AIA International Limited-New Zealand Branch

Trading as AIA New Zealand

Financial Statements

For the year ended 30 November 2016

AIA International Limited - New Zealand Branch

YEAR ENDED 30 NOVEMBER 2016

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STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 November 2016

	Note	Consolidated		Branch	
		2016	2015	2016	2015
		$	$	$	$
Revenue and other income					
Premium revenue from insurance contracts		121,005,285	107,950,408	120,956,293	107,950,408
Less: Outward reinsurance expenses		(40,839,012)	(42,365,844)	(40,839,012)	(42,365,844)
Net premium revenue		80,166,273	65,584,564	80,117,281	65,584,564
Outward reinsurance commission income		8,051,503	7,385,199	8,051,503	7,385,199
Net investment income	4	6,224,003	12,561,799	6,224,003	12,561,279
Other income		17,050	57,483	11,415	12,542
Net operating income		**94,458,829**	**85,589,045**	**94,404,202**	**85,543,584**
Expenses					
Claims expense		60,342,544	60,058,208	60,342,544	60,058,208
Less: Reinsurance recovery		(25,411,335)	(18,651,260)	(25,411,335)	(18,651,260)
Net claims expenses	5	34,931,209	41,406,948	34,931,209	41,406,948
Management and sales expenses	6	76,524,822	64,965,162	76,898,876	66,364,964
Finance cost		113,832	-	113,832	-
Movement in policyholder liabilities	22	(25,717,651)	(23,856,746)	(25,717,651)	(23,856,746)
Net claims and operating expenses		**85,852,212**	**82,515,364**	**86,226,266**	**83,915,166**
Profit before taxation		**8,606,617**	**3,073,681**	**8,177,936**	**1,628,418**
Income tax expense	7(a)	4,954,744	2,855,687	4,798,300	2,451,013
Profit/(loss) after taxation and total comprehensive income for the year	3	**3,651,873**	**217,994**	**3,379,636**	**(822,595)**

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION

As at 30 November 2016

	Note	Consolidated		Branch	
		2016	2015	2016	2015
		$	$	$	$
Assets					
Cash and cash equivalents	9	21,847,675	7,697,788	20,569,667	7,058,058
Loans and receivables	8	16,310,119	15,196,236	16,297,746	15,190,308
Prepayments		214,486	137,024	187,948	115,252
Financial assets at fair value through profit or loss	11	149,068,432	137,260,735	149,068,432	137,260,735
Income tax asset	7(b)	2,438,898	2,359,122	2,575,893	2,330,168
Assets arising from reinsurance contracts	22	-	2,389,983	-	2,389,983
Property, plant and equipment	12	405,070	527,806	344,677	477,888
Intangible assets	13	5,427,949	4,864,718	5,427,743	4,864,718
Policyholder assets	22	46,424,632	17,144,979	46,424,632	17,144,979
Deferred tax assets	7(c)	14,847,117	7,262,642	14,847,117	7,262,642
Total Assets		**256,984,378**	**194,841,032**	**255,743,855**	**194,094,731**
Liabilities					
Trade and other payables	15	15,089,906	17,582,194	14,932,075	17,545,654
Employee benefit obligations	14	3,167,075	2,575,518	3,167,075	2,575,518
Other insurance liabilities	17	5,267,378	7,998,462	5,267,378	7,998,462
Other financial liabilities	19	792,204	887,249	792,204	987,943
Liabilities arising from reinsurance contracts	22	1,172,014	-	1,172,014	-
Deferred tax liabilities	7(c)	64,928,143	52,881,824	64,928,143	52,881,824
Total Liabilities		**90,416,720**	**81,925,247**	**90,258,889**	**81,989,401**
Net Assets		**166,567,658**	**112,915,785**	**165,484,966**	**112,105,330**
Equity and Head Office Account					
Share capital	24	86,500	86,500	-	-
Retained earnings	25	996,192	723,955	-	-
Total Equity		**1,082,692**	**810,455**	**-**	**-**
Head office account	23	165,484,966	112,105,330	165,484,966	112,105,330
Total Equity and Head Office Account		**166,567,658**	**112,915,785**	**165,484,966**	**112,105,330**

The Financial Statements were approved for issue by the Board on 22 February 2017

Gordon Timmins Watson
Director

Garth Brian Jones
Director

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

AIA International Limited - New Zealand Branch

STATEMENTS OF CHANGES IN EQUITY AND HEAD OFFICE ACCOUNT

For the year ended 30 November 2016

	Note	Head office account	Share capital	Retained earnings/ accumulated (losses)	Total
Consolidated		$	$	$	$
Year ended 30 November 2016					
At the beginning of year		112,105,330	86,500	723,955	112,915,785
Contribution received		50,000,000	-	-	50,000,000
Comprehensive income for the year:					
Income for the year		3,379,636	-	272,237	3,651,873
Total comprehensive income/(loss) for the year		3,379,636	-	272,237	3,651,873
At the end of year		**165,484,966**	**86,500**	**996,192**	**166,567,658**
Year ended 30 November 2015					
At the beginning of year		132,927,925	86,500	(316,634)	132,697,791
Remittance to ultimate holding company		(20,000,000)	-	-	(20,000,000)
Comprehensive income 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
Branch					
Year ended 30 November 2016					
At the beginning of year		112,105,330	-	-	112,105,330
Contribution received		50,000,000	-	-	50,000,000
Comprehensive income for the year:					
Income for the year		3,379,636	-	-	3,379,636
Total comprehensive income for the year		3,379,636	-	-	3,379,636
At the end of year		**165,484,966**	-	-	**165,484,966**
Year ended 30 November 2015					
At the beginning of year		132,927,925	-	-	132,927,925
Remittance to ultimate holding company		(20,000,000)			(20,000,000)
Comprehensive income for the year:					
Loss for the year		(822,595)	-	-	(822,595)
Total comprehensive loss for the year		(822,595)	-	-	(822,595)
At the end of year		112,105,330	-	-	112,105,330

The above Statements of Change in Equity and Head Office Account should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS

