
At the beginning of year		132,927,925	86,500	(316,634)	132,697,791
Distributions to ulitmate holding company		(20,000,000)	-	-	(20,000,000)
Comprehensive income / (loss) for the year:					
Income / (loss) for the year		(822,595)	-	1,040,589	217,994
Total comprehensive income/(loss) for the year		(822,595)	-	1,040,589	217,994
At the end of year		112,105,330	86,500	723,955	112,915,785
Year ended 30 November 2014					
At the beginning of year		115,520,861	86,500	363,110	115,970,471
Comprehensive income for the year:					
Income/(loss) for the year		17,407,064	-	(679,744)	16,727,320
Total comprehensive income/(loss) for the year		17,407,064	-	(679,744)	16,727,320
At the end of year		132,927,925	86,500	(316,634)	132,697,791
Branch					
Year ended 30 November 2015					
At the beginning of year		132,927,925	-	-	132,927,925
Distributions to ulitmate holding company		(20,000,000)	-	-	(20,000,000)
Comprehensive income for the year:					
Loss for the year		(822,595)	-	-	(822,595)
Total comprehensive income for the year		(822,595)	-	-	(822,595)
At the end of year		112,105,330	-	-	112,105,330
Year ended 30 November 2014					
At the beginning of year		115,520,861	-	-	115,520,861
Comprehensive income for the year:					
Income for the year		17,407,064	-	-	17,407,064
Total comprehensive income for the year		17,407,064	-	-	17,407,064
At the end of year		132,927,925	-	-	132,927,925

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

STATEMENTS OF CASH FLOWS

For the year ended 30 November 2015

	Note	Consolidated		Branch	
		2015	2014	2015	2014
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Premiums received		107,842,921	102,274,916	107,842,921	102,274,916
Interest received		10,477,309	11,651,572	10,476,790	11,638,174
Other income received		57,483	150,559	12,542	15,505
Reinsurance recoveries		11,340,842	19,520,824	11,340,842	19,520,824
Reinsurance paid		(21,604,892)	(36,375,274)	(21,604,892)	(36,375,274)
Policy loan advancements		(455,865)	(137,204)	(455,865)	(137,204)
Repayment of policy loans		95,671	72,097	95,671	72,097
Payments to suppliers and employees		(60,455,225)	(48,743,898)	(60,228,863)	(48,747,205)
Payments to policyholders		(57,986,540)	(52,907,947)	(57,986,540)	(52,907,946)
Income tax paid		(2,515,213)	-	(2,515,213)	-
Net cash used in by operating activities	9	**(13,203,509)**	**(4,494,354)**	**(13,022,607)**	**(4,646,113)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales / maturity of financial assets		38,119,150	45,128,676	38,119,150	45,128,679
Acquisition of financial assets		(5,000,000)	(49,210,813)	(5,000,000)	(49,210,813)
Purchase of property, plant and equipment		(214,621)	(416,879)	(204,813)	(376,669)
Acquisition of intangible assets		(2,287,986)	-	(2,301,703)	-
Net cash provided by / (used in) investing activities		**30,616,543**	**(4,499,016)**	**30,612,634**	**(4,458,803)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Distributions paid		(20,000,000)	-	(20,000,000)	-
Net cash used in financing activities		**(20,000,000)**	-	**(20,000,000)**	-
Net decrease in cash and cash equivalents		**(2,586,966)**	**(8,993,369)**	**(2,409,973)**	**(9,104,916)**
Cash and cash equivalents at the beginning of the year		10,284,754	19,278,123	9,468,031	18,572,947
Cash and cash equivalents at the end of the year	9	**7,697,788**	**10,284,754**	**7,058,058**	**9,468,031**

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

1. GENERAL INFORMATION

AIA International Limited-New Zealand Branch (the Branch or AIA NZ) trading as AIA New Zealand, is a branch of AIA International Limited. The Branch reports to its Group Office (AIA Group) in Hong Kong and predominantly provides a range of life insurance products in New Zealand. The Group financial statements are for AIA NZ and any business controlled by AIA International Limited in New Zealand referred to as NZ Group or the consolidated entity. Entities controlled by AIA International Limited are AIA Financial Services Network Limited and AIA International Holdings (New Zealand) Limited.

For the purposes of complying with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), AIA International Limited-New Zealand Branch is a profit oriented entity. AIA International Limited 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

The directors do not have the power to amend these financial statements once issued.

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 Markets and Conduct Act 2013 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 (NZD) rounded to the nearest dollar.

Accounting standards approved but not yet effective

The Branch and consolidated entity have chosen not to early adopt the following standards and amendments that were issued but not yet effective for accounting the year ended 30 November 2015. Initial application of these standards and interpretations, except for IFRS 9, is not expected to have a material impact to the financial report of the Branch and consolidated entity. IFRS 9 will impact the Branch and consolidated entity as it replaces the current classification and measurement models for financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NZ IFRS 9 "Financial Instruments" (effective from 1 January 2018) addresses classification and measurement of financial assets and liabilities is available for early adoption immediately. NZ IFRS 9 replaces the multiple classification and measurement models in NZ IAS 39 "Financial Instruments: Recognition and Measurement" with a single model that has only two classification categories: amortised cost and fair value. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity's risk management strategies. The consolidated entity is assessing the impact of NZ IFRS 9 "Financial Instruments" on its financial statements.

NZ IFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2017) addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts with customer other than insurance contracts and is applicable to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration, to which the entity expects to be entitled in exchange for those goods or services.

2.2 Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of AIA Financial Services Network Limited (AIA FSN) as at 30 November 2015 and the results of AIA FSN for the year then ended. AIA FSN is involved in the activity of insurance broking. All transactions and balances between these entities have been eliminated.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated form the date that control ceases.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Statement of Comprehensive Income.

Premiums are recognised as income when due from policyholders. Unpaid premiums are only recognised during the days of grace (a period of time during which a payment of the insurance premium is expected to be received) or where secured by the surrender value of the policy and are included as "receivables" in the Statement of Financial Position.

Investment contracts

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

b) Reinsurance expenses and recoveries

As the reinsurance agreements result in significant transfer of risk between the Branch and its reinsurers, reinsurance income and expenses are recognised separately in the Statement of Comprehensive Income.

Reinsurance premiums are recognised in the Statement of Comprehensive Income as part of reinsurance expenses when they become due and payable. The premiums are recognised on an accrual basis over the term of the associated reinsurance contract.

Reinsurance commissions are recognised in the Statement of Comprehensive Income as part of reinsurance commission income when they become due and receivable. Income is recognised in the period in which it is earned.

Reinsurance commissions are recognised net of any commissions payable to the reinsurer as a result of policy discontinuances.

Reinsurance recoveries on claims are recognised in the Statement of Comprehensive Income as part of net claims expense. Reinsurance recoveries are recognised at the time the claim event is notified to the Branch if the underlying policy is reinsured.

c) Investment income

Dividends are recognised as revenue when right to receive the dividend is established. Interest income is recognised on an effective interest basis. All other investment revenue is recognised on an accrual basis.

d) Other income

Other income are recognised in the Statement of Comprehensive Income on an accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Claims expenses

Insurance contracts

Claims expenses comprise 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.

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 balance date.

Investment contracts

Investment contracts are akin to deposits. Surrender or benefit payments in the context of an investment contract are recognised as a change in policyholder liabilities.

f) Policy acquisition expenses

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.

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 Statement of Comprehensive Income, with any amounts to be deferred then taken to the Statement of Financial Position as deferred acquisition cost (DAC) within policyholder liabilities (refer to note 2.4.v). These are then amortised over the period in which they will be recoverable.

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. Maintenance costs include renewal commissions. These expenses are recognised in the Statement of Comprehensive Income on an accrual basis.

h) Investment management expenses

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

i) Employee benefits

The employee benefits are recognised on the accrual basis for services rendered up to the balance date. These include salaries, wages, bonuses, annual leave, long service leave and pension obligations.

Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are 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 taken based on expected future uptake of the benefit, current wage and salary levels, 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. Obligations for contributions to defined contribution plans are recognised as an expense in the Statement of Comprehensive Income on an accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Other expenses

Other expenses which are not related to the above categories or to amortisation and depreciation (refer to note 2.4.p 'Property, plant and equipment' and 2.4.q 'Intangible assets') are recognised on an accrual basis and included in the Statement of Comprehensive Income as Management and sales expenses.

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 year. 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 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.

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.

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. Shareholder base and policyholder base would tax shareholder income and policyholder income respectively. Income tax expense recognised in the Statement of Comprehensive Income reflects tax imposed on shareholders as well as policyholders.

Shareholder base tax losses would be available to be utilised within the Branch and Consolidated Entity in New Zealand and/or for 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.

Goods and services tax

All revenues and expenses 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 Statement of Financial Position. Statements of Cash Flows have been prepared on a GST exclusive basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Statement of Comprehensive Income 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

Functional and presentation currency

The consolidated financial statements are presented in New Zealand dollars which is the functional and presentation currency of the NZ Group, rounded to the nearest dollar.

Transactions and balances

Foreign currency transactions are initially translated into New Zealand dollars 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 dollars at rates of exchange current at that date. Resulting exchange differences are recognised in the Statement of Comprehensive Income.

n) 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 Statement of Financial Position, if applicable.

o) Financial instruments

Financial assets

The Branch and consolidated entity classify their investments into the following categories: loans and receivables and financial assets at fair value through profit or loss. 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.

Financial assets at fair value through profit or loss: are financial assets that either held for trading or designated on initial recognition as at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term, required to back policyholder liabilities or if so designated by management. Designation by management takes place when it is necessary to eliminate or significantly reduce measurement or recognition inconsistencies or if related financial assets or liabilities are managed and evaluated on a fair value basis.

Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the consolidated entity commits to the transactions. Financial assets carried at fair value through profit or loss are initially recognised at fair value. Transaction costs related to the purchase of these assets are expensed in the Statement of Comprehensive Income when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets are derecognised when the rights to received cash flows from the investments have expired or have been transferred and all risk and rewards of ownership have been substantially transferred.

Gains and losses from changes in the fair value of the financial assets through profit or loss category are presented in the Statement of Comprehensive Income within Net Investment Income in the period in which they arise.

Financial liabilities

Financial liabilities are classified as either at fair value through profit or 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.

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.

Financial liabilities classified as held for trading are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method.

p) 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:

Furniture, fitting and office equipment	20%
Computer equipment	33.33%

q) 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 either over a period not exceeding 5 years or assessed useful life using the straight line basis method. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 5 years.

Customer based assets

Costs incurred in acquiring customers from other insurance brokers are recorded as a customer base intangible asset. The customer based assets are amortised on a straight line basis over the period of expected benefit. The period has been assessed at 5 years for insurance broker customer bases. These useful lives are reviewed annually with reference to the persistency rate of the customer base. The carrying value of the customer base is reviewed annually and impaired where it is considered necessary. The carrying values are reviewed with reference to the expected future cash flows from these customers. The expected future cash flows are produced via a projected renewal report on the customer base.

r) Impairment of assets

Impairment of financial assets

Financial assets are assessed for impairment on a regular basis.

The Branch and consolidated entity assess at each balance 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.

Evidence of impairment may include indication that the debtor or a group of debtors is experiencing significant financial difficulty; a breach of contract, such as a default or delinquency in payments; the probability that the issuer or debtor will enter bankruptcy or other financial reorganisation; disappearance of an active market for that financial asset because of financial difficulties; and where observable data indicates 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.

For the loans and receivables category the amount of the loan or receivable is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets original effective interest rate.

The carrying amount is reduced via an allowance account against which an uncollectible trade receivable is written off.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the Statement of Comprehensive Income.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually. Assets that are subject to amortisation 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 fair value less cost of disposal 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 (cash generating units).

Non financial assets that suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

s) Trade and other payables

Trade and other payables are obligations to pay for goods and services that have been provided to the branch and consolidated entity in the ordinary course of business and are recognised when the Branch and consolidated entity become obliged to make future payments resulting from the purchase of goods and services.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

t) 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 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.

u) Other insurance liabilities

Other insurance liabilities are recognised on an accrual basis. Outstanding claims and premiums received in advance liabilities are measured at fair value net of transaction costs. Other provisions have been recognised on the basis of actuarial methods with due regard to relevant actuarial principles.

v) 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. Prior to this year, the computations were performed by an external actuary, but this year a Prophet model was developed to enable these calculations to be performed in-house. Detailed checks were performed to ensure correctness of the Prophet model, and the model has been audited by an external auditor. The model utilises recognised actuarial methods, with due regard to relevant actuarial principles, and the methodology takes into account the risks and uncertainties of the particular classes of insurance business written.

Deferred acquisition costs (DAC) for life insurance represent the fixed and variable costs of acquiring new business and include commissions, advertising, underwriting costs and other costs associated with acquiring new business. 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 Statement of Financial Position as a reduction in policyholder liabilities and amortised through the Statement of Comprehensive Income over the expected duration of the relevant insurance contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 20 'Actuarial policies and methods'.

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 Statement of Comprehensive Income.

w) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the insurance contracts method as per above. 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.

x) 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 major 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 Statement of Comprehensive Income.

y) 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.

z) Statements of cash flows

For the purpose of the Statements of Cash Flows, 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.

aa) Ordinary share capital

Ordinary share capital issued by the Consolidated Entity is classified as equity and recognised at fair value less direct issue costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

bb) Head office account

Head office account relates to profits/losses arising from the operations of the Branch. The head office account is interest free and repayable at the discretion of the head office subject to the requirements of statutory fund legislation.

cc) 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 periods if the revision affects both current and future periods.

The key areas where critical accounting estimates are applied are noted below.

Policyholder Liabilities

Policyholder liabilities for insurance contracts are computed using statistical or mathematical methods, which are expected to result in approximately the same values as if an individual liability was calculated for each contract. The assessments and computations are made by suitably qualified personnel 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 policy are connected with the measurement basis of insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The following are the key factors that impact estimation of the liabilities:

- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the consolidated entity's ability to recover the cost of acquiring new business over the lives of the contracts;
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation;
- interest rates; and
- policy holder take up rate.

Other factors including regulation, interest rates, taxes, securities market movements factors, competition and general economic conditions affect the level of these liabilities. Refer to note 20 'Actuarial policies and methods' for details of specific actuarial policies and methods.

Assets arising from reinsurance contracts

Assets arising from reinsurance contracts can be subject to similar factors to the policy liabilities. Refer to above for key factors that impact estimation of the assets and note 20 'Actuarial policies and methods' for details of specific actuarial policies and methods.

Taxation

Judgment is required in determining the Branch's provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Branch recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Employee Benefits

Share based compensation

AIA Group Limited (AIAGL) operates a number of share-based compensation plans, under which the Branch and consolidated entity receives services from the employees, directors and officers as consideration for the shares and/or options of AIAGL. These share-based compensation plans comprise the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme) and the Employee Share Purchase Plan (ESPP).

The share compensation plans of AIAGL and its subsidiaries ('AIA Group') offered to the Branch and consolidated entity's employees are equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of AIAGL's shares and/or options is recognised as an expense in the Statement of Comprehensive Income over the vesting period with a corresponding amount recorded in equity. Any amounts recharged from AIAGL related to equity-settled share-based payment arrangements are offset against the amount recorded in the Head Office Account.

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

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

Where modification or cancellation of an equity-settled share-based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met. Refer to note 15 for the details of share based compensation.

3. UNDERLYING PROFIT AFTER TAX FOR THE YEAR

Underlying profit after tax is presented to facilitate comparison of the consolidated entity's and the Branch's profit for the reported financial years. It shows an underlying financial result of the business before the impact of the movement in the discount rate during the year.

The NZ IFRS statutory profit has been adjusted for the following one off and other specific items and their tax impact:

- Fair value movement (unrealised gains/(losses)) of the financial assets backing policyholder liabilities;
- Impact of the movement in the discount rate used in valuing policyholder liabilities; and
- Impact of the change to deferred tax in the adopted tax bases for one of the key products for the current and prior periods (refer to note 7 for further details).

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Profit after taxation	**217,994**	**16,727,320**	**(822,595)**	**17,407,064**
Less:				
Unrealised gain from financial assets before tax	1,994,922	3,301,957	1,994,922	3,301,957
Income tax on unrealised loss from financial assets	(558,578)	(924,548)	(558,578)	(924,548)
Discount rate change effect on policy liabilities before tax	(652,510)	(2,809,102)	(652,510)	(2,809,102)
Income tax on discount rate effect on policy liabilities	(317,095)	(3,301,603)	(317,095)	(3,301,603)
Fair value and discount rate change effect after tax:	466,739	(3,733,296)	466,739	(3,733,296)
Reduction in deferred tax on policy liabilities - latest period	3,819,442	3,981,652	3,819,442	3,981,652
Reduction in deferred tax on policy liabilities - prior period	-	6,721,890	-	6,721,890
Underlying (loss) / profit after tax	**(4,068,187)**	**9,757,074**	**(5,108,776)**	**10,436,818**
Components of underlying profit				
Insurance contracts				
Planned margins of revenues over expenses	4,143,757	3,123,917	4,143,757	3,123,917
Difference between actual and assumed experience	(14,115,274)	2,178,862	(14,115,274)	2,178,862
Change in valuation assumptions (other than discount rate)	-	375,156	-	375,156
	(9,971,517)	5,677,935	(9,971,517)	5,677,935
Investment contracts				
Difference between actual and assumed experience	(389,964)	(340,772)	(389,964)	(340,772)
Investment earnings on assets in excess of policyholder liabilities	5,252,705	5,099,655	5,252,705	5,099,655
Other	1,040,589	(679,744)	-	-
	5,903,330	4,079,139	4,862,741	4,758,883
Total underlying (loss) / profit after tax	**(4,068,187)**	**9,757,074**	**(5,108,776)**	**10,436,818**

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

4. NET INVESTMENT INCOME

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Investment gains				
Fixed interest securities:				
- Debt securities interest and other income	9,123,139	9,823,559	9,123,139	9,823,559
- Debt securities gain	3,119,815	3,571,974	3,119,815	3,571,974
Cash and cash equivalents interest	231,353	365,942	230,833	352,543
Loans interest	87,492	77,415	87,492	77,415
Total net investment income	**12,561,799**	**13,838,890**	**12,561,279**	**13,825,491**

5. NET CLAIMS EXPENSE

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Claims	44,833,947	42,108,389	44,833,947	42,108,389
Surrenders	15,224,261	12,191,126	15,224,261	12,191,126
Insurance claims recognised as expense	**60,058,208**	**54,299,515**	**60,058,208**	**54,299,515**
Less: Reinsurance recoveries	(18,651,260)	(25,554,215)	(18,651,260)	(25,554,215)
Net claims expense	**41,406,948**	**28,745,300**	**41,406,948**	**28,745,300**

