AIA New Zealand

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30 April 2019

The Registrar of Financial Services Providers
Level 18
135 Albert Street
Auckland 1010

AIA International Limited – filing under the Financial Markets Conduct (Overseas Registered Banks and Licensed Insurers) Exemption Notice 2016

AIA International Limited (AIA) is an overseas company incorporated in Bermuda and a 'licensed insurer' under the Insurance (Prudential Supervision) Act 2010 (**IPSA**). As a licensed insurer, AIA qualifies as an 'FMC reporting entity' under section 451 of the Financial Markets Conduct Act 2013 (**FMC Act**). The FMC Act imposes certain annual financial reporting obligations on FMC reporting entities.

AIA intends to rely on the Financial Markets Conduct (Overseas Registered Banks and Licensed Insurers) Exemption Notice 2016 (**Licensed Insurers Exemption**) in respect of the accounting period ended 31 December 2018. Provided that the conditions of the Licensed Insurers Exemption are met, AIA will be exempted from certain financial reporting requirements imposed by the FMC Act.

Pursuant to clause 7 of the Licensed Insurers Exemption, we enclose the following documents on behalf of AIA:

a) the audited financial statements of AIA for the accounting period ended 31 December 2018;

b) the audited financial statements for AIA's New Zealand branch business for the accounting period end 31 December 2018;

c) the audited financial statements for AIA's New Zealand business for the accounting period ended 31 December 2018; and

d) the appointed actuary's reports in respect of (a) and (c), above, as required under section 78 of IPSA

Yours sincerely

Kristy Redfern
General Counsel

AIA International Limited

Directors' Report and Financial Statements
for the thirteen months ended 31 December 2018

Report of Directors

The directors of AIA International Limited (the "Company") have the pleasure of presenting their annual report together with the audited financial statements of the Company for the thirteen months ended 31 December 2018.

Principal Activities

The Company is a limited liability company incorporated in Bermuda and managed in Hong Kong. The address of the Company's registered office in Bermuda is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company also has a principal place of business in Hong Kong at 1/F, AIA Hong Kong Tower, 734 King's Road, Quarry Bay, Hong Kong from where its largest business is managed. The Company and its subsidiaries are principally engaged in life and general insurance business. Starting from 2018, the Company has also been engaged in administration service for retirement schemes.

Insurance Operations

Net premiums and fee income for the thirteen months ended 31 December 2018 were US$14,309 million (twelve months ended 30 November 2017: US$12,321 million), representing a 16 per cent increase over the preceding period. Benefits amounting to US$12,325 million (twelve months ended 30 November 2017: US$12,493 million) were accrued to policyholders and beneficiaries during the period.

Investments

Investment income derived from insurance and other business operations, which comprise interest, dividends and rent, amounted to US$2,645 million (twelve months ended 30 November 2017: US$2,497 million), representing a six per cent increase over the preceding period. Investment experience amounting to losses of US$2,054 million (twelve months ended 30 November 2017: gains of US$3,073 million) was recognised during the period.

Details of the Company's investment in subsidiaries are set out in note 10 to the financial statements.

Related Parties Transactions

Details of the related party transactions undertaken by the Company during the thirteen months ended 31 December 2018 in the ordinary course of business are set out in note 36 to the financial statements.

Directors'/Controllers' Interests in Transactions, Arrangements or Contracts

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

Transfer to reserves

Profits attributable to shareholders, before dividends, of US$82 million (twelve months ended 30 November 2017: US$2,947 million) have been transferred to reserves. Other movements in reserves are set out in the statement of changes in equity.

An interim dividend of US$2,350 million was approved by the Board on 7 June 2018.

An interim dividend of US$1,100 million was approved by the Board on 10 December 2018.

Share capital

Details of the movements in share capital of the Company during the period are set out in note 30 to the financial statements.

Charitable donations

Charitable donations made by the Company during the period amounted to US$1.5 million (twelve months ended 30 November 2017: US$0.5 million).

No statutory business in Hong Kong

The Company has not, during the thirteen months financial period ended 31 December 2018, carried on insurance business relating to liabilities or risks in respect of which persons are required by any Ordinance in Hong Kong to be insured.

Report of Directors (continued)

Reinsurance Arrangements

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

Life, Accident and Health Insurance:

The Company has material outward reinsurance arrangements with AIA Reinsurance Limited, an affiliate of the Company. For new business, directly written or assumed through inward reinsurance, the Hong Kong branch manages its retention limit of US$5 million per life through external reinsurance. Material outward reinsurance treaties exist with a number of highly rated external reinsurers. The Company has catastrophic loss protection through a catastrophe reinsurance treaty, whose lead reinsurer is AXIS Specialty Limited.

Universal Life Insurance:

Commencing from 1 January 2018, the Company has entered into a coinsurance agreement with Munich Re to cede part of the existing Universal Life business.

General Insurance:

The catastrophe reinsurance arrangement led by AXIS Specialty Limited covers Personal Accident and Travel Accident business.

Directors

The directors who held office during the period and up to the date of this report were:

Mr. Ng Keng Hooi

Mr. Garth Brian Jones

Mr. Wing Shing Chan

Mr. Mitchell David New

Mr. Timothy Carrick Faries

Mr. Shelby Ross Weldon

Mr. Clive Vincent Anderson (Alternate Director to Mr. Ng Keng Hooi)

Mr. Jon Paul Nielsen (Alternate Director to Mr. Wing Shing Chan)

Mr. Qiang Cai (resigned on 31 December 2017)

Mr. William Lisle (resigned on 31 December 2017)

In accordance with Bye-Law 39 of the Company's Bye-Laws, all remaining directors will retire from the Board, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Controllers

The controllers of the Company during the period and up to the date of this report were:

AIA Group Limited (“AIAGL”)

AIA Company Limited

Mr. Ng Keng Hooi

Mr. Wing Shing Chan

Mr. Peter James Crewe

Report of Directors (continued)

Directors'/Controllers' Interests in Arrangements to Acquire Shares or Debentures

During the thirteen months ended 31 December 2018, the following arrangements subsisted at the end of the period or any time during the period which enabled certain directors of the Company, to acquire benefits by means of the acquisition of shares in AIAGL, the ultimate holding company of the Company, or to be awarded shares of AIAGL, or their equivalent cash value (collectively the "Plans").

(a) Restricted Share Unit Scheme

Under the Restricted Share Unit ("RSU") Scheme adopted by AIAGL on 28 September 2010 (as amended), AIAGL may award restricted share units to employees, directors (excluding independent non-executive directors) or officers of AIAGL or any of its subsidiaries. The objectives of the RSU Scheme are to retain participants, align their interests with those of AIAGL's shareholders and reward the creation of value for shareholders through the award of share units to participants.

(b) Share Option Scheme

Under the Share Option ("SO") Scheme adopted by AIAGL on 28 September 2010 (as amended), AIAGL may award share options to employees, directors (excluding independent non-executive directors) or officers of AIAGL or any of its subsidiaries. The objective of the SO Scheme is to align participants' interests with those of AIAGL's shareholders by allowing participants to share in the value created at the point they exercise their share options.

(c) Employee Share Purchase Plan

Under the Employee Share Purchase Plan ("ESPP") adopted by AIAGL on 25 July 2011, eligible employees of AIAGL and its subsidiaries can purchase ordinary shares of AIAGL with qualified employee contributions and AIAGL will award one matching share to them at the end of the vesting period for each two shares purchased through the qualified employee contributions. The objectives of the ESPP are to facilitate and motivate share ownership by employees and align their interests with those of AIAGL's shareholders.

During the thirteen months ended 31 December 2018,

(i) Mr. Ng Keng Hooi, Mr. Garth Brian Jones, Mr. Mitchell David New, Mr. Wing Shing Chan, Mr. Clive Vincent Anderson, Mr. Jon Paul Nielsen, and Mr. Peter James Crewe, directors and/or controllers of the Company, had interests in one or more of the Plans and had acquired benefits by means of the acquisition of shares of AIAGL pursuant to one or more of the Plans; and
(ii) Mr. Qiang Cai and Mr. William Lisle, resigned directors, had interests in one or more of the Plans and had acquired benefits by means of the acquisition of shares of AIAGL pursuant to one or more of the Plans.