For the year ended 30 November 2016

	Note	Consolidated 2016 $	Consolidated 2015 $	Branch 2016 $	Branch 2015 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Premiums received		119,191,353	107,842,921	119,142,361	107,842,921
Interest paid		(113,832)	-	(113,832)	-
Interest received		8,929,318	10,477,309	8,929,318	10,476,790
Other income received		17,050	57,483	11,415	12,542
Reinsurance recoveries		24,113,107	11,340,842	24,113,107	11,340,842
Reinsurance paid		(37,001,232)	(21,604,892)	(37,001,231)	(21,604,892)
Policy loan advancements		(161,564)	(455,865)	(161,564)	(455,865)
Repayment of policy loans		303,610	95,671	303,610	95,671
Payments to suppliers and employees		(70,991,100)	(60,455,225)	(71,764,335)	(60,228,863)
Payments to policyholders		(63,379,563)	(57,986,540)	(63,223,119)	(57,986,540)
Income tax paid		(107,362)	(2,515,213)	(107,362)	(2,515,213)
Net cash used in operating activities	9	**(19,200,215)**	**(13,203,509)**	**(19,871,632)**	**(13,022,607)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales / maturity of financial assets		28,389,081	38,119,150	28,389,081	38,119,150
Acquisition of financial assets		(42,929,807)	(5,000,000)	(42,929,807)	(5,000,000)
Purchase of property, plant and equipment		(150,825)	(214,621)	(117,687)	(204,813)
Acquisition of intangible assets		(1,958,348)	(2,287,986)	(1,958,347)	(2,301,703)
Net cash (used in)/provided by investing activities		**(16,649,899)**	**30,616,543**	**(16,616,760)**	**30,612,634**
CASH FLOWS FROM FINANCING ACTIVITIES					
Contribution received		50,000,000	-	50,000,000	-
Remittance paid		-	(20,000,000)	-	(20,000,000)
Net cash provided by/(used in) financing activities		**50,000,000**	**(20,000,000)**	**50,000,000**	**(20,000,000)**
Net increase/(decrease) in cash and cash equivalents		**14,149,887**	**(2,586,966)**	**13,511,609**	**(2,409,973)**
Cash and cash equivalents at the beginning of the year		7,697,788	10,284,754	7,058,058	9,468,031
Cash and cash equivalents at the end of the year	9(a)	**21,847,675**	**7,697,788**	**20,569,667**	**7,058,058**

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

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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 "Group" or the "Consolidated" Entity.

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 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 2016. Initial application of these standards and interpretations, except for NZ IFRS 9 and 16, is not expected to have a material impact to the financial report of the Branch and Consolidated Entity. NZ IFRS 9 will impact the Branch and Consolidated Entity as it replaces the current classification and measurement models for financial assets and liabilities.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NZ IFRS 15 "Revenue from Contracts with Customers" (effective from 1 January 2018) 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.

IFRS 16, Leases, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Branch and Consolidated Entity is yet to assess the full impact of the standard on its financial position and results of operations. The standard is mandatorily effective for annual periods beginning on or after 1 January 2019.

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 2016 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Claims expenses (continued)

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, including commissions and distribution costs, underwriting and other policy issue expenses which vary with and are primarily related to the production of new business. 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.

Deferred Acquisition Costs are amortised for the Insurance products over the expected life of the contracts. DAC recoverability test is performed implicitly within the policy liability calculation. If the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement as an increase in policy liability.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Under New Zealand tax law, there is a specific regime for the taxation of life insurance business. For New Zealand tax purposes, a life insurer will be taxed under two bases of taxation, the 'Policyholder Base' and the 'Shareholder Base'. These two bases impose tax on the benefits received by policyholders and shareholders in the company respectively. For financial reporting purposes, the income tax expense recognised in the statement of comprehensive income reflects the income tax expense arising in respect of both the policy holder base and the shareholder base.

Tax losses arising in the Shareholder Base are not able to be utilised by Policyholders. These tax losses can however be offset to other companies that share the same shareholding in accordance with shareholder continuity and commonality requirements under New Zealand tax law. Tax losses arising in the Policyholder Base cannot be offset to other companies or the Shareholder Base.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Foreign currency transactions

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 (FVTPL): are financial assets that either held for trading or designated on initial recognition as at FVTPL. 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 FVTPL 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.

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, fittings 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 of 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.

Purchased computer software

Application software purchased is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over a period of 5 years useful life of the software.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 amortised cost. 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. Detailed checks were performed to ensure correctness of the Prophet model. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 21 "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/ liabilities 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 financial assets have expired or where the Branch has transferred substantially all risk and rewards of ownership. If the Branch neither transfers nor retains substantially all the risk and rewards of ownership of a financial asset, it derecognizes the financial asset if it no longer has control over the asset. In transfers where control over the asset is retained, the Branch continues to recognize the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which the Branch is exposed to changes in the fair value of the asset. Financial liabilities are derecognized when they are extinguished, i.e. when the obligation is discharged or cancelled.

z) Statement of Cash Flows

For the purpose of the Statement of Cash Flows, cash and cash equivalents include cash on hand and in banks and investment in money market instruments with original agreed terms to maturity of less than 3 months, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 21 "Actuarial policies and methods" for details of specific actuarial policies and methods.

AIA NZ calculates the insurance contract liabilities for life insurance products using a margin on services method, whereby the liability represents the present value of estimated future profit, future policy benefits and future expenses to be paid, less the present value of estimated future premiums to be collected from policyholders. This method uses best estimate assumptions, where assumptions such as mortality/morbidity, lapse and expense assumptions are based on actual experience modified as appropriate. AIA NZ exercises significant judgement in making appropriate assumptions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets or liabilities arising from reinsurance contracts

Assets or liabilities 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 21 "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.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment regularly. This requires the exercise of significant judgement. The Branch assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Objective evidence that a financial asset, or group of assets, is impaired includes observable data that comes to the attention of the Branch about the following events:

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

For loans and receivables, impairment loss is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for trends in the group of financial assets or individual accounts.

Impairment of intangible assets

For the purposes of impairment testing, intangible assets are grouped into cash-generating units. These assets are tested for impairment by comparing the carrying amount of the cash-generating unit, to the recoverable amount of that cash-generating unit. The determination of the recoverable amount requires significant judgement regarding the selection of appropriate valuation techniques and assumptions.

dd) Changes made to the financial statements with prior year impact

Note 6 management and sales expenses has been reformatted to align with the requirement of IFRS 4 and disclosure practice within the industry.

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 plans, 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 of the Group's financial statements. 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 16 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/(loss) 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.

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Profit/(loss) after taxation	**3,651,873**	**217,994**	**3,379,636**	**(822,595)**
Less:				
Unrealised (loss)/gain from financial assets	(2,015,541)	1,436,344	(2,015,541)	1,436,344
Discount rate change effect on policy liabilities	(9,038,098)	(969,605)	(9,038,098)	(969,605)
Fair value and discount rate change effect after tax:	(11,053,639)	466,739	(11,053,639)	466,739
Reduction in deferred tax on policy liabilities - latest period	4,647,505	3,819,442	4,647,504	3,819,442
Underlying profit/(loss) after tax	**10,058,007**	**(4,068,187)**	**9,785,771**	**(5,108,776)**
Components of underlying profit				
Insurance contracts				
Planned margins of revenues over expenses	7,086,143	4,143,757	7,086,143	4,143,757
Difference between actual and assumed experience	(3,292,717)	(14,115,274)	(3,292,717)	(14,115,274)
	3,793,426	(9,971,517)	3,793,426	(9,971,517)
Investment contracts				
Difference between actual and assumed experience	(387,589)	(389,964)	(387,589)	(389,964)
	(387,589)	(389,964)	(387,589)	(389,964)
Investment earnings on assets in excess of policyholder liabilities	6,379,934	5,252,705	6,379,934	5,252,705
Other	272,236	1,040,589	-	-
Total underlying profit/(loss) after tax	**10,058,007**	**(4,068,187)**	**9,785,771**	**(5,108,776)**