6. MANAGEMENT AND SALES EXPENSES

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Policy acquisition and maintenance expenses				
Policy acquisition expenses- commission	24,468,075	13,385,116	26,118,071	13,244,361
Policy maintenance expenses- commission	6,246,319	5,642,599	6,266,870	5,617,213
Total policy expenses	**30,714,394**	**19,027,715**	**32,384,941**	**18,861,574**
Employee benefit expenses				
Salaries and other short term benefits	17,306,651	14,926,710	17,007,543	14,537,819
Post-employment benefits	427,292	376,674	423,641	372,754
Other long-term benefits	399,124	621,100	399,124	621,100
Total employee benefit expenses	**18,133,067**	**15,924,484**	**17,830,308**	**15,531,673**
Depreciation and amortisation expense				
Depreciation of property, plant and equipment	273,879	231,639	254,833	218,416
Amortisation of intangible assets	1,002,960	987,743	1,002,960	987,743
Total depreciation and amortisation expense	**1,276,839**	**1,219,382**	**1,257,793**	**1,206,159**

6. MANAGEMENT AND SALES EXPENSES (CONTINUED)

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Other expenses				
Investment management expenses	704,103	188,734	704,103	188,734
Operating leases	945,096	952,366	791,530	738,449
Auditor remuneration				
Audit of financial statements	169,914	153,651	176,539	146,423
Other assurance related services	64,000	2,100	64,000	2,100
Donations	-	651	-	351
Group service fees	1,433,275	878,227	1,433,275	878,227
Impairment of intangible assets	516,440	-	516,440	-
Loss on disposal of property, plant and equipment	15,815	-	2,097	-
Sales and marketing related	1,697,314	3,825,164	1,627,537	3,696,692
Data processing	2,812,469	1,792,904	2,797,125	1,748,505
Professional fees (excluding paid to auditors)	2,622,097	1,393,625	2,580,805	1,388,066
Medical administrative expenses	1,430,215	848,774	1,430,215	848,774
Other administrative expenses	2,430,124	1,697,822	2,768,255	1,488,179
Total other expenses	**14,840,862**	**11,734,018**	**14,891,922**	**11,124,500**
Total management and sales expenses	**64,965,162**	**47,905,599**	**66,364,964**	**46,723,906**

Auditor Remuneration

The audit of financial statements includes fees for the annual audit of financial statements. Other assurance related services related to the solvency return audit, tax scoping and actuarial scoping work.

7. TAXATION

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
(a) Income tax expense				
Current tax expense				
Current taxation	51,178	617,478	-	617,478
Prior period adjustment	-	1,716,929	-	1,716,929
Deferred tax expense				
Deferred tax expense	2,804,509	69,306	2,451,013	422,802
Income tax expense	**2,855,687**	**2,403,713**	**2,451,013**	**2,757,209**

The income tax expense / (benefit) recognised can be reconciled to the accounting profit as follows:

	Consolidated 2015	Consolidated 2014	Branch 2015	Branch 2014
Total profit before taxation	3,073,681	19,131,034	1,628,418	20,164,274
Income tax at the current rate of 28%	860,631	5,356,690	455,957	5,645,997
Taxation effect of non-deductible expenses/non-assessable revenue				
Permanent differences	2,252,658	1,387,389	2,252,658	1,387,389
Prior period adjustment- deferred tax asset on policyholder liabilities	-	(6,721,890)	-	(6,721,890)
Prior period adjustment- deferred tax asset - other	(257,602)	664,596	(257,602)	728,785
Prior period adjustment-current tax	-	1,716,929	-	1,716,929
Income tax expense	**2,855,687**	**2,403,713**	**2,451,013**	**2,757,209**

* The prior period adjustments arose from AIA confirming the tax filing basis for its 2010-2012 financial year tax returns. This was a one-off change of $6,721,890 to the tax previously recognised in the financial statements. See note 3 for further details.

7. TAXATION (CONTINUED)

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
(b) Income tax (payable)/asset				
Opening balance	(104,986)	1,607,632	(185,045)	1,531,884
Provisional tax paid	2,515,286	4,311	2,515,213	-
Prior period adjustment	-	(1,716,929)	-	(1,716,929)
Losses offset against current year charge	353,496	617,316	-	617,316
Current year charge	(404,674)	(617,316)	-	(617,316)
Closing balance	2,359,122	(104,986)	2,330,168	(185,045)
Analysed as:				
Current income tax payable	-	(104,986)	-	(185,045)
Current income tax asset	2,359,122	-	2,330,168	-
Total income tax (payable) / asset	**2,359,122**	**(104,986)**	**2,330,168**	**(185,045)**

(c) Deferred tax assets and liabilities

	Consolidated			Branch		
	Opening Balance at 1 December	(Charged)/ credited to profit or loss	Closing Balance at 30 November	Opening Balance at 1 December	(Charged)/ credited to profit or loss	Closing Balance at 30 November
2015	$	$	$	$	$	$
Movements in deferred tax						
Provisions and accruals	887,293	405,421	1,292,714	887,293	405,421	1,292,714
Policyholder liabilities	(45,577,275)	(7,304,549)	(52,881,824)	(45,577,275)	(7,304,549)	(52,881,824)
Tax losses	1,875,309	4,094,619	5,969,928	1,521,813	4,448,116	5,969,928
Total net deferred tax liability	**(42,814,673)**	**(2,804,509)**	**(45,619,182)**	**(43,168,168)**	**(2,451,013)**	**(45,619,182)**
2014						
Movements in deferred tax						
Provisions and accruals	1,194,524	(307,231)	887,293	1,194,524	(307,231)	887,293
Policyholder liabilities	(46,190,489)	613,214	(45,577,275)	(46,190,489)	613,214	(45,577,275)
Tax losses	2,867,914	(992,605)	1,875,309	2,867,914	(1,346,101)	1,521,813
Total net deferred tax liability	**(42,128,051)**	**(686,622)**	**(42,814,673)**	**(42,128,051)**	**(1,040,118)**	**(43,168,169)**

Deferred Tax Utilisation	Consolidated	
	2015	2014
	$	$
Expected to be utilised within 12 months	-	2,762,602
Expected to be utilised within more than 12 months	(45,619,182)	(45,577,275)
	(45,619,182)	(42,814,673)

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 $52.9m (2014 $45.6m) has been separately disclosed and included in the deferred tax liabilities balance representing taxable temporary differences which are implicitly embedded within policyholder liabilities.

8. LOANS AND RECEIVABLES

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Receivables from policyholders	2,532,545	2,173,299	2,532,545	2,173,299
Loans receivable	1,348,807	951,068	1,348,807	951,068
Impairment provision	(1,899)	(30,483)	(1,899)	(30,483)
Loans to and receivables from policyholders	**3,879,453**	**3,093,884**	**3,879,453**	**3,093,884**
Due from brokers and intermediaries	2,338,001	1,732,021	2,334,329	1,728,348
Impairment provision	(1,559,708)	(1,340,379)	(1,559,708)	(1,340,379)
Receivables from brokers and intermediaries	**778,293**	**391,642**	**774,621**	**387,969**
Reinsurance recoveries	8,230,698	12,186,341	8,230,698	12,186,341
Receivables from reinsurers	**8,230,698**	**12,186,341**	**8,230,698**	**12,186,341**
Subsidiary of parent company	-	-	-	1,541,234
Ulitmate holding company	97,475	-	97,475	-
Fellow subsidiaries of the ulitmate holding company	29,956	-	29,956	-
Receivables from related parties	**127,431**	**-**	**127,431**	**1,541,234**
Accrued interest	1,989,740	2,470,091	1,989,740	2,470,091
Sundry debtors	190,621	596,891	188,365	594,635
Other receivables	**2,180,361**	**3,066,982**	**2,178,105**	**3,064,726**
Total loans and receivables	**15,196,236**	**18,738,849**	**15,190,308**	**20,274,154**
Analysed as:				
Current	13,847,429	17,787,781	13,841,501	19,323,086
Non current	1,348,807	951,068	1,348,807	951,068
	15,196,236	**18,738,849**	**15,190,308**	**20,274,154**

Included in loans and receivables balance are debtors with a carrying amount of $956,592 (2014: $1,216,510) 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.

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Ageing past due receivables				
1-30 days	478,168	422,874	478,168	422,874
31-90 days	136,406	55,844	136,406	55,844
91-365 days	86,412	725,895	86,412	725,895
Over 1 year	255,606	11,896	255,606	11,896
Total	**956,592**	**1,216,510**	**956,592**	**1,216,510**

8. LOANS AND RECEIVABLES (CONTINUED)

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Provision for impairment of receivables from brokers and intermediaries				
At beginning of the year	(1,340,379)	(1,361,626)	(1,340,379)	(1,361,626)
Additional provisions	(219,329)	-	(219,329)	-
Used during the year	-	21,247	-	21,247
At the end of the year	**(1,559,708)**	**(1,340,379)**	**(1,559,708)**	**(1,340,379)**
Analysed as:				
Current	(1,559,708)	(1,340,379)	(1,559,708)	(1,340,379)

9. CASH AND CASH EQUIVALENTS

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Cash at bank and in hand	3,170,034	2,798,946	2,530,303	1,982,223
Deposits at call	4,527,754	7,485,808	4,527,755	7,485,808
Total cash and cash equivalents	**7,697,788**	**10,284,754**	**7,058,058**	**9,468,031**

(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 Statements of Cash Flows as follows:

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Balance as above	7,697,788	10,284,754	7,058,058	9,468,031
Closing balance per Statements of Cash Flows	**7,697,788**	**10,284,754**	**7,058,058**	**9,468,031**