Apart from the above, at no time during the period was the Company or the Company's subsidiaries or holding company or a subsidiary of the Company's holding company a party to any arrangement to enable the directors or controllers of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Events after the reporting date

Details of significant events occurring after the reporting date are set out in note 39 to the financial statements.

Auditor

The financial statements has been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment, and a resolution to this effect will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Ng Keng Hooi

Chairman

13 March 2019

Independent Auditor's Report
To the Shareholders of AIA International Limited
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The financial statements of AIA International Limited (the "Company") set out on pages 7 to 85, which comprise:

- the statement of financial position as at 31 December 2018;
- the income statement for the thirteen months period ended 31 December 2018;
- the statement of comprehensive income for the thirteen months period ended 31 December 2018;
- the statement of changes in equity for the thirteen months period ended 31 December 2018;
- the statement of cash flows for the thirteen months period ended 31 December 2018; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the thirteen months period ended 31 December 2018 in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with 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.

Independence

We are independent of the Company in accordance with 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 the IESBA Code.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Report of Directors on pages 1 to 3, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report
To the Shareholders of AIA International Limited (Continued)

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, 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 Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report
To the Shareholders of AIA International Limited (Continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 13 March 2019

Income Statement

For the thirteen months ended 31 December 2018

US$'000	Notes	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Revenue			
Turnover			
Premiums and fee income		14,756,061	12,772,353
Premiums ceded to reinsurers		(447,118)	(451,739)
Net premiums and fee income		14,308,943	12,320,614
Investment return	*5*	590,879	5,569,751
Other operating revenue	*5*	5,032	3,413
Total revenue		**14,904,854**	**17,893,778**
Expenses			
Insurance and investment contract benefits		12,610,635	12,783,144
Insurance and investment contract benefits ceded		(285,636)	(289,690)
Net insurance and investment contract benefits		**12,324,999**	**12,493,454**
Commission and other acquisition expenses		1,584,393	1,411,040
Operating expenses		615,423	666,791
Finance costs		25,010	14,836
Other expenses		125,335	128,337
Total expenses	*6*	**14,675,160**	**14,714,458**
Profit before tax		**229,694**	**3,179,320**
Tax expense	*7*	(147,857)	(231,946)
Net profit		**81,837**	**2,947,374**
Net profit attributable to:			
Shareholders of the Company		**81,837**	**2,947,374**

Statement of Comprehensive Income

For the thirteen months ended 31 December 2018

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Net profit	**81,837**	**2,947,374**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value (losses)/gains on available for sale financial assets (net of tax of: thirteen months ended 31 December 2018: US$29.9m; twelve months ended 30 November 2017: US$38.4m)	(3,735,845)	1,653,321
Fair value losses/(gains) on available for sale financial assets transferred to income on disposal and impairment (net of tax of: thirteen months ended 31 December 2018: US$0.3m; twelve months ended 30 November 2017: US$0.2m)	71,101	(83,263)
Foreign currency translation adjustments	40,409	159,775
Cash flow hedges	16,253	-
Subtotal	(3,608,082)	1,729,833
Items that will not be reclassified subsequently to profit or loss:		
Revaluation gains on property held for own use (net of tax of thirteen months ended 31 December 2018: nil; twelve months ended 30 November 2017: US$(1.6)m)	442	5,087
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: thirteen months ended 31 December 2018: nil; twelve months ended 30 November 2017: US$(0.6)m)	4,444	4,377
Subtotal	4,886	9,464
Total other comprehensive (expense)/income	**(3,603,196)**	**1,739,297**
Total comprehensive (expense)/income	**(3,521,359)**	**4,686,671**
Total comprehensive (expense)/income attributable to:		
Shareholders of the Company	**(3,521,359)**	**4,686,671**

Statement of Financial Position

As at 31 December 2018

US$'000	Notes	As at 31 December 2018	As at 30 November 2017
Assets			
Intangible assets	*9*	349,414	380,573
Investments in subsidiaries	*10*	4,460,580	952,194
Investments in associates	*11*	560,279	560,279
Property, plant and equipment	*12*	92,004	161,701
Investment property	*13*	60,170	301,377
Reinsurance assets	*14*	338,992	367,871
Deferred acquisition and origination costs	*15*	8,575,785	9,086,149
Financial investments:	*16*		
Loans and deposits		540,057	1,377,309
Available for sale			
Debt securities		46,296,503	54,578,468
At fair value through profit or loss			
Debt securities		204,912	646,119
Equity securities		14,089,763	13,781,433
Derivative financial instruments	*17*	83,188	45,880
		61,214,423	70,429,209
Current tax recoverable		3,409	25,539
Other assets	*19*	1,761,789	1,694,444
Cash and cash equivalents	*21*	392,264	927,470
Total assets		**77,809,109**	**84,886,806**
Liabilities			
Insurance contract liabilities	*22*	56,053,796	58,050,672
Investment contract liabilities	*23*	4,548,756	5,354,801
Borrowings	*25*	4,588,282	1,256,000
Obligations under repurchase agreements	*26*	138,065	-
Derivative financial instruments	*17*	30,652	54,161
Provisions	*28*	19,542	43,014
Deferred tax liabilities	*7*	94,988	662,757
Current tax liabilities		31,872	36,532
Other liabilities	*29*	1,539,451	1,780,882
Total liabilities		**67,045,404**	**67,238,819**

Statement of Financial Position (continued)

As at 31 December 2018

US$'000	*Notes*	As at 31 December 2018	As at 30 November 2017
Equity			
Issued share capital	*30*	3,600	3,600
Share premium and capital contribution	*30*	2,403,161	2,317,767
Other reserves	*30*	528,699	10,571
Retained earnings		7,971,827	11,339,990
Fair value reserve	*30*	(159,110)	4,040,777
Foreign currency translation reserve	*30*	(14,756)	(78,586)
Property revaluation reserve	*30*	14,991	23,170
Others		15,293	(9,302)
Amounts reflected in other comprehensive income		(143,582)	3,976,059
Total equity		**10,763,705**	**17,647,987**
Total liabilities and equity		**77,809,109**	**84,886,806**

Approved by the Board of Directors on 13 March 2019

Countersigned

Wing Shing Chan
Director

Garth Brian Jones
Director

Statement of Changes in Equity

For the thirteen months ended 31 December 2018

					Other comprehensive income				
US$'000	*Notes*	Share capital, share premium and capital contribution	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Total Equity
Balance at 1 December 2016		**2,235,973**	**9,276**	**9,482,616**	**2,470,719**	**(238,361)**	**18,083**	**(13,679)**	**13,964,627**
Net profit		-	-	2,947,374	-	-	-	-	2,947,374
Fair value gains on available for sale financial assets		-	-	-	1,653,321	-	-	-	1,653,321
Fair value gains on available for sale financial assets transferred to income on disposal and impairment		-	-	-	(83,263)	-	-	-	(83,263)
Foreign currency translation adjustments		-	-	-	-	159,775	-	-	159,775
Revaluation gains on property held for own use		-	-	-	-	-	5,087	-	5,087
Effect of remeasurement of net liability of defined benefit schemes		-	-	-	-	-	-	4,377	4,377
Total comprehensive income for the year		-	-	2,947,374	1,570,058	159,775	5,087	4,377	4,686,671
Dividends	*8*	-	-	(1,090,000)	-	-	-	-	(1,090,000)
Share-based compensation		-	1,295	-	-	-	-	-	1,295
Capital contribution		85,394	-	-	-	-	-	-	85,394
Balance at 30 November 2017		**2,321,367**	**10,571**	**11,339,990**	**4,040,777**	**(78,586)**	**23,170**	**(9,302)**	**17,647,987**
Net profit		-	-	81,837	-	-	-	-	81,837
Fair value losses on available for sale financial assets		-	-	-	(3,735,845)	-	-	-	(3,735,845)
Fair value losses on available for sale financial assets transferred to income on disposal and impairment		-	-	-	71,101	-	-	-	71,101
Foreign currency translation adjustments		-	-	-	-	40,409	-	-	40,409
Cash flow hedges		-	-	-	-	-	-	16,253	16,253
Revaluation gains on property held for own use		-	-	-	-	-	442	-	442
Effect of remeasurement of net liability of defined benefit schemes		-	-	-	-	-	-	4,444	4,444
Total comprehensive income/(expense) for the period		-	-	81,837	(3,664,744)	40,409	442	20,697	(3,521,359)
Dividends	*8*	-	-	(3,450,000)	-	-	-	-	(3,450,000)
Impact of Korea business transfer		-	516,445	-	(535,143)	23,421	(8,621)	3,898	-
Share-based compensation		-	1,683	-	-	-	-	-	1,683
Capital contribution		85,394	-	-	-	-	-	-	85,394
Balance at 31 December 2018		**2,406,761**	**528,699**	**7,971,827**	**(159,110)**	**(14,756)**	**14,991**	**15,293**	**10,763,705**