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	
	2016	2015	2016	2015
	$	$	$	$
Investment gains				
Fixed interest securities:				
- Debt securities interest and other income	7,847,296	9,123,139	7,847,296	9,123,139
- Debt securities (loss)/gain	(1,988,375)	3,119,815	(1,988,375)	3,119,815
Cash and cash equivalents interest	254,820	231,353	254,820	230,833
Loans interest	110,262	87,492	110,262	87,492
Total net investment income	**6,224,003**	**12,561,799**	**6,224,003**	**12,561,279**

5. NET CLAIMS EXPENSE

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Claims	50,020,643	44,833,947	50,020,643	44,833,947
Surrenders	10,321,901	15,224,261	10,321,901	15,224,261
Insurance claims recognised as expense	**60,342,544**	**60,058,208**	**60,342,544**	**60,058,208**
Less: Reinsurance recoveries	(25,411,335)	(18,651,260)	(25,411,335)	(18,651,260)
Net claims expense	**34,931,209**	**41,406,948**	**34,931,209**	**41,406,948**

6. MANAGEMENT AND SALES EXPENSES

Investment management expense is recognised on an accrual basis.

Operating expenses are allocated into acquisition, maintenance, insurance contract, and investment contracts, using a allocation model which factors premium percentage, and activity based on a survey across the business.

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Policy acqusition costs				
- Commission	35,841,091	24,468,075	36,583,792	26,118,071
- Other	14,609,876	13,334,134	14,609,876	13,334,134
Policy maintenance costs				
- Commission	6,337,765	6,246,319	6,337,957	6,266,870
- Other	19,533,072	20,212,531	19,164,233	19,941,786
Investment management expenses	203,018	704,103	203,018	704,103
Total administration expenses	76,524,822	64,965,162	76,898,876	66,364,964

6. MANAGEMENT AND SALES EXPENSES (CONTINUED)

Specific expense disclosure

Included within total administration expenses above are the following specific items:

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Share-based payments	434,810	399,124	434,810	399,124
Salaries and other short term benefits	15,825,010	17,306,651	15,758,670	17,007,543
Post- employment benefits	373,336	427,292	373,336	423,641
Amortisation of intangible assets	1,403,136	1,002,960	1,403,023	1,002,960
Depreciation of property, plant and equipment	265,545	273,879	243,197	254,833
Impairment of intangible assets	-	516,440	-	516,440
Lease expenses	952,334	945,096	855,186	791,530
Group service fees	1,769,358	1,433,275	1,769,358	1,433,275
Sales and marketing related	2,855,119	1,697,314	2,772,901	1,627,537
Data processing	2,304,868	2,812,469	2,304,868	2,797,125
Audit fees	187,000	189,000	187,000	189,000
Other assurance services	8,000	8,000	8,000	8,000
Professional fees (excluding paid to auditors)	2,238,190	2,595,011	2,228,689	2,560,344
Medical adminstrative expenses	1,734,938	1,430,215	1,734,938	1,430,215
Other administrative expenses	3,789,804	2,509,941	3,698,633	2,834,354
Donations	1,500	-	1,500	-
	34,142,948	33,546,666	33,774,109	33,275,921

Auditor Remuneration

The audit of financial statements includes fees for the annual audit of financial statements. Other assurance services relates to the solvency return.

7. TAXATION

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
(a) Income tax expense				
Current tax expense				
Current taxation	492,900	51,178	336,455	-
Deferred tax expense				
Deferred tax expense	4,461,844	2,804,509	4,461,845	2,451,013
Income tax expense	**4,954,744**	**2,855,687**	**4,798,300**	**2,451,013**

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

	2016	2015	2016	2015
Total profit before taxation	8,606,617	3,073,681	8,177,936	1,628,418
Income tax at the current rate of 28%	2,409,853	860,631	2,289,822	455,957
Taxation effect of non-deductible expenses/non-assessable revenue				
Permanent differences	1,965,069	2,252,658	1,968,533	2,252,658
Prior period adjustment-deferred tax asset-other	203,491	(257,602)	203,491	(257,602)
Prior period adjustment-current tax	376,331	-	336,454	-
Income tax expense	**4,954,744**	**2,855,687**	**4,798,300**	**2,451,013**

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7. TAXATION (CONTINUED)

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
(b) Income tax (payable)/asset				
Opening balance	2,359,122	(104,986)	2,330,168	(185,045)
Provisional tax paid	107,632	2,515,286	107,632	2,515,213
Prior period adjustment	88,710	-	138,093	-
Losses offset against current year charge	-	353,496	-	-
Current year charge	(116,567)	(404,674)	-	-
Closing balance	2,438,898	2,359,122	2,575,893	2,330,168
Analysed as:				
Current income tax asset	2,438,898	2,359,122	2,575,893	2,330,168
Total income tax	**2,438,898**	**2,359,122**	**2,575,893**	**2,330,168**

The Branch has recognised a deferred tax asset resulting from tax losses in the year. The Branch has determined that it is probable that taxable profits will be available against which the tax losses can be utilised in the future subject to shareholder continuity being maintained.

(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
2016	$	$	$	$	$	$
Movements in deferred tax						
Provisions and accruals	1,292,714	563,261	1,855,975	1,292,714	563,261	1,855,975
Policyholder liabilities	(52,881,824)	(12,046,319)	(64,928,143)	(52,881,824)	(12,046,319)	(64,928,143)
Tax losses	5,969,928	7,021,214	12,991,142	5,969,928	7,021,214	12,991,142
Total net deferred tax liability	**(45,619,182)**	**(4,461,844)**	**(50,081,026)**	**(45,619,182)**	**(4,461,844)**	**(50,081,026)**
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)**

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 $64.9m (2015 $52.9m) 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	
	2016	2015	2016	2015
	$	$	$	$
Receivables from policyholders	2,955,316	2,532,545	2,955,316	2,532,545
Impairment provision	(4,464)	(1,899)	(4,464)	(1,899)
Loans receivable	1,206,761	1,348,807	1,206,761	1,348,807
Loans to and receivables from policyholders	**4,157,613**	**3,879,453**	**4,157,613**	**3,879,453**
Due from brokers and intermediaries	2,346,319	2,338,001	2,346,319	2,334,329
Impairment provision	(1,764,729)	(1,559,708)	(1,764,729)	(1,559,708)
Receivables from brokers and intermediaries	**581,590**	**778,293**	**581,590**	**774,621**
Reinsurance recoveries	9,528,927	8,230,698	9,528,927	8,230,698
Receivables from reinsurers	**9,528,927**	**8,230,698**	**9,528,927**	**8,230,698**
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**
Accrued interest	2,017,451	1,989,740	2,017,451	1,989,740
Sundry debtors	24,538	190,621	12,165	188,365
Other receivables	**2,041,989**	**2,180,361**	**2,029,616**	**2,178,105**
Total loans and receivables	**16,310,119**	**15,196,236**	**16,297,746**	**15,190,308**
Analysed as:				
Current	15,103,358	13,847,429	15,090,985	13,841,501
Non current	1,206,761	1,348,807	1,206,761	1,348,807
	16,310,119	**15,196,236**	**16,297,746**	**15,190,308**