9. CASH AND CASH EQUIVALENTS (CONTINUED)

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

Profit/(loss) after taxation for the year	**217,994**	**16,727,320**	**(822,595)**	**17,407,064**
Add / (less) non cash items				
Depreciation	273,879	231,639	254,834	218,416
Amortisation of intangibles	1,002,960	987,743	1,002,960	987,743
Gains from financial assets	(2,527,295)	(3,301,957)	(2,527,295)	(3,301,957)
Movement in policyholder liabilities and reinsurance assets	(23,884,931)	(14,796,948)	(23,884,931)	(14,796,948)
Deferred tax provision	2,804,509	686,623	2,451,013	1,040,117
	(22,330,878)	**(16,192,900)**	**(22,703,419)**	**(15,852,629)**
Add / (less) movements in working capital relating to operating activities				
(Increase) / decrease in loans and receivables	3,542,613	(7,571,172)	5,083,846	(8,739,355)
Decrease in prepayments	134,375	112,965	143,584	118,735
(Increase) / decrease in income tax assets	(2,464,108)	1,712,617	(2,515,213)	1,716,929
Increase / (decrease) in trade and other payables	4,117,457	(449,882)	4,127,206	(454,248)
Increase / (decrease) in employee benefit obligations	691,452	(388,385)	691,452	(388,385)
Increase in other insurance liabilities	2,378,134	1,324,680	2,378,134	1,324,680
Increase in other financial liabilities	509,452	230,403	594,398	221,097
	8,909,375	**(5,028,774)**	**10,503,407**	**(6,200,548)**
Net cash used in by operating activities	**(13,203,509)**	**(4,494,354)**	**(13,022,607)**	**(4,646,113)**

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Debt securities				
Annuity bonds	3,762,879	4,169,844	3,762,879	4,169,844
Medium term notes	133,497,856	163,682,747	133,497,856	163,682,747
Total financial assets through profit or loss	**137,260,735**	**167,852,591**	**137,260,735**	**167,852,591**
Analysed as:				
Current	15,470,032	8,123,772	15,470,032	8,123,772
Non current	121,790,703	159,728,819	121,790,703	159,728,819
	137,260,735	**167,852,591**	**137,260,735**	**167,852,591**

11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Furniture, fittings and office equipment				
Cost				
At beginning of the year	2,028,795	1,736,138	1,933,747	1,694,368
Additions	78,408	292,657	71,365	239,379
Disposals	(28,476)	-	(5,616)	-
At end of the year	2,078,727	2,028,795	1,999,496	1,933,747
Accumulated depreciation				
At beginning of the year	(1,598,920)	(1,498,680)	(1,575,844)	(1,488,527)
Depreciation charge	(135,747)	(100,240)	(118,478)	(87,317)
Disposals	12,177	-	3,035	-
At end of the year	(1,722,490)	(1,598,920)	(1,691,287)	(1,575,844)
Closing net book value	**356,237**	**429,875**	**308,209**	**357,903**
Computer equipment				
Cost				
At beginning of the year	1,453,583	1,329,361	1,444,884	1,307,594
Additions	136,215	124,222	133,448	137,290
Disposals	(31,875)	-	(31,875)	-
At end of the year	1,557,923	1,453,583	1,546,457	1,444,884
Accumulated depreciation				
At beginning of the year	(1,278,752)	(1,147,353)	(1,270,952)	(1,139,853)
Depreciation charge	(138,131)	(131,399)	(136,355)	(131,099)
Disposals	30,529	-	30,529	-
At end of the year	(1,386,354)	(1,278,752)	(1,376,778)	(1,270,952)
Closing net book value	**171,569**	**174,831**	**169,679**	**173,932**
Total net book value of property, plant and equipment	**527,806**	**604,706**	**477,888**	**531,835**

12. INTANGIBLE ASSETS

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Purchased computer software				
Cost				
At beginning of the year	2,544,637	2,544,637	2,544,637	2,544,637
Additions	53,798	-	53,798	-
At end of the year	2,598,435	2,544,637	2,598,435	2,544,637
Accumulated amortisation				
At beginning of the year	(2,362,912)	(2,232,812)	(2,362,912)	(2,232,812)
Amortisation charge	(118,881)	(130,100)	(118,881)	(130,100)
At end of the year	(2,481,793)	(2,362,912)	(2,481,793)	(2,362,912)
Closing net book value	**116,642**	**181,725**	**116,642**	**181,725**
Internally developed software				
Cost				
At beginning of the year	4,710,103	4,479,048	4,710,103	4,479,048
Additions	697,837	29,350	697,837	29,350
Transfers from work in progress	1,209,419	201,705	1,209,419	201,705
Impairment	(1,590,920)	-	(1,590,920)	-
At end of the year	5,026,439	4,710,103	5,026,439	4,710,103
Accumulated amortisation				
At beginning of the year	(2,642,850)	(1,785,207)	(2,642,850)	(1,785,207)
Amortisation charge	(884,079)	(857,643)	(884,079)	(857,643)
Impairment	1,074,479	-	1,074,479	-
At end of the year	(2,452,450)	(2,642,850)	(2,452,450)	(2,642,850)
Closing net book value	**2,573,989**	**2,067,253**	**2,573,989**	**2,067,253**
Work in progress				
At beginning of the year	1,313,070	428,638	1,313,070	428,638
Additions	2,070,436	1,086,137	2,070,436	1,086,137
Transfers to internally developed software	(1,209,419)	(201,705)	(1,209,419)	(201,705)
Closing net book value	**2,174,087**	**1,313,070**	**2,174,087**	**1,313,070**
Total intangible assets	**4,864,718**	**3,562,048**	**4,864,718**	**3,562,048**

13. EMPLOYEE BENEFIT OBLIGATIONS

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Employee entitlements	2,575,518	1,884,066	2,575,518	1,884,066
Total employee benefit obligations	**2,575,518**	**1,884,066**	**2,575,518**	**1,884,066**
Analysed as:				
Current	2,496,248	1,788,537	2,496,248	1,788,537
Non current	79,270	95,529	79,270	95,529
	2,575,518	**1,884,066**	**2,575,518**	**1,884,066**

14. TRADE AND OTHER PAYABLES

	Consolidated		Branch	
	2015	2014	2015	2014
Amounts due to reinsurers	12,504,230	10,394,538	12,504,230	10,394,538
Other payables and accruals	5,077,963	3,070,199	5,041,424	3,023,910
Total trade and other payables	**17,582,194**	**13,464,737**	**17,545,654**	**13,418,448**
Analysed as:				
Current	17,582,194	13,464,737	17,545,654	13,418,448
Non current	-	-	-	-
	17,582,194	**13,464,737**	**17,545,654**	**13,418,448**

15. SHARE BASED COMPENSATION

Stock compensation plans
During the year, the AIA Group made further grants of share options (SO) and restricted share units (RSU) to certain employees, directors and officers of the Branch and consolidated entity under the SO Scheme, the RSU Scheme and the Employee Share Purchase Plan (ESPP).

RSU Scheme
Under the RSU Scheme, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the AIA Group during the respective vesting periods. RSU grants are vested either entirely after a specific period of time or in tranches over the vesting period. If the RSU grants are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period. For certain RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the employees at the end of vesting period depending on the actual achievement of the performance conditions. During the vesting period, the eligible participants are not entitled to dividends of the underlying shares. The maximum number of shares that can be granted under this scheme is 301,100,000 representing 2.5 per cent of the number of shares in issue of AIAGL at 30 November 2015.

	Year ended 30 November 2015 Number of Shares	Year ended 30 November 2014 Number of Shares
Restricted share units		
Outstanding at beginning of financial year	323,331	306,780
Granted	107,245	119,756
Vested or exercised	(69,620)	(83,932)
Transfer in/(out)	(243,466)	-
Forfeited or expired	(85,491)	(19,273)
Outstanding at end of financial year	**31,999**	**323,331**

Share Option Scheme
The objectives of the SO Scheme are to align eligible participants' interests with those of the AIAGL shareholders by allowing eligible participants to share in the value created at the point they exercise their options. SO grants are vested either entirely after a specific period of time or in tranches over the vesting period, during which, the eligible participants are required to remain in employment with the AIA Group. If the SO grants are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period. The granted share options expire ten years from the date of grant. The total number of shares under options that can be granted under the scheme is 301,100,000, representing 2.5 per cent of the number of shares in issue of AIAGL at 30 November 2015.

15. SHARE BASED COMPENSATION (CONTINUED)

Information about options outstanding and options exercisable by the Branch and consolidated entity's employees and directors as at the end of the reporting period is as follows:

	Year ended 30 November 2015 Number of share options	Weighted average Exercise price	Year ended 30 November 2014 Number of share options	Weighted average Exercise price
		HK$		HK$
Share Options				
Outstanding at beginning of financial year	92,656	33.45	94,020	30.14
Granted	26,484	47.73	29,596	37.56
Exercised	(30,027)	28.40	(30,960)	27.35
Transfer in/(out)	(89,113)	(39.39)	-	-
Outstanding at end of financial year	-	-	**92,656**	**33.45**
Share options exercisable at end of financial year	-	-	-	-
Weighted average remaining contractual life (years)	-		8.27	

Employee Share Purchase Plan

Under the plan, eligible employees of the AIA Group can purchase ordinary shares of AIAGL with qualified employee contributions and AIAGL will award one matching restricted stock purchase unit to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the AIA Group. The level of qualified employee contribution is limited to not more than 5% of the annual basic salary subject to a maximum. For the year ended 30 November 2015, eligible employees of the Group paid NZD$124,394 (2014: $119,583) to purchase 13,315 ordinary shares (2014: 18,151 ordinary shares) of AIAGL.

Valuation methodology

The AIA Group utilises a binomial lattice model to calculate the fair value of the share options grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU and ESPP awards, taking into account the terms and conditions upon which the awards were granted. The price volatility is estimated on the basis of implied volatility of the AIAGL's shares which is based on an analysis of historical data since they are traded in the Stock Exchange of Hong Kong and takes into consideration the historical volatility of peer companies. The expected life of the options is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behavior of the AIA Group's employees. The estimate of market condition for performance based RSUs is based on one-year historical data preceding the grant date.