Statement of Cash Flows

For the thirteen months ended 31 December 2018

US$'000	Notes	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Cash flows from operating activities			
Profit before tax		**229,694**	**3,179,320**
Adjustments for:			
Financial investments		(8,332,359)	(9,677,507)
Insurance and investment contract liabilities, and deferred acquisition and origination costs		8,758,837	8,211,939
Obligations under repurchase agreements	*26*	138,065	-
Other non-cash operating items, including investment income and the effect of exchange rate changes on certain operating items		(2,687,365)	(3,049,804)
Operating cash items:			
Interest received		2,387,742	2,177,256
Dividends received		233,159	209,896
Interest paid		(23,524)	(14,633)
Tax paid		(176,920)	(148,007)
Net cash provided by operating activities		**527,329**	**888,460**
Cash flows from investing activities			
Payments for intangible assets	*9*	(13,978)	(14,682)
Dividends from subsidiaries		100,367	31,903
Capital contributions to subsidiaries		(121,221)	(249,738)
Payments for investment property and property, plant and equipment	*12,13*	(22,637)	(19,497)
Proceeds from sales of property, plant and equipment	*12*	254	-
Proceeds from share repurchase from subsidiary		304,336	-
Impact of Korea business transfer [(1)]		(68,654)	-
Payment for acquisition of investment in subsidiary		(917,528)	-
Net cash used in investing activities		**(739,061)**	**(252,014)**
Cash flows from financing activities			
Proceeds from borrowings		969,845	1,090,000
Repayments of borrowings		(1,087,563)	(702,000)
Dividends paid during the period	*8*	-	(702,000)
Net cash used in financing activities		**(117,718)**	**(314,000)**
Net (decrease)/increase in cash and cash equivalents		(329,450)	322,446
Cash and cash equivalents at beginning of the financial period		581,362	243,921
Effect of exchange rate changes on cash and cash equivalents		(7,910)	14,995
Cash and cash equivalents at end of the financial period		**244,002**	**581,362**

Cash and cash equivalents in the above statement of cash flows can be further analysed as follows:

US$'000	Note	As at 31 December 2018	As at 30 November 2017
Cash and cash equivalents in the statement of financial position	*21*	392,264	927,470
Bank overdrafts		(148,262)	(346,108)
Cash and cash equivalents in the statement of cash flows		**244,002**	**581,362**

Note:

(1) For details of Korea subsidiarisation, please refer to note 2.2.

Notes to the Financial Statements and Significant Accounting Policies

1. Corporate information

The principal activities of AIA International Limited (the Company) or AIA International Limited and its subsidiaries (the Group) are the writing of life insurance business, providing life insurance, accident and health insurance and savings plans throughout Asia, and distributing related investment and other financial services products to its customers. Starting from 2018, the Company has also been engaged in administration service for retirement schemes.

The Company was incorporated in Bermuda with limited liability on 16 January 1959 and registered in Hong Kong as a non Hong Kong company under Part XI of the predecessor Hong Kong Companies Ordinance, Cap 32 (now Part 16 of the Hong Kong Companies Ordinance (Cap. 622)) on 31 August 1984. At the reporting date, the Company was a wholly-owned subsidiary of AIA Company Limited, whose ultimate holding company was AIAGL, a company incorporated in Hong Kong and listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code “1299” with American Depositary Receipts (Level 1) being traded on the over-the-counter market (ticker symbol: “AAGIY”).

The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company conducts business through branches in Hong Kong, Macau, New Zealand and Taiwan.

2. Significant accounting policies

2.1 Basis of preparation and statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

The Company has applied all IFRSs, including International Accounting Standards (IAS) and Interpretations developed by the IFRS Interpretations Committee (IFRS IC) (IFRIC – Int), effective for accounting periods starting on 1 December 2014, unless otherwise stated.

In accordance with the criteria set out in paragraph 4(a) of IFRS 10, Consolidated Financial statements, and paragraph 17 of IAS 28, Investments in Associates and Joint Ventures, the Company is exempt from the preparation of consolidated financial statements and accounting for the investments in associates using the equity method, respectively, because AIAGL, the ultimate holding company of the Company, produces consolidated financial statements in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRS), International Financial Reporting Standards (IFRS) and the Hong Kong Companies Ordinance. AIAGL is incorporated in Hong Kong SAR, and its consolidated financial statements are available at http://www.aia.com. The Company presents separate financial statements.

Items included in the financial statements of each of the Company’s entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The Company’s functional currency and the presentation currency of the Company is the US dollar. The financial statements are presented in thousands of US dollars (US$’000) unless otherwise stated.

As disclosed in AIAGL 2018 interim report, AIAGL and the Company has started to adopt 31 December as a new year-end date this year. Therefore, the Company also adopted this change and this set of financial statements is for the thirteen months ended 31 December 2018 with the comparative figures prepared based on the twelve months ended 30 November 2017.

The accounting policies adopted are consistent with those of the previous financial year, except as described as follows.

(a) The following relevant new amendments to standards have been adopted for the first time for the financial period ended 31 December 2018 and have no material impact to the Company:

- Amendments to IAS 7, Disclosure Initiative;
- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses; and
- Amendments to IFRS 12, Clarification of the Scope of the Standard.

2. Significant accounting policies (continued)

2.1 Basis of preparation and statement of compliance (continued)

(b) The following relevant new standards, interpretation and amendments to standards have been issued but are not effective for the financial period ended 31 December 2018 and have not been early adopted (the financial years for which the adoption is required for the Company are stated in parentheses). The Company has assessed the impact of these new standards on its financial position and results of operations and they are not expected to have a material impact on the financial position or results of operations of the Company but may require additional disclosures:

- IFRIC 22, Foreign Currency Transactions and Advance Consideration (2019);
- IFRIC 23, Uncertainty Over Income Tax Treatments (2019);
- Amendments to IAS 1 and IAS 8, Definition of Material (2020);
- Amendments to IAS 12, Income Tax Consequences of Payments on Instruments Classified as Equity (2019);
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement (2019);
- Amendments to IAS 23, Borrowing Costs Eligible for Capitalisation (2019);
- Amendments to IAS 28, Measuring an Associate or Joint Venture at Fair Value (2019);
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (2019);
- Amendments to IAS 40, Transfers of Investment Property (2019);
- IFRS 15, Revenue from Contracts with Customers and amendments thereto (2019);
- IFRS 16, Leases (2019);
- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (2019);
- Amendments to IFRS 3, Business Combinations and IFRS 11, Joint Arrangements - Remeasurement of Previously Held Interests (2019); and
- Amendments to IFRS 3, Definition of a Business (2020).

(c) The following relevant new standards and requirements have been issued but are not effective for the financial period ended 31 December 2018 and have not been early adopted.

- IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into separate measurement categories: those measured as at fair value with changes either recognised in profit or loss or in other comprehensive income and those measured at amortised cost. The determination is made at initial recognition depending on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. In addition, a revised expected credit losses model will replace the incurred loss impairment model in IAS 39. The Company is yet to fully assess the impact of the standard on its financial position and results of operations.

  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 IASB made further changes to two areas of IFRS 9. Financial assets containing prepayment features with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if the cash flow represents solely payments of principal and interest. Non-substantial modifications or exchange of financial liabilities that do not result in derecognition will be required to be recognised in profit or loss. The Company is yet to fully assess the impact of the above new requirements and changes.

  The standard is mandatorily effective for financial periods beginning on or after 1 January 2018 (except for prepayment features with negative compensation and modifications or exchange of financial liabilities that do not result in derecognition which will become effective for financial periods beginning on or after 1 January 2019), but the Company qualifies for a temporary exemption as explained below.