Included in loans and receivables balance are debtors with a carrying amount of $1,889,601 (2015: $956,592) 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	
	2016	2015	2016	2015
	$	$	$	$
Ageing past due receivables				
1-30 days	1,165,608	478,168	1,165,608	478,168
31-90 days	576,987	136,406	576,987	136,406
91-365 days	134,812	86,412	134,812	86,412
Over 1 year	12,194	255,606	12,194	255,606
Total	**1,889,601**	**956,592**	**1,889,601**	**956,592**

8. LOANS AND RECEIVABLES (CONTINUED)

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Provision for impairment of receivables from brokers and intermediaries				
At beginning of the year	(1,559,708)	(1,340,379)	(1,559,708)	(1,340,379)
Additional provisions	(205,021)	(219,329)	(205,021)	(219,329)
At the end of the year	**(1,764,729)**	**(1,559,708)**	**(1,764,729)**	**(1,559,708)**
Analysed as:				
Current	(1,764,729)	(1,559,708)	(1,764,729)	(1,559,708)

9. CASH AND CASH EQUIVALENTS

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Cash at bank and in hand	21,220,583	3,170,034	19,942,575	2,530,303
Deposits at call	627,092	4,527,754	627,092	4,527,755
Total cash and cash equivalents	**21,847,675**	**7,697,788**	**20,569,667**	**7,058,058**

(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	
	2016	2015	2016	2015
	$	$	$	$
Balance as above	21,847,675	7,697,788	20,569,667	7,058,058
Closing balance per Statement of Cash Flows	**21,847,675**	**7,697,788**	**20,569,667**	**7,058,058**

9. CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Reconciliation of profit/(loss) after taxation to net cash outflow from operating activities

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Profit/(loss) after taxation for the year	**3,651,873**	**217,994**	**3,379,636**	**(822,595)**
Add/(less) non cash items				
Depreciation	265,545	273,879	243,197	254,834
Amortisation of intangibles	1,403,136	1,002,960	1,403,023	1,002,960
(Loss)/gains from financial assets	2,733,026	(2,527,295)	2,733,026	(2,527,295)
Movement in policyholder liabilities and reinsurance assets	(25,717,651)	(23,884,931)	(25,717,651)	(23,884,931)
Deferred tax	4,461,844	2,804,509	4,461,844	2,451,013
	(16,854,100)	**(22,330,878)**	**(16,876,561)**	**(22,703,419)**
Add/(less) movements in working capital relating to operating activities				
(Increase)/decrease in loans and receivables	(1,113,883)	3,542,613	(1,107,438)	5,083,846
(Increase)/decrease in prepayments	(77,469)	134,375	(72,699)	143,584
Increase in income tax assets	(79,776)	(2,464,108)	(245,725)	(2,515,213)
(Decrease)/increase in trade and other payables	(2,492,288)	4,117,457	(2,613,579)	4,127,206
Increase in employee benefit obligations	591,557	691,452	591,557	691,452
(Decrease)/increase in other insurance liabilities	(2,731,084)	2,378,134	(2,731,084)	2,378,134
(Decrease)/increase in other financial liabilities	(95,045)	509,452	(195,739)	594,398
	(5,997,988)	**8,909,375**	**(6,374,707)**	**10,503,407**
Net cash used in operating activities	**(19,200,215)**	**(13,203,509)**	**(19,871,632)**	**(13,022,607)**

10. INVESTMENT IN SUBSIDIARY

AIA International Limited has an interest in the following subsidiary entities:

	Principle Activity	Percentage Held	
		2016	2015
AIA Financial Services Network Limited	Insurance Brokerage	100%	100%
AIA International Holdings (New Zealand) Limited	Holding Company	100%	100%

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Debt securities				
Annuity bonds	3,066,030	3,762,879	3,066,030	3,762,879
Medium term notes	146,002,402	133,497,856	146,002,402	133,497,856
Total financial assets through profit or loss	**149,068,432**	**137,260,735**	**149,068,432**	**137,260,735**
Analysed as:				
Current	14,989,334	15,470,032	14,989,334	15,470,032
Non current	134,079,098	121,790,703	134,079,098	121,790,703
	149,068,432	**137,260,735**	**149,068,432**	**137,260,735**

12. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Furniture, fittings and office equipment				
Cost				
At beginning of the year	2,078,727	2,028,795	1,999,496	1,933,747
Additions	64,338	78,408	31,198	71,365
Disposals	(2,628)	(28,476)	(2,628)	(5,616)
Reclassification	20,817	-	14,083	-
At end of the year	2,161,254	2,078,727	2,042,149	1,999,496
Accumulated depreciation				
At beginning of the year	(1,722,490)	(1,598,920)	(1,691,287)	(1,575,844)
Depreciation charge	(154,842)	(135,747)	(133,110)	(118,478)
Disposals	2,219	12,177	2,219	3,035
Reclassification	(6,888)	-	163	-
At end of the year	(1,882,001)	(1,722,490)	(1,822,015)	(1,691,287)
Closing net book value	**279,253**	**356,237**	**220,134**	**308,209**
Computer equipment				
Cost				
At beginning of the year	1,557,923	1,453,583	1,546,457	1,444,884
Additions	79,198	136,215	79,198	133,448
Disposals	(12,031)	(31,875)	(12,031)	(31,875)
Reclassification	145,919	-	153,215	-
At end of the year	1,771,009	1,557,923	1,766,839	1,546,457
Accumulated depreciation				
At beginning of the year	(1,386,354)	(1,278,752)	(1,376,778)	(1,270,952)
Depreciation charge	(110,703)	(138,131)	(110,087)	(136,355)
Disposals	12,031	30,529	12,031	30,529
Reclassification	(160,166)	-	(167,462)	-
At end of the year	(1,645,192)	(1,386,354)	(1,642,296)	(1,376,778)
Closing net book value	**125,817**	**171,569**	**124,543**	**169,679**
Total net book value of property, plant and equipment	**405,070**	**527,806**	**344,677**	**477,888**