Year ended 30 November

	Share options	Restricted share units	ESPP Restricted stock purchase units	Share options	Restricted share units	ESPP Restricted stock purchase units
		2015			2014	
Risk-free interest rate	1.61%	0.80%	0.44% - 0.94%	2.22%	0.54%	0.37% - 0.94%
Volatility	20.00%	20.00%	20% - 25%	25.00%	25.00%	25% - 26%
Dividend yield	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
Exercise price (HK$)	47.15	N/A	N/A	37.40	N/A	N/A
Option life (in years)	10.00	N/A	N/A	10.00	N/A	N/A
Expected life (in years)	7.94	N/A	N/A	7.54	N/A	N/A
Weighted average fair value per option / unit at measurement date (HK$)	10.15	39.47	42.82	10.40	30.51	37.39

15. SHARE BASED COMPENSATION (CONTINUED)

The weighted average share price for share option valuation for grants made during the year ended 30 November 2015 is HK$47.73 (2014: HK$37.56).

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards granted under the RSU Scheme, SO Scheme and ESPP for the year ended 30 November 2015 is $300,899 (2014: $575,825).

16. OTHER INSURANCE LIABILITIES

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Outstanding claims	7,499,484	5,399,793	7,499,484	5,399,793
Premiums received in advance	498,978	220,535	498,978	220,535
Total other insurance liabilities	**7,998,462**	**5,620,328**	**7,998,462**	**5,620,328**
Analysed as:				
Current	7,998,462	5,620,328	7,998,462	5,620,328

17. 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

Various procedures are 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 minimise 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.

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Financial risks

(i) Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount				Fair value		
	Loans and receivables	Designated at fair value through profit or loss	Financial liabilities at amortised cost	Total	Level 2	Level 3	Total
	$	$	$	$	$	$	$
Consolidated							
30 November 2015							
Fnancial assets measured at fair value							
Annuity bonds	-	3,762,879	-	3,762,879	3,762,879	-	3,762,879
Medium term notes	-	133,497,856	-	133,497,856	133,497,856	-	133,497,856
Fnancial assets not measured at fair value							
Cash and cash equivalents	6,456,875	-	-	6,456,875			
Loans and receivables	14,007,560	-	-	14,007,560			
	20,464,435	137,260,735	-	157,725,170			
Fnancial liabilities measured at fair value							
Policyholder liabilities - investment contracts	-	4,883,484	-	4,883,484	-	4,883,484	4,883,484
Financial liabilities not measured at fair value							
Trade and other payables	-	-	16,859,716	16,859,716			
Outstanding claims provision	-	-	7,499,484	7,499,484			
Other financial liabilities	-	-	887,249	887,249			
	-	4,883,484	25,246,449	30,129,933			
30 November 2014							
Fnancial assets measured at fair value							
Annuity bonds	-	4,169,844	-	4,169,844	4,169,844	-	4,169,844
Medium term notes	-	153,045,637	-	153,045,637	153,045,637	-	153,045,637
New Zealand government securities	-	10,637,110	-	10,637,110	10,637,110	-	10,637,110
Fnancial assets not measured at fair value							
Cash and cash equivalents	10,284,754	-	-	10,284,754			
Loans and receivables	18,738,849	-	-	18,738,849			
	29,023,603	167,852,591	-	196,876,194			
Fnancial liabilities measured at fair value							
Policyholder liabilities - investment contracts	-	4,493,521	-	4,493,521	-	4,493,521	4,493,521
Financial liabilities not measured at fair value							
Trade and other payables	-	-	13,464,737	13,464,737			
Outstanding claims provision	-	-	5,399,793	5,399,793			
Other financial liabilities	-	-	377,797	377,797			
	-	4,493,521	19,242,327	23,735,848			

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2015

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

	Carrying amount				Fair value		
	Loans and receivables	Designated at fair value through profit or loss	Financial liabilities at amortised cost	Total	Level 2	Level 3	Total
	$	$	$	$	$	$	$
Branch							
30 November 2015							
Fnancial assets measured at fair value							
Annuity bonds	-	3,762,879	-	3,762,879	3,762,879	-	3,762,879
Medium term notes	-	133,497,856	-	133,497,856	133,497,856	-	133,497,856
Fnancial assets not measured at fair value							
Cash and cash equivalents	7,058,058	-	-	7,058,058			
Loans and receivables	15,190,308	-	-	15,190,308			
	22,248,366	137,260,735	-	159,509,101			
Fnancial liabilities measured at fair value							
Policyholder liabilities - investment contracts	-	4,883,484	-	4,883,484	-	4,883,484	4,883,484
Fnancial liabilities not measured at fair value							
Trade and other payables	-	-	17,545,654	17,545,654			
Outstanding claims provision	-	-	7,499,484	7,499,484			
Other financial liabilities	-	-	987,943	987,943			
	-	4,883,484	26,033,081	30,916,565			
Branch							
30 November 2014							
Fnancial assets measured at fair value							
Annuity bonds	-	4,169,844	-	4,169,844	4,169,844	-	4,169,844
Medium term notes	-	153,045,637	-	153,045,637	153,045,637	-	153,045,637
New Zealand government securities	-	10,637,110	-	10,637,110	10,637,110	-	10,637,110
Fnancial assets not measured at fair value							
Cash and cash equivalents	9,468,031	-	-	9,468,031			
Loans and receivables	20,274,154	-	-	20,274,154			
	29,742,185	167,852,591	-	197,594,776			
Fnancial liabilities measured at fair value							
Policyholder liabilities - investment contracts	-	4,493,521	-	4,493,521	-	4,493,521	4,493,521
Fnancial liabilities not measured at fair value							
Trade and other payables	-	-	13,418,448	13,418,448			
Outstanding claims provision	-	-	5,399,793	5,399,793			
Other financial liabilities	-	-	393,545	393,545			
	-	4,493,521	19,211,786	23,705,307			

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Measurement of fair values

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

Investments classified as level 1 are made of shares in listed companies. Fair value of these investments is based on quoted prices in active markets. The NZ Group did not have any level 1 investment assets at balance date. (Nov 2014: nil).

Investments classified as level 2 are made of debt securities (bonds) and represents 100% of total assets at fair value. The fair value of these investments are based on inputs other than quoted prices included in level 1 that are observable for the asset either directly (i.e. as prices) or indirectly (ie derived from prices). Observable inputs generally used to measure the fair value of securities classified at level 2 are broker-dealer quotes.

Policyholder liabilities related to investment contracts are classified as fair value level 3. These contracts are not quoted in active markets and their fair value is determined as net present value of future estimated cash flows and involves the following unobservable assumptions and inputs.

Surrender rate

	2015	2014
Year 1-5	7.00%	7.00%
Year 6-10	10.00%	10.00%
Year 11-15	12.50%	12.50%
Year 16-20	15.00%	15.00%
Year 21-25	17.50%	17.50%
Minimum credit rate	6.00%	6.00%
Discount rate (gross)	4.41%	4.71%
Discount rate (net)	3.18%	3.39%

Future policy cash-flows are projected with client account balances augmented each year by the assumed crediting rate (guaranteed minimum rate of 6% p.a. is applied), and with policies surrendering on the above assumptions.

Future cash-flows are discounted to the present using the market observed yield curve with tax deducted from this discount rate at 28%. The discount rate is taken from the forward curve at duration 10 years. No additional profit margins are added as the guaranteed minimum crediting rate (6% p.a.) exceeds the discount rate.

The following table represents the changes in level 3 instruments:

Variation	**Policyholder liabilities-Investment contracts** 2015	**Policyholder liabilities-Investment contracts** 2014
	$	$
Opening balance:	**4,493,521**	**3,965,838**
Fair value movements recognised in the income statement	215,607	464,013
Investment income net of tax and expenses	202,543	182,722
Contributions received	76,321	78,830
Withdrawals	(104,508)	(197,882)
Closing balance:	**4,883,484**	**4,493,521**

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the sensitivity of level 3 measurement to reasonably possible favorable or unfavorable changes in the assumptions used to determine the fair value of policyholder liabilities – investment contracts as at 30 November 2015.

Variation	Profit and equity increase / (decrease)	Profit and equity increase / (decrease)
	2015	2014
	$	$
Interest rates + 1%	410,000	350,000
Interest rates - 1%	(460,000)	(400,000)
Surrenders + 10%	100,000	80,000
Surrenders - 10%	(120,000)	(90,000)

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 AIA 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, AIA Group Investments and the AIA Australia's Chief Investment Officer.

(i) Foreign currency risk

Foreign currency 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's 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 reduced the exposure to these bonds and for the remaining exposure will seek to enter into a cross currency swap with suitable counterparties once legal agreements are finalised.

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

	2015		2014	
	AU$	$	AU$	$
Annuity Bonds	3,426,854	3,762,879	3,849,200	4,169,844

Foreign currency sensitivity

Based on the financial instruments held at 30 November 2015, had the New Zealand dollar strengthened / weakened by 5% against the AUD with all other variables held constant, the Branch and consolidated entity's profit after tax and equity would have been $188,144 lower / $188,144 higher (2014: $376,632 lower / $376,632 higher), mainly as a result of foreign exchange gains/losses on translation of AUD denominated financial instruments as detailed in the above table.

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

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(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.

Interest rate risk sensitivity

The analyses below are based on changes in economic conditions that are considered reasonably possible at the reporting date.