2. Significant accounting policies (continued)

2.1 Basis of preparation and statement of compliance (continued)

- On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and IFRS 17, Insurance Contracts. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of IFRS 17 and financial reporting periods beginning on or after 1 January 2021 (please note below that the IASB is proposing to defer the effective date of IFRS 17 to 1 January 2022), as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before IFRS 17 is applied. Based on the amendments to IFRS 4, the Company is eligible for and will elect to apply the temporary option to defer the effective date of IFRS 9 in order to implement the changes in parallel with IFRS 17, Insurance Contracts.
- IFRS 17, Insurance Contracts (previously IFRS 4 Phase II) will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, IFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. The Company is in the midst of conducting a detailed assessment of the new standards. The standards are currently mandatorily effective for financial periods beginning on or after 1 January 2021, however in November 2018, IASB proposed to defer IFRS 17 and temporary IFRS 9 exemption available to insurers until the financial period beginning on or after 1 January 2022. The proposed deferral is subject to public consultation, which is expected in 2019.

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

2.2 The Company's investments

Subsidiaries are all entities (including structured entities) over which the Company has control. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

The Company controls an entity when the Company 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.

Associates are entities over which the Company has significant influence, but which it does not control. Generally, it is presumed that the Company has significant influence if it has between 20 per cent and 50 per cent of voting rights.

In the Company's statement of financial position, subsidiaries and associates are stated at cost, unless impaired.

The Company's interests in investment funds such as mutual funds and unit trusts are designated at fair value through profit or loss.

2. Significant accounting policies (continued)

2.2 The Company's investments (continued)

On 1 January 2018, the Company completed a business transfer of the assets and liabilities of the Company's Korea branch to a newly incorporated Korean company, AIA Life Insurance Co. Ltd, that is wholly owned by AIA International Limited.

Details of the carrying value of net assets transferred to AIA Life Insurance Co. Ltd. in the business transfer are set out as follows:

US$'000	Carrying value
Intangible assets	17,150
Property, plant and equipment	75,542
Investment property	229,379
Reinsurance assets	53,744
Deferred acquisition and origination costs	1,926,789
Financial investments:	
Loans and deposits	1,217,805
Available for sale	11,394,022
At fair value through profit or loss	1,331,181
Other assets	206,804
Cash and cash equivalents	68,654
Insurance contract liabilities	(13,152,006)
Derivative financial instruments	(6,045)
Provisions	466
Deferred tax liabilities	(490,422)
Other liabilities	(136,166)
Net assets	**2,736,897**

2.3 Insurance and investment contracts

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

In a limited number of cases, the Company measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction.

Product classification

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

In the event that a scenario (other than those lacking commercial substance) exists in which an insured event would require the Company to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. For investment contracts that do not contain DPF, IAS 39, Financial Instruments: Measurement and Recognition, and, if the contract includes an investment management element, IAS 18, Revenue Recognition, are applied. IFRS 4 permits the continued use of previously applied accounting policies for insurance contracts and investment contracts with DPF, and this basis has been adopted by the Company in accounting for such contracts. Once a contract has been classified as an insurance or investment contract, reclassification is not subsequently performed unless the terms of the agreement are later amended.

2. Significant accounting policies (continued)

2.3 Insurance and investment contracts (continued)

Product classification (continued)

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

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Company; and
- that are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the Company, fund or other entity that issues the contract.

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

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

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

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

The basis of accounting for insurance and investment contracts is discussed in notes 2.3.1 and 2.3.2 below.

2. Significant accounting policies (continued)

2.3 Insurance and investment contracts (continued)

2.3.1 Insurance contracts and investment contracts with DPF

Premiums

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

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

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

Unearned revenue liability

Unearned revenue liability represents upfront fees and other non-level charges that have been collected and released to the income statement over the estimated life of the business. A separate liability for accumulation value is established.

Deferred profit liability

Deferred profit liability arising from traditional insurance contracts represents excess profits that have been collected and released to the income statement over the estimated life of the business. A separate liability for future policy benefits is established.

Deferred acquisition costs

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

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

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

Deferred sales inducements

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

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

Unbundling

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

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

2. Significant accounting policies (continued)

2.3 Insurance and investment contracts (continued)

2.3.1 Insurance contracts and investment contracts with DPF (continued)

Bifurcation

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

Benefits and claims

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

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

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

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

Insurance contract liabilities represent the estimated future policyholder benefit liability for life insurance policies.

Future policy benefits for life insurance policies are calculated using a net level premium valuation method which represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders.

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

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

The Company accounts for insurance contract liabilities for participating business and other participating business written in participating funds by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation less estimated future net premiums to be collected from policyholders.

Liability adequacy testing

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

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

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

Financial guarantees

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

2. Significant accounting policies (continued)

2.3 Insurance and investment contracts (continued)

2.3.2 Investment contracts

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

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

Investment contract fee revenue

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

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

Deferred origination costs

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

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

Investment contract liabilities

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

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

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

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

Deferred fee income liability

Deferred fee income liability represents upfront fees and other non-level charges that have been collected and released to the income statement over the estimated life of the business. A separate liability for accumulation value is established.

2. Significant accounting policies (continued)

2.3 Insurance and investment contracts (continued)

2.3.3 Insurance and investment contracts

Reinsurance

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

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

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

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

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

Shadow accounting

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

Other assessments and levies

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

2. Significant accounting policies (continued)

2.4 Financial instruments

2.4.1 Classification of and designation of financial instruments

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss comprise two categories:

- financial assets or liabilities designated at fair value through profit or loss upon initial recognition; and
- financial assets or liabilities classified as held for trading

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

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

Financial assets and liabilities classified as held for trading include financial assets acquired principally for the purpose of selling them in the near future and those that form part of a portfolio of financial assets in which there is evidence of short term profit taking, as well as derivative assets and liabilities.

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

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

Available for sale financial assets

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

The available for sale category is used where the relevant investments backing insurance and investment contract liabilities and shareholders' equity are not managed on a fair value basis. These principally consist of the Company's debt securities (other than those backing participating funds and unit-linked contracts). Available for sale financial assets are initially recognised at fair value plus attributable transaction costs.

For available for sale debt securities, the difference between their cost and par value is amortised. Available for sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available for sale is recognised in investment income in the income statement using the effective interest method.

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

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

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity, which do not meet the definition of loans and receivables, and are not designated at fair value through profit or loss or as available for sale. These investments are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, net of any impairment losses. Interest income earned on these investments is recognised in investment income in the income statement using the effective interest method.

Realised gains and losses on financial assets

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

Recognition of financial instruments

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

2. Significant accounting policies (continued)

2.4 Financial instruments (continued)

2.4.1 Classification of and designation of financial instruments (continued)

Derecognition and offset of financial assets

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

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

Loans and receivables

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

Term deposits

Deposits include time deposits with financial institutions which do not meet the definition of cash and cash equivalents as their maturity at acquisition exceeds three months. Certain of these balances are subject to regulatory or other restriction as disclosed in note 16 Loans and deposits. Deposits are stated at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities at acquisition of three months or less, which are held for cash management purposes. Cash and cash equivalents also include cash received as collateral for derivative transactions and repo and reverse repo transactions, as well as cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products. Cash and cash equivalents are measured at amortised cost using the effective interest method.

2.4.2 Fair values of non-derivative financial instruments

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

Financial instruments carried at fair value are measured using a fair value hierarchy described in note 18.

2. Significant accounting policies (continued)

2.4 Financial instruments (continued)

2.4.3 Impairment of financial assets

General

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

For loans and receivables, the Company first assesses whether objective evidence of impairment exists for financial assets that are individually significant. If the Company determines that objective evidence of impairment does not exist for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Available for sale financial instruments

When a decline in the fair value of an available for sale asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss already recognised directly in other comprehensive income is recognised in current period profit or loss.

If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. Where, following the recognition of an impairment loss in respect of an available for sale debt security, the asset suffers further falls in value, such further falls are recognised as an impairment only in the case when objective evidence exists of a further impairment event to which the losses can be attributed.

Held to maturity financial assets

Impairment losses are recognised on held to maturity financial assets if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of these assets. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate, and is recognised through profit or loss and a decrease in the carrying amount of the asset.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal of an impairment loss shall not result in an asset's carrying amount to exceed the amount that would have resulted if no impairment had been recognised.