13. INTANGIBLE ASSETS

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Purchased computer software				
Cost				
At beginning of the year	2,598,435	2,544,637	2,598,435	2,544,637
Additions	7,290	53,798	7,290	53,798
Disposals	(26,260)	-	(26,260)	-
Reclassification	(774,635)	-	(775,197)	-
At end of the year	1,804,830	2,598,435	1,804,268	2,598,435
Accumulated amortisation				
At beginning of the year	(2,481,793)	(2,362,912)	(2,481,793)	(2,362,912)
Amortisation charge	(59,591)	(118,881)	(59,479)	(118,881)
Disposals	15,756	-	15,756	-
Reclassification	811,448	-	811,692	-
At end of the year	(1,714,180)	(2,481,793)	(1,713,824)	(2,481,793)
Closing net book value	**90,650**	**116,642**	**90,444**	**116,642**
Software development cost				
Cost				
At beginning of the year	5,026,439	4,710,103	5,026,439	4,710,103
Additions	1,311,609	697,837	1,311,609	697,837
Transfers from work in progress	1,604,234	1,209,419	1,604,234	1,209,419
Impairment	-	(1,590,920)	-	(1,590,920)
Reclassification	649,710		649,710	
At end of the year	8,591,992	5,026,439	8,591,992	5,026,439
Accumulated amortisation				
At beginning of the year	(2,452,450)	(2,642,850)	(2,452,450)	(2,642,850)
Amortisation charge	(1,343,545)	(884,079)	(1,343,544)	(884,079)
Impairment	-	1,074,479	-	1,074,479
Reclassification	(648,978)	-	(648,979)	-
At end of the year	(4,444,973)	(2,452,450)	(4,444,973)	(2,452,450)
Closing net book value	**4,147,019**	**2,573,989**	**4,147,019**	**2,573,989**
Work in progress				
At beginning of the year	2,174,087	1,313,070	2,174,087	1,313,070
Additions	657,655	2,070,436	657,655	2,070,436
Transfers to internally developed software	(1,604,234)	(1,209,419)	(1,604,234)	(1,209,419)
Reclassification	(37,228)	-	(37,228)	-
Closing net book value	**1,190,280**	**2,174,087**	**1,190,280**	**2,174,087**
Total intangible assets	**5,427,949**	**4,864,718**	**5,427,743**	**4,864,718**

14. EMPLOYEE BENEFIT OBLIGATIONS

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Employee entitlements	3,167,075	2,575,518	3,167,075	2,575,518
Total employee benefit obligations	**3,167,075**	**2,575,518**	**3,167,075**	**2,575,518**
Analysed as:				
Current	3,167,075	2,496,248	3,167,075	2,496,248
Non current	-	79,270	-	79,270
	3,167,075	**2,575,518**	**3,167,075**	**2,575,518**

15. TRADE AND OTHER PAYABLES

	Consolidated		Branch	
	2016	2015	2016	2015
Amounts due to reinsurers	8,290,508	12,504,230	8,290,508	12,504,230
Other payables and accruals	6,799,398	5,077,963	6,641,567	5,041,424
Total trade and other payables	**15,089,906**	**17,582,194**	**14,932,075**	**17,545,654**
Analysed as:				
Current	15,089,906	17,582,194	14,932,075	17,545,654
Non current	-	-	-	-
	15,089,906	**17,582,194**	**14,932,075**	**17,545,654**

16. 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 approximately 2.5 per cent of the number of shares in issue of AIAGL at 30 November 2016.

	Year ended 30 November 2016 Number of Shares	Year ended 30 November 2015 Number of Shares
Restricted share units		
Outstanding at beginning of financial year	31,999	323,331
Granted	68,600	107,245
Vested or exercised	(26,233)	(69,620)
Transfer in/(out)	142,397	(243,466)
Forfeited or expired	(36,929)	(85,491)
Outstanding at end of financial year	**179,834**	**31,999**

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 approximately 2.5 per cent of the number of shares in issue of AIAGL at 30 November 2016.

16. SHARE BASED COMPENSATION (CONTINUED)

Information about share options outstanding and share 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 2016 Number of share options	Weighted average Exercise price	Year ended 30 November 2015 Number of share options	Weighted average Exercise price
		HK$		HK$
Share Options				
Outstanding at beginning of financial year	-	-	92,656	33.45
Granted	32,219	41.90	26,484	47.73
Exercised	-	-	(30,027)	28.40
Transfer in/(out)	-	-	(89,113)	(39.39)
Outstanding at end of financial year	32,219	-	-	-
Share options exercisable at end of financial year	-	-	-	-
Weighted average remaining contractual life (years)	2.27		-	

The range of exercise prices for the share options outstanding as of 30 November 2016 and 2015 is summarised in the table below.

	Year ended 30-Nov-16		Year ended 30-Nov-15	
	Number of share options outstanding	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
Range of exercise price				
HK$26 - HK$35	-	N/A	-	N/A
HK$36 – HK$45	32,219	9.27	-	N/A
HK$46 – HK$55	-	N/A	-	N/A
Outstanding at end of financial year	32,219	9.27	-	N/A

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 8% of the annual basic salary subject to a maximum of HK$117,000 per annum. The awarded matching restricted stock purchase units are expected to be settled in equity. For the year ended 30 November 2016, eligible employees of the Group paid NZD$79,869 (2015: $124,394) to purchase 9,735 ordinary shares (2015: 13,315 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.

16. SHARE BASED COMPENSATION (CONTINUED)

Year ended 30 November

	Share options	Restricted share units	ESPP Restricted stock purchase units	Share options	Restricted share units	ESPP Restricted stock purchase units
	2016			2015		
Risk-free interest rate	1.25%	0.74%	0.47% - 0.88%	1.61%	0.80%	0.44% - 0.94%
Volatility	20.00%	20.00%	20.00%	20.00%	20.00%	20% - 25%
Dividend yield	1.80%	1.80%	1.20% - 1.80%	1.20%	1.20%	1.20%
Exercise price (HK$)	41.90	N/A	N/A	47.15	N/A	N/A
Option life (in years)	10.00	N/A	N/A	10.00	N/A	N/A
Expected life (in years)	8.03	N/A	N/A	7.94	N/A	N/A
Weighted average fair value per option / unit at measurement date (HK$)	7.74	34.07	41.65	10.15	39.47	42.82

The weighted average share price for share option valuation for grants made during the year ended 30 November 2016 is HK$41.90 (2015: HK$47.73).

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 2016 is $434,810 (2015: $300,899).

17. OTHER INSURANCE LIABILITIES

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Outstanding claims	4,955,365	7,499,484	4,955,365	7,499,484
Premiums received in advance	312,013	498,978	312,013	498,978
Total other insurance liabilities	**5,267,378**	**7,998,462**	**5,267,378**	**7,998,462**
Analysed as:				
Current	5,267,378	7,998,462	5,267,378	7,998,462

18. 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.