Sensitivity of floating interest rate investments

At 30 November 2015, 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 $60,826 lower/higher (2014: $133,707 lower/higher) for the Branch and $63,483 lower/higher (2014: $138,710 lower/higher) for the consolidated entity.

Sensitivity of fixed interest rate investments

At 30 November 2015, if interest rate had changed by -/+ 100 basis points from the year end rates with all other variables held constant, the profit and loss and equity would have been $4,626,823 higher / $4,363,605 lower (2014: $6,994,100 higher / $ 6,432,164 lower) for the Branch and consolidated entity.

Interest rate risk sensitivity on policyholder liabilities is disclosed in note 20.

(iii) Price risk

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

(iv) 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.

Maturity analysis

The table below summarises the financial liabilities of the consolidated entity and the Branch into relevant maturity groups based on the remaining period of balance date to contractual maturity date.

All amounts disclosed are contracted undiscounted cash flows that include interest payments and exclude the impact of netting agreements. The branch and consolidated entity did not have any financial liabilities with maturities between 1 and 5 years at balance date (2014: nil).

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Consolidated

As at 30 November 2015	Weighted average interest rate %	Under 1 year	Over 5 years	Total	Carrying Value
Trade and other payables	N/A	16,859,716	-	16,859,716	16,859,716
Outstanding claims provision	N/A	7,499,484	-	7,499,484	7,499,484
Other financial liabilities					
- Amounts due to related parties	N/A	887,249	-	887,249	887,249
Policyholder liabilities - Investment contracts	4.56%	171,863	6,906,426	7,078,289	4,883,484
Total financial liabilities		25,418,312	6,906,426	32,324,738	30,129,933
As at 30 November 2014					
Trade and other payables	N/A	13,464,737	-	13,464,737	13,464,737
Outstanding claims provision	N/A	5,399,793	-	5,399,793	5,399,793
Other financial liabilities					
- Amounts due to related parties	N/A	377,797	-	377,797	377,797
Policyholder liabilities - Investment contracts	4.49%	-	6,646,947	6,646,947	4,493,521
Total financial liabilities		19,242,327	6,646,947	25,889,274	23,735,848

Branch

As at 30 November 2015	Weighted average interest rate %	Under 1 year	Over 5 years	Total	Carrying Value
Trade and other payables	N/A	17,545,654	-	17,545,654	17,545,654
Outstanding claims provision	N/A	7,499,484	-	7,499,484	7,499,484
Other financial liabilities					
- Amounts due to related parties	N/A	987,943	-	987,943	987,943
Policyholder liabilities - Investment contracts	4.56%	171,863	6,906,426	7,078,289	4,883,484
Total financial liabilities		26,204,944	6,906,426	33,111,370	30,916,565
As at 30 November 2014					
Trade and other payables	N/A	13,418,448	-	13,418,448	13,418,448
Outstanding claims provision	N/A	5,399,793	-	5,399,793	5,399,793
Other financial liabilities					
- Amounts due to related parties	N/A	393,545	-	393,545	393,545
Policyholder liabilities - Investment contracts	4.49%	-	6,646,947	6,646,947	4,493,521
Total financial liabilities		19,211,786	6,646,947	25,858,733	23,705,307

N/A - non-interest bearing

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
- Loans and receivables.

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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 equivalents 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.

The monitoring of the credit worthiness of reinsurers is centralised with the Group Enterprise Risk Management of AIA in Hong Kong, who performs this function for all companies within the Group. Every new treaty and amendment requires sign-off by the Group Enterprise Risk Management, except for treaties with pre-approved reinsurers and with a volume within stated limits set by Group Enterprise Risk Management. The Group Enterprise Risk Management 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).

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
AA	99,655,629	114,693,189	99,015,898	113,876,467
A	36,677,261	48,111,140	36,677,261	48,111,140
BBB	12,879,922	23,349,047	12,879,922	23,349,047
Non- Rated	10,941,947	10,722,818	10,936,020	12,258,122
Total Financial Assets	**160,154,759**	**196,876,194**	**159,509,101**	**197,594,776**

Capital management

The Branch manages its capital to ensure that the Branch and NZ Group will be able to continue as a going concern while maximizing the return to Head Office, and meet the requirements of the Reserve Bank of New Zealand (RBNZ). The Branch's overall strategy remains unchanged from 2014.

The capital structure of the Branch and consolidated entity consists of equity attributable to equity holders, comprising mainly Head Office account and retained earnings as disclosed in notes 22 and 24 respectively. During the current year the consolidated entity complied with all externally imposed capital requirements.

On 31 August 2013 the Branch and consolidated entity have established a statutory fund ('the Statutory Fund') in accordance with the requirements of the Insurance (Prudential Supervision) Act 2010. The assets and liabilities of the consolidated entity that solely relate to the life insurance business were allocated to the Statutory Fund upon inception. Further discussion in regards to the Statutory Fund is included in note 26.

The solvency capital of the Branch and the Statutory Fund are presented below.

As at 30 November 2015			
(Calculated in accordance with RBNZ requirements)	**Branch**	**Statutory Fund**	**Non- Statutory Fund**
	$	$	$
Actual solvency capital	86,192,285	67,134,380	19,057,905
Minimum solvency capital	76,420,037	59,006,058	17,413,979
Solvency Margin	**9,772,248**	**8,128,322**	**1,643,926**

As at 30 November 2014			
(Calculated in accordance with RBNZ requirements)	**Branch**	**Statutory Fund**	**Non- Statutory Fund**
	$	$	$
Actual solvency capital	126,772,945	114,082,072	12,690,873
Minimum solvency capital	76,998,065	65,940,868	11,057,197
Solvency Margin	**49,774,881**	**48,141,205**	**1,633,676**

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

The basis of calculation of the solvency reserves for 2015 and comparative follows the requirements set out in the Reserve Bank of New Zealand 'Solvency Standard for Life Insurance Business'.

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.

The principal 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.

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 with AIA Company Limited which provides cover losses in excess of US$500,000, up to a maximum of US$20 million in case of a catastrophe as defined in the treaty. Additional cover is provided by another catastrophe reinsurance treaty between the AIA group of companies and external reinsurers.

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

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Operational and regulatory compliance risk

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

Regulatory compliance risk is the risk relating to legal or regulatory sanctions, financial loss or damage to reputation and franchise value arising from the failure to comply with laws and regulations.

The Branch's objective is to satisfactorily manage operational risk and regulatory compliance risk. Various procedures and mechanisms are put in place to identify, control and mitigate the risks faced by the Branch depending on the nature of the risk. Both operational risk and regulatory 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.

18. OTHER FINANCIAL LIABILITIES

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Amounts due to related parties:				
Subsidiary of parent company	-	-	100,694	15,748
Fellow subsidiaries of the ultimate holding company	887,249	377,797	887,249	377,797
	887,249	**377,797**	**987,943**	**393,545**
Analysed as:				
Current	887,249	377,797	987,943	393,545

19. SEGMENTAL REPORTING

AIA New Zealand predominantly operates in one operating segment, life insurance. The health insurance and brokerage business segments are not significant and have not been disclosed separately. The consolidated entity and the branch operate in one geographical segment, New Zealand.

20. ACTUARIAL POLICIES AND METHODS

The actuarial report on policyholder liabilities and solvency reserves for the current reporting period was prepared as at 30 November 2015. There have been changes to the valuation for the 30 November 2015 reporting year. In the previous years, it was prepared by Peter Davies B.Bus Sc., FIA, and FNZSA.

For the 30 November 2015 reporting year, the valuation have been brought in-house and conducted internally. Grant Mackay, Fellow of the NZ Society of Actuaries, is the Appointed Actuary for the Branch. The value of policyholder liabilities has been determined in accordance with Professional Standard 20 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 for insurance are as follows:
(refer to Note 17 for valuation methodology and assumptions of investment contracts)

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

Major Product Groups	Carrier	Valuation method
Lump sum products - Permanent Term, Express Life, Permanent Life, Yearly Renewable Term, Total and Permanent Disablement, Vital Care (Trauma), Golden Life, Ex-Alico products	Claims net of reinsurance	Model office projection
Income protection products- Disability income, Business Continuation cover, New to Business Cover, Key Person Benefit, Disability Income Claims in Payment	Claims net of reinsurance	Model office projection
Medical insurance products	Claims net of reinsurance	Model office projection
Group	Not applicable	Uneamed premiums, profit share and claims reserves
R&I	Not applicable	Discounted value of expected future claim payments and expenses

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:

	All products
Discount rate (before tax)	Sample of yield curve at duration of 10 years: 2015: 4.41% p.a. (2014: 4.35% p.a.)
Discount rate based on:	NZ Zero Coupon Government Bond Yield and NZ Treasury's assumed long-term forward rate (2014: NZ Treasury risk-free rates)