Loans and receivables

For loans and receivables, impairment is considered to have taken place if it is probable that the Company will not be able to collect principal and/or interest due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount is decreased through a charge to profit or loss. The carrying amount of mortgage loans or receivables is reduced through the use of an allowance account, and the amount of any allowance is recognised as an impairment loss in profit or loss.

2. Significant accounting policies (continued)

2.4 Financial instruments (continued)

2.4.4 Derivative financial instruments

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

Derivative instruments for economic hedging

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

Embedded derivatives

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

2.5 Foreign currency translation

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

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

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

2. Significant accounting policies (continued)

2.6 Property, plant and equipment

Property held for own use is carried at fair value at last valuation date less accumulated depreciation. When an asset is adjusted for the latest fair value, any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset. The movement of fair values is generally recognised in other comprehensive income. When such properties are sold, the amounts accumulated in other comprehensive income are transferred to retained earnings.

The Company records its interest in leasehold land and land use rights associated with property held for own use separately as operating leases or finance leases depending on whether substantially all the risks and rewards incidental to ownership of the land are transferred to the Company. Those interests classified as finance leases are reported as a component of the property held for own use and carried at fair value at last valuation date. The prepayments to acquire leasehold land classified as operating leases are recorded at original cost within "Other assets" and amortised over the term of the lease (see 2.17).

Plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to allocate cost less any residual value over the estimated useful life, generally:

Fixtures, fittings and office equipment	5 years
Buildings	20 - 40 years
Computer hardware and other assets	3 - 5 years
Freehold land	No depreciation

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

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

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

2.7 Investment property

Property held for long-term rental or capital appreciation or both that is not occupied by the Company is classified as investment property. Investment property, including land and buildings, is initially recognised at cost with changes in fair values in subsequent periods recognised in the income statement.

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

2.8 Intangible assets

Intangible assets consist primarily of acquired computer software and contractual relationships, such as access to distribution networks, and are amortised over their estimated useful lives. The amortisation charge for rights to access distribution networks is included in the income statement under "Commission and other acquisition expenses".

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

2. Significant accounting policies (continued)

2.9 Impairment of non-financial assets

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

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

In the statement of financial position of the Company, impairment testing of the investments in subsidiaries and associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries or associates in the period the dividend is declared or if the carrying amount of the relevant investment in the Company’s statement of financial position exceeds its carrying amount in the financial statements of the investees’ net assets.

2.10 Securities lending including repurchase agreements

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

Assets sold under repurchase agreements (repos)

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

Assets purchased under agreements to resell (reverse repos)

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

2.11 Collateral

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

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

2.12 Borrowings

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

2. Significant accounting policies (continued)

2.13 Income taxes

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

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

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

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

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

2.14 Revenue

Investment return

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

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

Other fee and commission income

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

2.15 Employee benefits

Annual leave and long service leave

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

Post-retirement benefit obligations

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

2. Significant accounting policies (continued)

2.15 Employee benefits (continued)

Post-retirement benefit obligations (continued)

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

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in staff costs in the income statement.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in income statement when the plan amendment or curtailment occurs.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Company, as employer, does not have any further payment obligations. The Company's contributions are charged to the income statement in the reporting period to which they relate and are included in staff costs.

Share-based compensation and cash incentive plans

AIAGL launched a number of share-based compensation plans, under which the Company receives services from the employees, directors, officers and agents as consideration for the shares and/or share options of AIAGL. These share-based compensation plans comprise the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme), the Employee Share Purchase Plan (ESPP) and the Agency Share Purchase Plan (ASPP).

The share-based compensation plans of AIA Group (consisting of AIAGL and its subsidiaries) are predominantly equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the award of AIAGL's shares and/or share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity. Any amounts recharged from AIAGL related to equity-settled share-based payment arrangements are offset against the amount recorded in equity.

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

The Company estimates the fair value of share 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 share option.

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

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

2.16 Provisions and contingencies

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

2. Significant accounting policies (continued)

2.16 Provisions and contingencies (continued)

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

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

2.17 Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the Company as a lessor, are classified as operating leases. Assets subject to such leases are included in property, plant and equipment or investment property, and are depreciated to their residual values over their estimated useful lives. Rentals from such leases are credited to the income statement on a straight-line basis over the period of the relevant lease.

Payments made by the Company as lessee under operating leases are classified either as an operating lease prepayment or as a component of investment property depending on whether the property interest is used as investment property. Operating leases held for long term rental or capital appreciation or both that are not occupied by the Company are classified as investment property. They are initially recognised at cost with changes in fair values in subsequent periods recognised in the income statement. The Company classifies amounts paid to acquire leasehold land which are held for the Company's own occupancy as an operating lease prepayment or as a component of property, plant and equipment depending on whether substantially all the risks and rewards incidental to the ownership of the land are transferred to the Company. Prepayments for land use rights under operating leases that are held for the Company's own occupancy (net of any incentives received from the lessor) are included within "Other assets" and charged to the income statement on a straight-line basis over the period of the relevant lease. There are not any freehold land interests in Hong Kong.

2.18 Share capital

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

Share issue costs

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

Dividends

Interim dividends on ordinary shares are recognised when they have been approved by directors. Final dividends on ordinary shares are recognised when they have been approved by shareholders.

2.19 Presentation of the statement of financial position

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

2.20 Fiduciary activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from these financial statements where the Company does not have contractual rights to the assets and acts in a fiduciary capacity such as nominee, trustee or agent.

2.21 Statement of cash flow

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

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

2.22 Related party transactions

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

3. Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets, liabilities, and revenue and expenses. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly.

Items that are considered particularly sensitive to changes in estimates and assumptions, and the relevant accounting policies are those which relate to product classification, insurance contract liabilities (including liabilities in respect of investment contracts with DPF), deferred acquisition and origination costs, liability adequacy testing, fair value measurement and impairment of other intangible assets.

3.1 Product classification

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Company exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Company to pay significant additional benefits to its customers. In the event the Company has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. The judgements exercised in determining the level of insurance risk in product classification affect the amounts recognised in the financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in note 2.3.

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

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

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

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

The judgements exercised in the valuation of insurance contract liabilities (including investment contracts with DPF) affect the amounts recognised in the financial statements as insurance contract benefits and insurance contract liabilities. Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 2.3, 22 and 24.

3.3 Deferred acquisition and origination costs

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

As noted in note 2.3.1, deferred acquisition costs for traditional life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are applied consistently throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

As noted in note 2.3.1, deferred acquisition costs for universal life and unit-linked contracts are amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. As noted in note 3.2, significant judgement is exercised in making appropriate estimates of gross profits. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favourable investment performance, previously expensed acquisition costs are reversed, not exceeding the amount initially deferred.

Additional details of deferred acquisition and origination costs are provided in notes 2.3 and 15.

3. Critical accounting estimates and judgements (continued)

3.4 Liability adequacy testing

The Company evaluates the adequacy of its insurance and investment contract liabilities with DPF at least annually. Significant judgement is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. Liability adequacy is assessed by portfolio of contracts in accordance with the Company's manner of acquiring, servicing and measuring the profitability of its insurance contracts. The Company performs liability adequacy testing separately for each geographic market.

The judgements exercised in liability adequacy testing affect amounts recognised in the financial statements as commission and other acquisition expenses, deferred acquisition costs, insurance contract benefits and insurance and investment contract liabilities.

3.5 Fair value measurement

3.5.1 Fair value of financial assets

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

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

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

Further details of the fair value of financial assets and the sensitivity analysis to interest rates and equity prices are provided in notes 18 and 32.

3.5.2 Fair value of property held for own use and investment property

The Company uses independent professional valuers to determine the fair value of properties on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. In most cases, current use of the properties is considered to be the highest and best use for determining the fair value. Different valuation techniques may be adopted to reach the fair value of the properties. Under the Market Data Approach, records of recent sales and offerings of similar property are analysed and comparisons are made for factors such as size, location, quality and prospective use. For investment properties, the discounted cash flow approach may be used by reference to net rental income allowing for reversionary income potential to estimate the fair value of the properties. On some occasions, the cost approach is used as well to calculate the fair value which reflects the cost that would be required to replace the service capacity of the property.