18. 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 2016							
Financial assets measured at fair value							
Annuity bonds	-	3,066,030	-	**3,066,030**	3,066,030	-	**3,066,030**
Medium term notes	-	146,002,402	-	**146,002,402**	146,002,402	-	**146,002,402**
Financial assets not measured at fair value							
Cash and cash equivalents	21,847,675	-	-	**21,847,675**			
Loans and receivables	16,310,119	-	-	**16,310,119**			
	38,157,794	**149,068,432**	**-**	**187,226,226**			
Financial liabilities measured at fair value							
Policyholder liabilities - investment contracts	-	5,471,933	-	**5,471,933**	-	5,471,933	**5,471,933**
Financial liabilities not measured at fair value							
Trade and other payables	-	-	15,089,906	**15,089,906**			
Outstanding claims provision	-	-	4,955,365	**4,955,365**			
Other financial liabilities	-	-	792,204	**792,204**			
	-	**5,471,933**	**20,837,475**	**26,309,408**			
Consolidated							
30 November 2015							
Financial 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**
Financial 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**			
Financial 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**			

18. 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 2016							
Financial assets measured at fair value							
Annuity bonds	-	3,066,030	-	3,066,030	3,066,030	-	3,066,030
Medium term notes	-	146,002,402	-	146,002,402	146,002,402	-	146,002,402
Financial assets not measured at fair value							
Cash and cash equivalents	20,569,667	-	-	20,569,667			
Loans and receivables	16,297,746	-	-	16,297,746			
	36,867,413	149,068,432	-	185,935,845			
Financial liabilities measured at fair value							
Policyholder liabilities - investment contracts	-	5,471,933	-	5,471,933	-	5,471,933	5,471,933
Financial liabilities not measured at fair value							
Trade and other payables	-	-	14,932,075	14,932,075			
Outstanding claims provision	-	-	4,955,365	4,955,365			
Other financial liabilities	-	-	792,204	792,204			
	-	5,471,933	20,679,644	26,151,577			
Branch							
30 November 2015							
Financial 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
Financial 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			
Financial 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	-	-	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			

18. 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 comprise 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. (2015: nil).

Investments classified as level 2 comprise 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 quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curve that are observable at commonly quoted intervals.

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	2016	2015
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, net of investment related expenses (gross of tax)	4.00%	4.41%
Discount rate, net of investment related expenses (net of tax)	2.88%	3.18%

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 in the above table shows a sample taken from the forward curve at duration of 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 change in level 3 instruments:

Variation	**Policyholder liabilities-Investment contracts**	**Policyholder liabilities-Investment contracts**
	2016	2015
	$	$
Opening balance:	**4,883,484**	**4,493,521**
Fair value movements recognised in the statement of comprehensive income	220,155	215,607
Investment income net of tax and expenses	223,677	202,543
Contributions received	160,308	76,321
Withdrawals	(15,691)	(104,508)
Closing balance:	**5,471,933**	**4,883,484**

18. 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 2016.

Variation	Profit after tax and equity increase/(decrease)	Profit after tax and equity increase/(decrease)
	2016	2015
	$	$
Interest rates + 1%	500,000	410,000
Interest rates - 1%	(560,000)	(460,000)
Surrenders + 10%	140,000	100,000
Surrenders - 10%	(160,000)	(120,000)

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:

	2016		2015	
	AU$	$	AU$	$
Annuity Bonds	2,934,000	3,066,030	3,426,854	3,762,879

Foreign currency sensitivity

Based on the financial instruments held at 30 November 2016, 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 $153,302 lower / $153,302 higher (2015: $188,144 lower / $188,144 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.

18. 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 2016, if interest had changed by -/+ 100 basis points from the year end rates with all other variables held constant, profit/loss after tax and equity for the year would have been $113,528 lower/higher (2015: $60,826 lower/higher) for the Branch and $120,056 lower/higher (2015: $63,483 lower/higher) for the Consolidated Entity.

Sensitivity of fixed interest rate investments

At 30 November 2016, 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 $4,795,226 higher / $4,532,172 lower (2015: $4,626,823 higher / $4,363,605 lower) for the Branch and Consolidated Entity.

Interest rate risk sensitivity on policyholder liabilities is disclosed in note 21.

(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 (2015: nil).

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18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Consolidated

As at 30 November 2016

	Weighted average interest rate %	Under 1 year	Over 5 years	Total	Carrying Value
Trade and other payables	N/A	15,089,906		15,089,906	15,089,906
Outstanding claims provision	N/A	4,955,365		4,955,365	4,955,365
Other financial liabilities					
- Amounts due to related parties	N/A	792,204		792,204	792,204
Policyholder liabilities - Investment contracts	4.15%	107,182	7,832,075	7,939,257	5,471,933
Total financial liabilities		**20,944,657**	**7,832,075**	**28,776,732**	**26,309,408**
As at 30 November 2015					
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**

Branch

As at 30 November 2016

	Weighted average interest rate %	Under 1 year	Over 5 years	Total	Carrying Value
Trade and other payables	N/A	14,932,075		14,932,075	14,932,075
Outstanding claims provision	N/A	4,955,365		4,955,365	4,955,365
Other financial liabilities					
- Amounts due to related parties	N/A	792,204		792,204	792,204
Policyholder liabilities - Investment contracts	4.15%	107,182	7,832,075	7,939,257	5,471,933
Total financial liabilities		**20,786,826**	**7,832,075**	**28,618,901**	**26,151,577**
As at 30 November 2015					
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**

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.

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

The maximum exposures to credit risk 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 S&P Global (S&P) rating (or equivalent when not available from S&P).

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
AA	110,483,501	99,655,629	109,205,493	99,015,898
A	38,781,339	36,677,261	38,781,339	36,677,261
BBB	20,126,184	12,879,922	20,126,184	12,879,922
Non- Rated	17,835,202	10,941,947	17,822,830	10,936,020
Total Financial Assets	**187,226,226**	**160,154,759**	**185,935,846**	**159,509,101**

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.

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 23 and 25 respectively. During the current year the Consolidated Entity complied with all externally imposed capital requirements.

Since 31 August 2013 the Branch has 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 27.

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

As at 30 November 2016

(Calculated in accordance with RBNZ requirements)	Branch	Statutory Fund	Non- Statutory Fund
	$	$	$
Actual solvency capital	126,777,078	100,590,285	26,186,793
Minimum solvency capital	97,361,661	77,804,385	19,557,276
Solvency Margin	**29,415,417**	**22,785,900**	**6,629,517**
Solvency ratio	**130%**	**129%**	**134%**

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**
Solvency ratio	**113%**	**114%**	**109%**

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

The basis of calculation of the solvency reserves for 2016 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

18. 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 New Zealand Leadership Team, AIA Australia and Group Office in Hong Kong.

19. OTHER FINANCIAL LIABILITIES

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Amounts due to related parties:				
Subsidiary of parent company	-	-	-	100,694
Fellow subsidiaries of the ultimate holding company	792,204	887,249	792,204	887,249
	792,204	**887,249**	**792,204**	**987,943**
Analysed as:				
Current	792,204	887,249	792,204	987,943

20. 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.

21. ACTUARIAL POLICIES AND METHODS

The actuarial report on policyholder liabilities and solvency reserves for the current reporting period was prepared as at 30 November 2016.