20. ACTUARIAL POLICIES AND METHODS (CONTINUED)

Other assumptions

	Permanent Term, Express Life, Permanent Life and Golden Life	**Lump Sum Renewable Risk Products**	**Income Protection Products**	**Medical Insurance Products**
Mortality	64% of NZ04 for non-smokers, 128% for smokers, with initial selection benefits (2014: 75% of NZ 04)	64% of NZ04 for non-smokers, 128% for smokers, with initial selection benefits (2014: 64%, 128%)	64% of NZ04 for non-smokers, 128% for smokers, with initial selection benefits (2014: 64%, 128%)	64% of NZ04 for non-smokers, 128% for smokers, with initial selection benefits (2014: 64%, 128%)
Mortality improvement	Nil	Nil	Nil	Nil
Morbidity	Nil	Percentage of reinsurer risk premium rates (2014: Percentage of Swiss Re Risk Premium Rates)	Incidence and Termination rates are as a percentage of IAD89-93 (2014: Percentage of CIDA)	Loss ratio, varying between 20% to 67.5% depending on duration (2014: 20% and 65%)
Initial expense allowance (before tax)	Nil (2014: 110%)	14.37% to 46.64% of New Annualised Premium Income (API); and $42.01 to $207.66 per cover (2014: 110% of API)	51.87% of New Annualised Premium Income (API); and $213.60 per cover (2014: 110% of API)	59.14% of New Annualised Premium Income (API); and $440.72 per cover (2014: 110% of API)
Renewal expenses (before tax)	4.33% of Annualised Premium Income (API); and $79.05 p.a., escalating at 2.5% p.a. (2014: $400 p.a., escalating at 2.5% p.a.)	5.37% to 8.81% of Annualised Premium Income (API); and $43.86 to $60.95 p.a., escalating at 2.5% p.a. (2014: $400 p.a., escalating at 2% p.a.)	6.17% of Annualised Premium Income (API); and $75.91 p.a., escalating at 2.5% p.a. (2014: $400 p.a., escalating at 2% p.a.)	8.27% of Annualised Premium Income (API); and $137.39 p.a., escalating at 2.5% p.a. (2014: $400 p.a., escalating at 2% p.a.)
Cover escalation	2.5% p.a. (2014: 2% p.a.)	2.5% p.a. (2014: 1.6% to 2% p.a.)	2.5% p.a. (2014: 1.6% to 2% p.a.)	4.5% p.a. graded down to 2.5% p.a. in 3 years (2014: 1.6% to 2% p.a.)
Lapses / surrenders	Based on experience analysis, varying between 1% and 12% depending on duration and product, with shock lapses of 50% at full payback, then 30%, 20% and 10% in the next 3 years respectively (Permanent Term) (2014: 11% and 1%, 75%)	Based on experience analysis, varying between 8% and 19% depending on duration and product (2014: 9% and 23%)	Based on experience analysis, varying between 10% and 25% depending on duration and product (2014: 10% and 25%)	Based on experience analysis, varying between 5.8% and 16% depending on duration and product (2014: 7% and 15%)
Tax rate	28% (2014: 28%)	28% (2014: 28%)	28% (2014: 28%)	28% (2014: 28%)
Inflation rate	2.5% (2014: 2.5%)	2.5% (2014: 2%)	2.5% (2014: 2%)	2.5% (2014: 2%)

20. ACTUARIAL POLICIES AND METHODS (CONTINUED)

Impact of changes in assumptions is detailed below: There have been no changes in valuation assumptions used from the previous year.

Impact of changes in assumptions

	2015			2014		
	Profit margin increase/ (decrease)	Policy liability increase/ (decrease)	Profit & equity increase/ (decrease)	Profit margin increase/ (decrease)	Policy liability increase/ (decrease)	Profit & equity increase/ (decrease)
	$	$	$	$	$	$
Interest rate change - movement in market rates	2,231,141	835,890	(835,890)	5,509,784	5,986,159	(5,986,159)
Interest rate change - shift to Treasury	-	-	-	1,193,283	355,907	(355,907)
Mortality / morbidity assumptions revised	-	-	-	(7,320,443)	547,154	(547,154)
Commission and renewal cost assumption	(3,056,578)	-	-	7,621,354	(1,278,217)	1,278,217
Lapse / surrender assumptions	-	-	-	(2,923,455)	-	-
Risk business premium loyalty structure changed	-	-	-	18,195,466	-	-
Tax basis change	-	-	-	273,712	-	-
Total	**(825,437)**	**835,890**	**(835,890)**	**22,549,701**	**5,611,003**	**(5,611,003)**

Sensitivity analysis

Sensitivity analysis is conducted to quantify the exposure to risk from changes in the underlying variables.

	2015		2014	
	Policy liability increase/ (decrease)	Profit increase/ (decrease)	Policy liability increase/ (decrease)	Profit increase/ (decrease)
	$	$	$	$
Base				
Interest rates + 1% per annum	(15,600,000)	15,600,000	(7,600,000)	7,600,000
Interest rates - 1% per annum	21,800,000	(21,800,000)	9,200,000	(9,200,000)
Inflation + 1% per annum	4,600,000	(4,600,000)	1,900,000	(1,900,000)
Inflation - 1% per annum	(3,000,000)	3,000,000	(1,500,000)	1,500,000
Termination rates of open disability income claims increased by 10%	-	-	(600,000)	600,000
Termination rates of open disability income claims decreased by 10%	-	-	700,000	(700,000)
Total	**7,800,000**	**(7,800,000)**	**2,100,000**	**(2,100,000)**

For sensitivity on termination rates of open disability income claims, policy liability will not be impacted for 2015 due to the change in valuation methodology. Open disability income claims are included in the same Related Product Group as the disability income products, therefore any changes in termination rates will be absorbed by profit margin for the disability income related product group.

Sensitivity of inflation rates are applied to projected fixed expenses, and inflation on sum insured only. The inflation rate sensitivity is not applied to premium and claims inflation on medical products.

Maturity analysis of insurance contracts

The table below shows the undiscounted cash flows from the model of the Branch. Cash inflows are composed of gross premiums and investment earnings. Cash outflows are composed of claims, commissions, expenses, tax and net reinsurance costs.

From 2015 year end valuation	Under 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	$'m	$'m	$'m	$'m	$'m	$'m
Cash inflows	97.4	92.1	87.3	83.4	79.8	1,314.4
Cash outflows	(80.0)	(80.3)	(77.1)	(72.9)	(68.8)	(1,204.8)

20. ACTUARIAL POLICIES AND METHODS (CONTINUED)

From 2014 year end valuation	Under 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	$'m	$'m	$'m	$'m	$'m	$'m
Cash inflows	89.3	83.9	79.3	76.2	73.4	1,384.9
Cash outflows	(82.7)	(77.8)	(76.0)	(70.5)	(68.4)	(1,245.2)

21. POLICYHOLDER LIABILITIES / (ASSETS)

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Opening policyholder liabilities	49,927,245	65,337,406	49,927,245	65,337,406
Movement in policyholder liabilities - Insurance contracts	(24,274,899)	(15,324,631)	(24,274,899)	(15,324,631)
Movement in policyholder liabilities - Investment contracts	418,153	646,735	418,153	646,735
Movement through income statement	(23,856,746)	(14,677,896)	(23,856,746)	(14,677,896)
Universal life premiums received	76,321	78,830	76,321	78,830
Universal life payments to policyholders	(104,508)	(197,882)	(104,508)	(197,882)
Movement in deferred tax	7,304,549	(613,213)	7,304,549	(613,213)
Closing policyholder liabilities	33,346,862	49,927,245	33,346,862	49,927,245
Closing policyholder liabilities contain the following components:				
Insurance contracts				
Future premiums	(753,775,504)	(655,410,846)	(753,775,504)	(655,410,846)
Future policy benefits	459,042,446	406,163,325	459,042,446	406,163,325
Future expenses	215,958,391	207,889,288	215,958,391	207,889,288
Planned margin	107,238,045	84,567,879	107,238,045	84,567,879
Other ex-Alico benefits (1)	-	2,224,078	-	2,224,078
Insurance contract liabilities	28,463,378	45,433,724	28,463,378	45,433,724
Investment contracts				
Future policy benefits	4,883,484	4,493,521	4,883,484	4,493,521
Investment contract liabilities	4,883,484	4,493,521	4,883,484	4,493,521
Total policy liabilities including deferred tax and reinsurance	33,346,862	49,927,245	33,346,862	49,927,245
Assets / (liabilities) arising from reinsurance contracts				
Balance at 1 December	(5,183,966)	2,652,417	(5,183,966)	2,652,417
Movement through income statement	7,573,949	(7,836,383)	7,573,949	(7,836,383)
Balance at 30 November	2,389,983	(5,183,966)	2,389,983	(5,183,966)
Deferred tax	(52,881,824)	(45,577,276)	(52,881,824)	(45,577,276)
Total policy holder assets excluding deferred tax and reinsurance	(17,144,979)	(833,998)	(17,144,979)	(833,998)
Analysed as:				
Current	(2,760,834)	(2,315,631)	(2,760,834)	(2,315,631)
Non current	(14,384,145)	1,481,633	(14,384,145)	1,481,633
	(17,144,979)	(833,998)	(17,144,979)	(833,998)

(1) Other ex-Alico benefits are included in the present value components of the insurance contracts for 2015.

22. HEAD OFFICE ACCOUNT

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Head office account				
Opening balance at 1 December	132,927,925	115,520,861	132,927,925	115,520,861
Distributions paid	(20,000,000)	-	(20,000,000)	-
Net (loss) / profit for the year - Branch	(822,595)	17,407,064	(822,595)	17,407,064
Closing balance at 30 November	**112,105,330**	**132,927,925**	**112,105,330**	**132,927,925**

23. SHARE CAPITAL (CONSOLIDATED)

Share capital				
Opening balance at 1 December	86,500	86,500	-	-
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. Ordinary shares have no par value.

24. RETAINED EARNINGS

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Opening balance at 1 December	(316,634)	363,110	-	-
Net loss for the year - excluding Branch	1,040,589	(679,744)	-	-
Closing balance at 30 November	**723,955**	**(316,634)**	-	-

25. DISAGGREGATED INFORMATION

NZ IFRS 4 requires a life insurer to disclose disaggregated information for each life fund, as defined in the solvency standards under the Insurance (Prudential Supervision) Act 2010.

AIA NZ has established its statutory fund in August 2013. Disaggregated information of this fund is presented in the table below.