Further details of the fair value of property held for own use and investment property are provided in note 18.

3.6 Impairment of intangible assets

For the purposes of impairment testing, intangible assets are grouped into cash generating units. The intangible 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.

4. Total weighted premium income

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

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

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
TWPI	13,039,262	11,650,392
First Year premiums	2,567,342	2,821,387
Single premiums	2,783,896	2,630,405
Renewal premiums	10,193,531	8,565,965

5. Revenue

Investment return

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Interest income	2,328,300	2,228,436
Dividend income[1]	312,505	255,194
Rental income	3,931	13,589
Investment income	**2,644,736**	**2,497,219**
Available for sale		
Net realised (losses)/gains from debt securities	(55,612)	83,416
Impairment of debt securities	(69,408)	-
Net (losses)/gains of available for sale financial assets reflected in the income statement	**(125,020)**	**83,416**
At fair value through profit or loss		
Net (losses)/gains of financial assets designated at fair value through profit or loss		
Net (losses)/gains of debt securities	(10,651)	1,786
Net (losses)/gains of equity securities	(1,739,762)	2,847,749
Net (losses)/gains of financial instruments held for trading		
Net gains of debt securities	-	102
Net fair value movement on derivatives	(6,257)	83,864
Net (losses)/gains in respect of financial instruments at fair value through profit or loss	**(1,756,670)**	**2,933,501**
Net fair value movement of investment property	15,623	17,142
Net foreign exchange (losses)/gains	(169,280)	46,799
Other net realised losses	(18,510)	(8,326)
Investment experience	**(2,053,857)**	**3,072,532**
Investment return	**590,879**	**5,569,751**

Note:

(1) Includes dividends from subsidiaries of US$80m (twelve months ended 30 November 2017: US$50m).

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

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Foreign exchange losses	**(49,382)**	**(65,669)**

Other operating revenue

The balance of other operating revenue largely consists of asset management fees.

6. Expenses

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Insurance contract benefits	3,146,160	3,554,493
Change in insurance contract liabilities	9,824,878	8,291,532
Investment contract benefits	(360,403)	937,119
Insurance and investment contract benefits	**12,610,635**	**12,783,144**
Insurance and investment contract benefits ceded	(285,636)	(289,690)
Insurance and investment contract benefits, net of reinsurance ceded	**12,324,999**	**12,493,454**
Commission and other acquisition expenses incurred	2,672,883	2,679,695
Deferral and amortisation of acquisition costs	(1,088,490)	(1,268,655)
Commission and other acquisition expenses	**1,584,393**	**1,411,040**
Employee benefit expenses	250,874	260,629
Depreciation	16,341	15,850
Amortisation	7,881	22,787
Operating lease rentals	77,674	71,524
Other operating expenses	262,653	296,001
Operating expenses	**615,423**	**666,791**
Investment management expenses and others	110,680	94,632
Depreciation on property held for own use	6,910	7,771
Restructuring and other non-operating costs(1)	7,745	25,934
Other expenses	**125,335**	**128,337**
Finance costs	25,010	14,836
Total	**14,675,160**	**14,714,458**

Note:

(1) Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Other non-operating costs primarily consist of corporate transaction related costs and implementation costs for new accounting standards.

Other operating expenses include auditors' remuneration of US$2.4m (twelve months ended 30 November 2017: US$2.4m).

6. Expenses (continued)

Finance costs may be analysed as:

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Repurchase agreements (see note 26 for details)	4,423	3,382
Other loans	20,587	11,454
Total	**25,010**	**14,836**

Employee benefit expenses consist of:

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Wages and salaries	217,154	224,826
Share-based compensation	10,974	8,597
Pension costs - defined contribution plans	11,784	11,671
Pension costs - defined benefit plans	1,117	2,272
Other employee benefit expenses	9,845	13,263
Total	**250,874**	**260,629**

7. Income tax

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Tax charged in the income statement		
Current income tax - Hong Kong Profits Tax	124,624	101,066
Current income tax - overseas	71,645	50,024
Deferred income tax on temporary differences	(48,412)	80,856
Total	**147,857**	**231,946**

7. Income tax (continued)

The provision for Hong Kong Profits Tax is calculated at 16.5 per cent. Taxation for overseas branches is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions of which the most significant jurisdictions are outlined below.

	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Hong Kong	16.5%	16.5%
Korea	24.2%	24.2%
New Zealand	28%	28%
Taiwan	20%	17%

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

During the year, Taiwan enacted changes in corporate income tax rates. For Taiwan, the corporate income tax rate increased from 17% to 20% for fiscal year 2018 and onwards.

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Income tax reconciliation		
Profit before income tax	**229,694**	**3,179,320**
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	46,457	538,397
Reduction in tax payable from:		
Life insurance tax(1)	-	(326,785)
Exempt investment income	(8,810)	(7,575)
Provisions for uncertain tax positions	(2,779)	-
	(11,589)	(334,360)
Increase in tax payable from:		
Life insurance tax(1)	95,694	-
Disallowed expenses	167	299
Changes in tax rate and law	1,821	-
Amounts over-provided in prior years	9,358	1,144
Provisions for uncertain tax positions	-	7,209
Withholding taxes	2,060	-
Others	3,889	19,257
	112,989	27,909
Total income tax expense	**147,857**	**231,946**

Note:

(1) Life insurance tax refers to the permanent differences which arise where the tax regime specific to the life insurance business does not adopt net income as the basis for calculating taxable profit, for example Hong Kong, where life business taxable profit is derived from life premiums.

7. Income tax (continued)

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

US$'000	Net deferred tax (liability)/asset at 1 December	Impact of Korea business transfer[1]	Credited/ (charged) to the income statement	Credited/(charged) to other comprehensive income: Fair value reserve[2]	Credited/(charged) to other comprehensive income: Foreign exchange	Credited/(charged) to other comprehensive income: Others	Net deferred tax (liability)/ asset at period end
31 December 2018							
Revaluation of financial instruments	**(368,542)**	265,011	66,392	30,174	(1,107)	-	**(8,072)**
Deferred acquisition costs	**(527,276)**	403,272	(37,314)	-	(92)	-	**(161,410)**
Insurance and investment contract liabilities	**227,670**	(190,594)	4,107	-	613	-	**41,796**
Provision for expenses	**15,649**	(1,904)	(5,414)	-	(230)	(57)	**8,044**
Losses available for offset against future taxable income	**24,648**	-	4,744	-	(600)	-	**28,792**
Others	**(34,906)**	14,637	15,897	-	334	(100)	**(4,138)**
Total	**(662,757)**	**490,422**	**48,412**	**30,174**	**(1,082)**	**(157)**	**(94,988)**
30 November 2017							
Revaluation of financial instruments	**(351,319)**	-	(47,112)	38,571	(8,682)	-	**(368,542)**
Deferred acquisition costs	**(439,187)**	-	(61,439)	-	(26,650)	-	**(527,276)**
Insurance and investment contract liabilities	**190,411**	-	23,481	-	13,778	-	**227,670**
Provision for expenses	**19,798**	-	(4,618)	-	1,094	(625)	**15,649**
Losses available for offset against future taxable income	**25,291**	-	(964)	-	321	-	**24,648**
Others	**(40,758)**	-	9,796	-	(2,335)	(1,609)	**(34,906)**
Total	**(595,764)**	**-**	**(80,856)**	**38,571**	**(22,474)**	**(2,234)**	**(662,757)**

Notes:

(1) For details of Korea subsidiarisation, please refer to note 2.2.

(2) Of the fair value reserve deferred tax credit of US$30.2m (twelve months ended November 2017: US$ 38.6m) for 2018, US$29.9m (twelve months ended November 2017: US $38.4m) relates to fair value (losses)/gains on available for sale financial assets and US$0.3m (twelve months ended November 2017: US$0.2m) relates to fair value gains/(losses) on available for sale financial assets transferred to income on disposal and impairment.

Deferred tax assets are recognised to the extent that sufficient future taxable profits will be available for realisation. The Company has not generated any deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax is recognised in the statement of financial position.

The Company has unused tax losses carried forward in New Zealand and Taiwan. The tax losses of New Zealand can be carried forward indefinitely. The tax losses of Taiwan are due to expire within the period ending 2028.