Grant Mackay, Fellow of the NZ Society of Actuaries, is the Appointed Actuary of 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 18 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, 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	Unearned 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, net of investment related expenses	Sample of forward rate at duration of 10 years: 2016: 4.00% p.a. (2015: 4.41% p.a.) NZ Zero Coupon Government Bond Yield and NZ Treasury's assumed long-term forward rate (2015: NZ Zero Coupon Government Bond Yield and NZ Treasury's assumed long-term forward rate)
Investment expenses (before tax)	2016:0.24% (2015:0.18%)

21. 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 Mortality Table for non-smokers, 128% for smokers, with initial selection benefits (2015: 64%, 128%)	64% of NZ04 Mortality Table for non-smokers, 128% for smokers, with initial selection benefits (2015: 64%, 128%)	64% of NZ04 Mortality Table for non-smokers, 128% for smokers, with initial selection benefits (2015: 64%, 128%)	64% of NZ04 Mortality Table for non-smokers, 128% for smokers, with initial selection benefits (2015: 64%, 128%)
Mortality improvement	Nil	Nil	Nil	Nil
Morbidity	Nil	Percentage of reinsurer risk premium rates	Incidence and termination rates as a percentage of IAD89-93	Loss ratio, varying between 20% to 67.5% depending on duration
Initial expense allowance (before tax)	Nil (2015: Nil)	14.37% to 46.64% of New Annualised Premium Income (API); and $43.06 to $212.85 per cover (2015: 14.37% to 46.64% of API; and $42.01 to $207.66 per cover)	51.87% of New Annualised Premium Income (API); and $218.94 per cover (2015: 51.87% of API; and $213.60 per cover)	59.14% of New Annualised Premium Income (API); and $451.74 per cover (2015: 59.14% of API; and $440.72 per cover)
Renewal expenses (before tax)	4.33% of Annualised Premium Income (API); and $81.02 p.a., escalating at 2.5% p.a. (2015: 4.33% of API; and $79.05 p.a., escalating at 2.5% p.a.)	5.37% to 8.81% of Annualised Premium Income (API); and $44.96 to $62.47 p.a., escalating at 2.5% p.a. (2015: 5.37% to 8.81% of API; and $43.86 to $60.95 p.a., escalating at 2.5% p.a.)	6.17% of Annualised Premium Income (API); and $77.81 p.a., escalating at 2.5% p.a. (2015: 6.17% of API; and $75.91 p.a., escalating at 2.5% p.a.)	8.27% of Annualised Premium Income (API); and $140.83 p.a., escalating at 2.5% p.a. (2015: 8.27% of API; and $137.39 p.a., escalating at 2.5% p.a.)
Cover escalation	2.5% p.a. (2015: 2.5% p.a.)	2.5% p.a. (2015: 2.5% p.a.)	2.5% p.a. (2015: 2.5% p.a.)	4.5% p.a. graded down to 2.5% p.a. in 3 years (2015: 4.5% to 2.5% 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) (2015: 1% and 12%, shock lapses of 50%, 30%, 20% and 10% in each year after the full payback)	Based on experience analysis, varying between 8% and 19% depending on duration and product (2015: 8% and 19%)	Based on experience analysis, varying between 10% and 25% depending on duration and product (2015: 10% and 25%)	Based on experience analysis, varying between 5.8% and 16% depending on duration and product (2015: 5.8% and 16%)
Tax rate	28% (2015: 28%)	28% (2015: 28%)	28% (2015: 28%)	28% (2015: 28%)
Inflation rate	2.5% (2015: 2.5%)	2.5% (2015: 2.5%)	2.5% (2015: 2.5%)	2.5% (2015: 2.5%)

21. 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

	2016			2015		
	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	4,809,788	3,945,469	(3,945,469)	2,231,141	835,890	(835,890)
Commission and renewal cost assumption	-	-	-	(3,056,578)	-	-
Total	4,809,788	3,945,469	(3,945,469)	(825,437)	835,890	(835,890)

Sensitivity analysis

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

	2016		2015	
	Policy liability increase/ (decrease)	Profit increase/ (decrease)	Policy liability increase/ (decrease)	Profit increase/ (decrease)
	$	$	$	$
Base				
Interest rates + 1% per annum	(6,400,000)	6,400,000	(15,600,000)	15,600,000
Interest rates - 1% per annum	9,800,000	(9,800,000)	21,800,000	(21,800,000)
Inflation + 1% per annum	2,900,000	(2,900,000)	4,600,000	(4,600,000)
Inflation - 1% per annum	(300,000)	300,000	(3,000,000)	3,000,000
Total	**6,000,000**	**(6,000,000)**	**7,800,000**	**(7,800,000)**

For sensitivity on termination rates of open disability income claims, policy liability will not be impacted. 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.

There are no other assumptions for which a change in assumption would impact profit in the current year.

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 2016 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	125.4	118.6	112.3	106.6	101.9	1,607.8
Cash outflows	(104.0)	(102.2)	(97.1)	(91.5)	(85.8)	(1,464.4)

21. ACTUARIAL POLICIES AND METHODS (CONTINUED)

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)

22. POLICYHOLDER LIABILITIES/(ASSETS)

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Opening policyholder liabilities	33,346,862	49,927,245	33,346,862	49,927,245
Movement in policyholder liabilities - Insurance contracts	(26,306,099)	(24,274,899)	(26,306,099)	(24,274,899)
Movement in policyholder liabilities - Investment contracts	443,832	418,153	546,169	418,153
Movement through income statement	(25,862,267)	(23,856,746)	(25,759,930)	(23,856,746)
Universal life premiums received	160,308	76,321	57,971	76,321
Universal life payments to policyholders	(15,691)	(104,508)	(15,691)	(104,508)
Movement in deferred tax	12,046,320	7,304,549	12,046,320	7,304,549
Closing policyholder liabilities	**19,675,532**	**33,346,862**	**19,675,532**	**33,346,862**
Closing policyholder liabilities contain the following components:				
Insurance contracts				
Future premiums	(964,136,598)	(753,775,504)	(964,136,598)	(753,775,504)
Future policy benefits	560,469,324	459,042,446	560,469,324	459,042,446
Future expenses	270,599,511	215,958,391	270,599,511	215,958,391
Planned margin	147,271,361	107,238,045	147,271,361	107,238,045
Insurance contract liabilities	**14,203,598**	**28,463,378**	**14,203,598**	**28,463,378**
Investment contracts				
Future policy benefits	5,471,933	4,883,484	5,471,933	4,883,484
Investment contract liabilities	**5,471,933**	**4,883,484**	**5,471,933**	**4,883,484**
Total policy liabilities including deferred tax and reinsurance	**19,675,531**	**33,346,862**	**19,675,531**	**33,346,862**
Assets/(liabilities) arising from reinsurance contracts				
Balance at 1 December	2,389,983	(5,183,966)	2,389,983	(5,183,966)
Movement through income statement	(3,561,997)	7,573,949	(3,561,997)	7,573,949
Balance at 30 November	**(1,172,014)**	**2,389,983**	**(1,172,014)**	**2,389,983**
Deferred tax	(64,928,143)	(52,881,824)	(64,928,143)	(52,881,824)
Total policyholder (assets)/ liabilities excluding deferred tax and reinsurance	**(46,424,626)**	**(17,144,979)**	**(46,424,626)**	**(17,144,979)**
Analysed as:				
Current	(3,569,444)	(2,760,834)	(3,569,444)	(2,760,834)
Non current	(42,855,188)	(14,384,145)	(42,855,188)	(14,384,145)
	(46,424,632)	**(17,144,979)**	**(46,424,632)**	**(17,144,979)**