	AIA Statutory Fund		Non Statutory Fund	
	Investment linked policies	Non-investment linked policies	Non-investment linked policies	Branch total
As at 30 November 2015	$	$	$	$
Cash and cash equivalents	-	3,578,463	3,479,595	7,058,058
Investment assets	4,883,484	131,564,346	812,905	137,260,735
Policyholder (liabilities) / assets	(4,883,484)	1,634,616	20,393,847	17,144,979
Other assets	-	30,032,216	2,598,743	32,630,960
	-	**166,809,641**	**27,285,090**	**194,094,732**
Liabilities other than policyholder liabilities	-	74,894,424	7,094,977	81,989,401
Retained profits attributable to head office	-	91,915,217	20,190,113	112,105,330
	-	**166,809,641**	**27,285,090**	**194,094,731**
Premium revenue from insurance contracts	-	93,970,176	13,980,232	107,950,408
Outwards reinsurance expense (net of comission)	(2,495)	(34,928,002)	(50,148)	(34,980,645)
Investment income	281,310	12,124,723	155,246	12,561,279
Fee and other income	-	10,714	1,828	12,542
Claims expense	-	(50,817,760)	(9,240,448)	(60,058,208)
Reinsurance recovery revenue	-	18,914,488	(263,228)	18,651,260
Management and sales expenses	-	(63,391,397)	(2,973,567)	(66,364,964)
Movement in policyholder liabilities	(418,153)	23,262,852	1,012,047	23,856,746
(Loss) / profit before taxation	**(139,338)**	**(854,206)**	**2,621,962**	**1,628,418**
Income tax expense	78,767	1,665,200	707,046	2,451,013
(Loss) / profit after taxation for the year	**(218,105)**	**(2,519,406)**	**1,914,916**	**(822,595)**

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

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.

25. DISAGGREGATED INFORMATION (CONTINUED)

	AIA Statutory Fund		Non Statutory Fund	
	Investment linked policies	Non-investment linked policies	Non-investment linked policies	Branch total
As at 30 November 2014	$	$	$	$
Cash and cash equivalents	4,493,521	3,166,645	1,807,866	9,468,031
Investment assets	-	165,325,229	2,527,363	167,852,591
Policyholder (liabilities) / assets	(4,493,521)	(14,054,281)	19,381,799	833,998
Other assets	-	5,087,550	21,948,428	27,035,978
	-	159,525,143	45,665,456	205,190,598
Liabilities other than policyholder liabilities	-	65,740,513	6,522,160	72,262,673
Retained profits attributable to head office	-	93,784,632	39,143,293	132,927,925
	-	159,525,145	45,665,453	205,190,598
Premium revenue from insurance contracts	-	90,220,434	12,704,180	102,924,614
Outwards reinsurance expense (net of comission)	(1,305)	(35,785,526)	(23,196)	(35,810,027)
Investment income	253,781	12,896,317	675,392	13,825,491
Fee and other income	-	13,404	2,100	15,505
Claims expense	-	(45,316,396)	(8,983,119)	(54,299,515)
Reinsurance recovery revenue	-	25,421,949	132,267	25,554,215
Management and sales expenses	-	(41,968,850)	(4,755,056)	(46,723,906)
Movement in policyholder liabilities	(646,735)	13,543,170	1,781,461	14,677,896
Profit before taxation	(394,259)	19,024,504	1,534,029	20,164,273
Income tax expense	71,059	2,355,267	330,884	2,757,209
Profit after taxation for the year	(465,318)	16,669,237	1,203,145	17,407,064

26. STATUTORY FUND

From 1 July 2013 under the Insurance (Prudential Supervision) Act 2010 ("IPSA") AIA NZ was required to have a statutory fund. AIA NZ statutory fund, AIA International Holdings (New Zealand) Limited ("the Statutory Fund") was established on 31 August 2013 and holds assets of the Branch within a statutory fund as bare trustee for the purposes of meeting licensing obligations of AIA NZ.

The purpose of the Statutory Fund is to ensure that the funds received and paid out in respect of life insurance policies are separately identifiable as being part of the Statutory Fund. The Statutory Fund's assets were transferred to the fund on establishment and were determined in the way that is compliant with the minimum solvency requirement of the Reserve Bank of New Zealand.

The use of the assets was restricted in accordance with the IPSA requirements and can only be used to meet the liabilities and expenses of that fund; to acquire investments to further the business of the Statutory Fund; or as distributions, provided that solvency, capital adequacy and other regulatory requirements are met.

27. OWNERSHIP AND TRANSACTIONS WITH RELATED PARTIES

a) Immediate and ultimate controlling party

AIA International Limited -New Zealand Branch is a Branch of AIA International Limited, whose immediate holding company is AIA Company Limited, whose ultimate holding company is AIA Group Limited a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited.

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:

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Subsidiary				
Financial Services Network Ltd				
Commissions	-	-	402,544	986,752
Reimbursement of various expenses and other payables	-	-	1,026,213	1,130,466
	-	-	1,428,757	2,117,218
Ultimate holding company				
AIA Group Limited				
Distributions paid	20,000,000	-	20,000,000	-
Parent				
AIA International Ltd				
Reinsurance Premiums	390,217	207,737	390,217	207,737
Share based compensation costs	300,899	575,743	300,899	575,743
Other administrative fees	1,826,572	925,908	1,826,572	925,908
	2,517,688	1,709,388	2,517,688	1,709,388
Fellow subsidiaries of the ultimate holding company				
Data processing	1,080,266	94,110	1,080,266	94,110
Investment service and administration fee	192,650	408,087	192,650	408,087
Actuarial fees	1,011,069	394,394	1,011,069	394,394
Other administrative fees	291,147	-	291,147	-
	2,575,132	896,591	2,575,132	896,591

For balances with related parties refer to notes 18 'Other Financial Liabilities' and 8 'Loans and Receivables'.

27. OWNERSHIP AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

c) Key Management personnel compensation

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

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
The compensation for key management personnel during the year was as follows:				
Salaries and other short term benefits	3,241,695	2,938,385	3,241,695	2,938,385
Terminations	245,905	263,176	245,905	263,176
Share-based compensation	300,899	575,825	300,899	575,825
	3,788,499	**3,201,561**	**3,788,499**	**3,777,386**

28. OPERATING LEASES

	Consolidated		Branch	
	2015	2014	2015	2014
	$	$	$	$
Future operating non cancellable lease commitments on premises and assets leased are as follows:				
Period from balance date payable:				
Not later than one year	1,143,342	755,962	991,071	641,430
Later than one year but not later than five years	2,974,826	1,806,046	2,519,003	1,482,530
Over five years	1,417,380	1,782,535	1,232,280	1,466,611
	5,535,548	**4,344,543**	**4,742,354**	**3,590,571**

Operating lease payments represent the future rentals payable for premises and assets leased under current leases. These lease agreements have varying terms, escalation clauses and renewal rights.

29. CAPITAL COMMITMENTS

There are no material capital commitments at balance date (2014: nil).

30. CONTINGENT LIABILITIES

There are no material contingent liabilities at balance date (2014: nil).

31. EVENTS OCCURRING AFTER BALANCE DATE

There were no events occurring after balance date that required adjustment to or disclosure in the financial statements.

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Independent Auditors' Report

to the Directors of AIA International Limited – New Zealand Branch

Report on the Financial Statements

We have audited the financial statements of AIA International Limited – New Zealand Branch ("the Branch") on pages 2 to 47, which comprise the statement of financial position as at 30 November 2015, the statement of comprehensive income, the statement of changes in equity and head office account and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the Group. The Group comprises the New Zealand Branch and its controlled entities.

Directors' Responsibility for the Financial Statements

The Directors are responsible on behalf of the Branch for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Branch's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We are independent of the Group. Other than in our capacity as auditors we have no relationship with, or interests in, the Group.

pwc

Independent Auditors' Report

AIA International Limited – New Zealand Branch

Opinion

In our opinion, the financial statements on pages 2 to 47 present fairly, in all material respects, the financial position of the Group as at 30 November 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Branch's Directors, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Branch and the Branch's Directors, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
7 March 2016

Auckland

To the Directors of AIA International Limited – New Zealand Branch

Appointed Actuary's Section 78 report

Review of actuarial information in, or used in the preparation of, financial statements

I am the Appointed Actuary of AIA International Limited – New Zealand Branch ("AIA New Zealand").

In regards to the financial statements my work as Appointed Actuary involved overseeing the preparation of data and assumptions, reasonableness checks of modeled results and preparation of inputs for the financial statements. AIA New Zealand relies on an actuarial model that is operated and maintained within other parts of the AIA Group. AIA New Zealand provides the inputs of data and assumptions and performs review on the outputs. The scope of the review was the actuarial inputs to the financial statements, including the actuarial Notes to the Accounts and preparation of the RBNZ solvency returns for AIA New Zealand.

No limitations have been placed on me during the review of actuarial information and all information and explanations have been provided to prepare the actuarial information.

I am also employed as the Chief Financial Officer ("CFO") of AIA New Zealand. I do not hold any publically listed shares in the parent company of AIA International Limited or currently participate in any employee share schemes or incentive plans. Neither the fact that I am CFO nor any other financial factors has altered my actuarial opinion in any way.

In my opinion, the actuarial information used in the preparation of the financial statements has been appropriately used and the actuarial information contained in the financial statements has been appropriately included in those statements.

In my opinion, AIA New Zealand is and has maintained the required solvency margin over the reporting period and relies on the support of the parent group to maintain solvency going forward. The NZ branch will continually review its capital adequacy position, and reduce its new business growth or inject more capital from the parent group as required. The NZ branch is a small component of a very substantial international Group with substantial capital base.

Grant Mackay
Appointed Actuary
Fellow of the New Zealand Society of Actuaries

23 February 2016