8. Dividends

Dividends to shareholders of the Company attributable to the period:

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Interim dividend declared of 1,150 US dollar per share (twelve months ended 30 November 2017: 363.33 US dollar per share)	3,450,000	1,090,000
Final dividend proposed after the reporting date of nil US dollar per share (twelve months ended 30 November 2017: nil US dollar per share)	-	-
Total	**3,450,000**	**1,090,000**

Dividends were settled upon issuance of promissory notes during the thirteen months ended 31 December 2018 and twelve months ended 30 November 2017.

9. Intangible assets

US$'000	Computer software	Distribution and other rights	Total
Cost			
At 1 December 2016	**108,913**	**349,177**	**458,090**
Additions	13,244	-	13,244
Disposals	(653)	-	(653)
Foreign exchange movements	3,475	351	3,826
At 30 November 2017	**124,979**	**349,528**	**474,507**
Additions	9,050	-	9,050
Disposals	(1,287)	(56)	(1,343)
Impact of Korea business transfer[(1)]	(40,817)	(4,717)	(45,534)
Foreign exchange movements and others	(175)	22	(153)
At 31 December 2018	**91,750**	**344,777**	**436,527**
Accumulated amortisation and impairment			
At 1 December 2016	**(43,649)**	**(15,135)**	**(58,784)**
Amortisation charge for the year	(22,657)	(10,637)	(33,294)
Foreign exchange movements	(1,964)	108	(1,856)
At 30 November 2017	**(68,270)**	**(25,664)**	**(93,934)**
Amortisation charge for the period	(7,740)	(14,915)	(22,655)
Disposals	998	-	998
Impact of Korea business transfer[(1)]	26,805	1,579	28,384
Foreign exchange movements	101	(7)	94
At 31 December 2018	**(48,106)**	**(39,007)**	**(87,113)**
Net book value			
At 30 November 2017	56,709	323,864	380,573
At 31 December 2018	43,644	305,770	349,414

Note:

(1) For details of Korea subsidiarisation, please refer to note 2.2.

The Company holds intangible assets for its long-term use and the annual amortisation charge of US$21m (30 November 2017: US$33m) approximates the amount that is expected to be recovered through consumption within 12 months after the end of the reporting period. Intangible assets in this note exclude deferred acquisition and origination costs, which are separately disclosed with further details provided in note 15.

10. Investment in subsidiaries

US$'000	As at 31 December 2018	As at 30 November 2017
Unlisted shares, at cost	**4,460,580**	**952,194**

The principal subsidiaries of the Company are as follows:

	Place of incorporation and operation	Principal activity	Issued share capital	*Company's interest %* As at 31 December 2018	As at 30 November 2017
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND 3,224,420,000,000	100%	100%
PT. AIA Financial	Indonesia	Insurance	1,910,844,140 ordinary shares of Rp1,000 each	100%	100%
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 ordinary shares of US$1 each	90%	90%
Sovereign Assurance Company Limited	New Zealand	Insurance	187,805,849 ordinary shares of NZD539,676,534 issued share capital	100%	-
AIA Life Insurance Co. Ltd	Korea	Insurance	60,328,932 ordinary shares of KRW603,289,320,000 issued share capital	100%	-

On 2 July 2018, the Company acquired 100 per cent of share capital of AIA Sovereign Limited and its subsidiaries (AIA Sovereign) (formerly named as "ASB Group (Life) Limited"), the life and health insurance businesses owned by the CBA in New Zealand. The consideration with respect to this acquisition was AUD1,241m or US$918m at exchange rate on the date of the acquisition.

On 1 January 2018, the Company completed a business transfer of the assets and liabilities of the Company's Korea branch to a newly incorporated Korean company, AIA Life Insurance Co. Ltd, that is wholly owned by AIA International Limited. For details of Korea subsidiarisation, please refer to note 2.2.

All of the above subsidiaries are unlisted and are audited by PricewaterhouseCoopers.

11. Investments in associates

US$'000	As at 31 December 2018	As at 30 November 2017
Unlisted shares, at cost	**560,279**	**560,279**

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

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

	Place of incorporation	Principal activity	Type of shares held	*Company's interest %* As at 31 December 2018	As at 30 November 2017
AIA Company (Trustee) Limited	Hong Kong	Trusteeship	Ordinary	20%	20%
Tata AIA Life Insurance Company Limited	India	Insurance	Ordinary	49%	49%

12. Property, plant and equipment

US$'000	Property held for own use	Computer hardware	Fixtures and fittings	Total
Cost or revaluation				
At 1 December 2016	**113,706**	**23,388**	**93,695**	**230,789**
Additions	104	3,061	15,994	19,159
Disposals	-	(402)	(2,965)	(3,367)
Net transfers from investment property	513	-	-	513
Increase from valuation	3,537	-	-	3,537
Foreign exchange movements	4,169	910	2,021	7,100
At 30 November 2017	**122,029**	**26,957**	**108,745**	**257,731**
Additions	87	2,737	20,394	23,218
Disposals	-	(1,714)	(9,641)	(11,355)
Impact of Korea business transfer(1)	(70,643)	(12,931)	(23,171)	(106,745)
Net transfers from investment property	1,937	-	-	1,937
Decrease from valuation	(1,152)	-	-	(1,152)
Foreign exchange movements	113	(51)	66	128
At 31 December 2018	**52,371**	**14,998**	**96,393**	**163,762**
Accumulated depreciation				
At 1 December 2016	-	**(20,063)**	**(60,830)**	**(80,893)**
Depreciation charge for the year	(3,377)	(2,373)	(13,466)	(19,216)
Disposals	-	(58)	2,614	2,556
Revaluation adjustment	2,796	-	-	2,796
Foreign exchange movements	581	(389)	(1,465)	(1,273)
At 30 November 2017	-	**(22,883)**	**(73,147)**	**(96,030)**
Depreciation charge for the period	(1,876)	(1,417)	(14,924)	(18,217)
Disposals	-	1,525	8,135	9,660
Impact of Korea business transfer(1)	158	10,680	20,365	31,203
Revaluation adjustment	1,517	-	-	1,517
Foreign exchange movements	201	23	(115)	109
At 31 December 2018	-	**(12,072)**	**(59,686)**	**(71,758)**
Net book value				
At 30 November 2017	122,029	4,074	35,598	161,701
At 31 December 2018	**52,371**	**2,926**	**36,707**	**92,004**

Note:

(1) For details of Korea subsidiarisation, please refer to note 2.2.

Properties held for own use are carried at fair value at the reporting date less accumulated depreciation. The fair value at the reporting date is determined by independent professional valuers. Details of valuation techniques and process are disclosed in notes 3 and 18.

During the reporting period, no expenditure (30 November 2017: nil) was recognised in the carrying amount of property held for own use was in the course of its construction. Increases from revaluation on property held for own use of US$0.4m (twelve months ended 30 November 2017: US$6m) were taken to other comprehensive income.

If property held for own use were stated on a historical cost basis, the carrying value would be US$37m (30 November 2017: US$100m). The Company holds property, plant and equipment for its long-term use and, accordingly, the annual depreciation charge approximates to the amount expected to be recovered through consumption within 12 months after the end of the reporting period.

13. Investment property

US$'000	
Fair value	
At 1 December 2016	275,163
Additions and capitalised subsequent expenditures	19
Disposal	(5,781)
Net transfers to property, plant and equipment	(513)
Fair value gain	17,142
Foreign exchange movements	15,347
At 30 November 2017	**301,377**
Additions and capitalised subsequent expenditures	11
Impact of Korea business transfer(1)	(229,379)
Net transfers to property, plant and equipment	(1,937)
Net transfers to other assets	(26,518)
Fair value gain	15,623
Foreign exchange movements	993
At 31 December 2018	**60,170**

Note:

(1) For details of Korea subsidiarisation, please refer to note 2.2.

Investment properties are carried at fair value at the reporting date as determined by independent professional valuers. Details of valuation techniques and process are disclosed in notes 3 and 18.

The Company leases out its investment property under operating leases. The leases typically run for an initial period of three to seven years, with an option to renew the lease based on future negotiations. Lease payments are usually negotiated every one to three years to reflect market rentals. There were no material contingent rentals earned as income for the period. Rental income generated from investment properties amounted to US$3.9m (twelve months ended 30 November 2017: US$13.6m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US$0.7m (twelve months ended 30 November 2017: US$3.1m).