23. HEAD OFFICE ACCOUNT

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Head office account				
Opening balance at 1 December	112,105,330	132,927,925	112,105,330	132,927,925
Reimittance paid	-	(20,000,000)	-	(20,000,000)
Contribution received	50,000,000	-	50,000,000	-
Net profit/(loss) for the year - Branch	3,379,636	(822,595)	3,379,636	(822,595)
Closing balance at 30 November	**165,484,966**	**112,105,330**	**165,484,966**	**112,105,330**

24. SHARE CAPITAL (CONSOLIDATED)

Share capital	2016	2015
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.

25. RETAINED EARNINGS (CONSOLIDATED)

	Consolidated	
	2016	2015
	$	$
Opening balance at 1 December	723,955	(316,634)
Net profit for the year - excluding Branch	272,237	1,040,589
Closing balance at 30 November	**996,192**	**723,955**

26. DISAGGREGATED INFORMATION AND STATUTORY FUND

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.

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.

Disaggregated information of the statutory 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 2016	$	$	$	$
Cash and cash equivalents	-	9,510,727	11,058,939	20,569,666
Investment assets	5,471,933	143,596,499	-	149,068,432
Policyholder (liabilities) / assets	(5,471,933)	30,091,093	21,805,471	46,424,631
Other assets	-	36,448,218	3,232,907	39,681,125
	-	**219,646,537**	**36,097,317**	**255,743,854**
Liabilities other than policyholder liabilities	-	82,233,752	8,025,137	90,258,889
Retained profits attributable to head office	-	137,412,785	27,953,417	165,366,202
	-	**219,646,537**	**35,978,554**	**255,625,091**
Premium revenue from insurance contracts	-	105,698,736	15,257,557	120,956,293
Outwards reinsurance expense (net of commission)	-	(32,787,509)	0	(32,787,509)
Investment income	310,663	5,853,390	59,950	6,224,003
Fee and other income	-	11,346	69	11,415
Claims expense	(15,691)	(50,336,234)	(9,990,620)	(60,342,545)
Reinsurance recovery revenue	-	25,411,335	-	25,411,335
Management and sales expenses	-	(73,037,430)	(3,975,278)	(77,012,708)
Movement in policyholder liabilities	(588,448)	24,894,475	1,411,625	25,717,652
(Loss) / profit before taxation	**(293,476)**	**5,708,109**	**2,763,303**	**8,177,936**
Income tax expense	86,986	4,830,078	(118,764)	4,798,300
(Loss) / profit after taxation for the year	**(380,462)**	**878,031**	**2,882,067**	**3,379,636**

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.

26. 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 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 commission)	(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)**

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	
	2016	2015	2016	2015
	$	$	$	$
Subsidiary				
Financial Services Network Limited				
Commissions	-	-	865,320	402,544
Reimbursement of various expenses and other payables	-	-	249,370	1,026,213
	-	-	1,114,690	1,428,757
Ultimate holding company				
AIA Group Limited				
Remittance paid	-	20,000,000	-	20,000,000
Parent				
AIA International Limited				
Contribution received	(50,000,000)	-	(50,000,000)	-
Reinsurance Premiums	159,099	390,217	159,099	390,217
Share based compensation costs	434,810	300,899	434,810	300,899
Data processing	52,525	-	52,525	-
Other administrative fees	1,802,814	1,826,572	1,802,814	1,826,572
	(47,550,752)	2,517,688	(47,550,752)	2,517,688
Fellow subsidiaries of the ultimate holding company				
Data processing	1,539,244	1,080,266	1,539,244	1,080,266
Investment service and administration fee	316,223	192,650	316,223	192,650
Actuarial fees	1,271,396	1,011,069	1,271,396	1,011,069
Other administrative fees	253,894	291,147	253,894	291,147
	3,380,757	2,575,132	3,380,757	2,575,132

For balances with related parties refer to notes 19 "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	
	2016	2015	2016	2015
	$	$	$	$
The compensation for key management personnel during the year was as follows:				
Salaries and other short term benefits	2,147,089	3,241,695	2,147,089	3,241,695
Terminations	98,684	245,905	98,684	245,905
Share-based compensation	434,810	300,899	434,810	300,899
	2,680,583	**3,788,499**	**2,680,583**	**3,788,499**

28. OPERATING LEASES

	Consolidated		Branch	
	2016	2015	2016	2015
	$	$	$	$
Future operating non cancellable lease commitments on premises and assets leased are as follows:				
Period from balance date payable:				
Not later than one year	897,275	1,143,342	748,507	991,071
Later than one year but not later than five years	2,382,640	2,974,826	1,915,300	2,519,003
Over five years	1,108,620	1,417,380	1,108,620	1,232,280
	4,388,535	**5,535,548**	**3,772,427**	**4,742,354**

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 (2015: nil).

30. CONTINGENT LIABILITIES

There are no material contingent liabilities at balance date (2015: 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.

Independent auditor's report

To the Directors of AIA International Limited - New Zealand Branch

Our opinion

In our opinion the financial statements of AIA International Limited – New Zealand Branch (the "Branch") present fairly, in all material respects, the financial position of the Branch and the Group as at 30 November 2016, their financial performance and their cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The Group comprises the New Zealand Branch and its controlled entities.

What we have audited

AIA International Limited – New Zealand Branch financial statements comprise:

- the statements of financial position as at 30 November 2016;
- the statements of comprehensive income for the year then ended;
- the statements of changes in equity and head office account for the year then ended;
- the statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on other information. The Directors have advised that no other information will be included in the annual report.

In connection with our audit of the financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Branch, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Branch or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page7.aspx

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Directors of AIA International Limited, 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 auditor's 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 Directors, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Karen Shires.

For and on behalf of

PricewaterhouseCoopers

Chartered Accountants
2 March 2017

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 managed by AIA Australia. AIA New Zealand provides the inputs of data and assumptions and also 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 2016 Financial Condition Report 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 note that I hold options for publically listed shares in the parent company of AIA International Limited. Neither the fact that I am CFO nor my shareholding 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 been maintaining the required solvency margin.

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

13 February 2017