The Company owns investment property in the form of freehold land outside Hong Kong and leasehold land under finance lease. Leasehold land under operating leases which is held for long term rental and not occupied by the Company is classified as investment property and carried at fair value. The Company does not hold freehold land in Hong Kong.

The future minimum operating lease rental income under non-cancellable operating leases that the Company expects to receive in future periods may be analysed as follows:

US$'000	As at 31 December 2018	As at 30 November 2017
Leases of investment property		
Expiring no later than one year	2,012	4,470
Expiring later than one year and no later than five years	2,479	8,096
Total	**4,491**	**12,566**

14. Reinsurance assets

US$'000	As at 31 December 2018	As at 30 November 2017
Amounts recoverable from reinsurers	203,274	237,849
Ceded insurance and investment contract liabilities	135,718	130,022
Total	**338,992**	**367,871**

15. Deferred acquisition and origination costs

US$'000	As at 31 December 2018	As at 30 November 2017
Carrying amount		
Deferred acquisition costs on insurance contracts	8,310,068	8,800,703
Deferred origination costs on investment contracts	265,717	285,446
Total	**8,575,785**	**9,086,149**

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Movements in the period		
At beginning of financial period	9,086,149	7,743,411
Deferral and amortisation of acquisition and origination costs	1,082,508	1,246,491
Foreign exchange movements	2,681	141,512
Impact of Korea business transfer(1)	(1,926,789)	-
Impact of assumption changes	5,982	22,164
Other movements	325,254	(67,429)
At end of financial period	**8,575,785**	**9,086,149**

Note:
(1) For details of Korea subsidiarisation, please refer to note 2.2.

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

16. Financial investments

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

Policyholder and Shareholder Investments are further categorised as Participating Funds and other participating business with discretionary expected sharing with policyholders and underlying distinct investment Portfolios ("Other Participating Business with distinct Portfolios") and Other Policyholder and Shareholder. Other Participating Business with distinct Portfolios refers to business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory.

The reason for separately analyse financial investments held by Participating Funds and Other Participating Business with distinct Portfolios is that Participating Funds are subject to local regulations that generally prescribe a minimum proportion of policyholder participation in declared dividends and for Other Participating Business with distinct Portfolios it is, as explained above, expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of the underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The Company has elected the fair value option for debt and equity securities of Participating Funds. The Company's accounting policy is to record an insurance liability for the proportion of net assets of the Participating Funds that would be allocated to policyholders assuming all performance would be declared as a dividend based upon local regulations as at the date of the statement of financial position. As a result, the Company's net profit before tax for the period is impacted by the proportion of investment return that would be allocated to shareholders as described above. For Other Participating Business with distinct Portfolios, the Company either have discretion as to the timing or amount of additional benefits to the policyholders. The Company has elected the fair value option for equity securities and the available for sale classification of the majority of debt securities. The investment risk from Other Participating Business with distinct Portfolios directly impacts the Company's financial statements, but it is expected that a proportion of investment return may be allocated to policyholders through policyholder dividends.

Other Policyholder and Shareholder Investments are distinct from Unit-linked Investments, as there is not any direct contractual or regulatory requirement governing the amount, if any, for allocation to policyholders or it is not expected that the policyholder will receive at the discretion of the insurer additional benefits based on the performance of the underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The Company has elected to apply the fair value option for equity securities in this category and the available for sale classification in respect of the majority of debt securities in this category. The investment risk from investments in this category directly impacts the Company's financial statements. Although a proportion of investment return may be allocated to policyholders through policyholder dividends, the Company's accounting policy for insurance and certain investment contract liabilities utilises a net level premium methodology that includes best estimates as at the date of issue for non-guaranteed participation. To the extent investment return from these investments varies from the best estimates, it will impact the Company's profit before tax.

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

Debt securities

In compiling the tables, external ratings have been used where available. Where external ratings are not readily available an internal rating methodology has been adopted, if applicable. External ratings for government bonds are based on issuers as well as currencies of issuances. The following conventions have been adopted to conform the various ratings.

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

Note:

(1) Unless otherwise identified individually.

16. Financial investments (continued)

Debt securities (continued)

		Policyholder and shareholder						
		Participating funds and Other participating business with distinct portfolios[5]		Other policyholder and shareholder			Unit-linked	
US$'000	Rating	FVTPL	AFS	FVTPL	AFS	Subtotal	FVTPL	Total
31 December 2018								
Government bonds – issued in local currency								
Korea	*AA*	-	-	-	302,760	302,760	-	302,760
United States	*AA*	-	642,230	-	21,412	663,642	-	663,642
Other[1]		-	256	-	235,755	236,011	1,802	237,813
Sub-total		**-**	**642,486**	**-**	**559,927**	**1,202,413**	**1,802**	**1,204,215**
Government bonds – foreign currency								
AAA		-	-	-	-	-	7,031	7,031
AA		-	378,983	-	290,761	669,744	21,379	691,123
A		-	280,444	-	293,214	573,658	20,486	594,144
BBB		18,135	330,722	20,434	725,959	1,095,250	-	1,095,250
Below investment grade		2,967	2,149	5,674	8,696	19,486	-	19,486
Sub-total		**21,102**	**992,298**	**26,108**	**1,318,630**	**2,358,138**	**48,896**	**2,407,034**
Government agency bonds[2]								
AAA		-	35,121	-	36,942	72,063	25,634	97,697
AA		-	90,987	-	222,288	313,275	10,670	323,945
A		-	213,742	-	418,967	632,709	6,505	639,214
BBB		-	150,856	-	322,014	472,870	-	472,870
Sub-total		**-**	**490,706**	**-**	**1,000,211**	**1,490,917**	**42,809**	**1,533,726**
Corporate bonds								
AAA		-	178,378	-	160,260	338,638	5,201	343,839
AA		-	1,660,618	-	1,474,190	3,134,808	-	3,134,808
A		13,046	8,530,996	12,377	9,801,471	18,357,890	-	18,357,890
BBB		-	8,889,528	-	9,288,204	18,177,732	-	18,177,732
Below investment grade		-	276,126	-	348,040	624,166	-	624,166
Sub-total		**13,046**	**19,535,646**	**12,377**	**21,072,165**	**40,633,234**	**5,201**	**40,638,435**
Structured securities[3]								
AAA		-	-	-	3,992	3,992	-	3,992
AA		-	10,008	-	68,645	78,653	-	78,653
A		-	132,543	-	181,582	314,125	-	314,125
BBB		-	178,543	-	108,247	286,790	-	286,790
Not rated		16,569	-	17,002	874	34,445	-	34,445
Sub-total		**16,569**	**321,094**	**17,002**	**363,340**	**718,005**	**-**	**718,005**
Total[4]		**50,717**	**21,982,230**	**55,487**	**24,314,273**	**46,402,707**	**98,708**	**46,501,415**

Notes:

(1) Of the total government bonds listed as "Other" at 31 December 2018, 100 per cent are rated as investment grade.

(2) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.

(3) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.

(4) Debt securities of US$1,984m are restricted due to local regulatory requirement.

(5) Nil balance for Participating funds for the period/year ended.

16. Financial investments (continued)

Debt securities (continued)

		Policyholder and shareholder						
		Participating funds and Other participating business with distinct portfolios[6]		Other policyholder and shareholder			Unit linked	
US$'000	Rating	FVTPL	AFS	FVTPL	AFS	Subtotal	FVTPL	Total
30 November 2017								
Government bonds – issued in local currency								
Korea	AA	-	-	-	5,438,640	5,438,640	271,629	5,710,269
United States	AA	-	23,452	-	501,759	525,211	-	525,211
Other[1]		-	240	-	309,086	309,326	1,780	311,106
Sub-total		**-**	**23,692**	**-**	**6,249,485**	**6,273,177**	**273,409**	**6,546,586**
Government bonds – foreign currency								
AAA		-	-	-	-	-	8,040	8,040
AA		-	273,648	-	209,574	483,222	24,645	507,867
A		-	251,508	-	310,789	562,297	12,342	574,639
BBB		21,673	338,048	22,217	333,431	715,369	5,199	720,568
Below investment grade		6,304	6,438	5,845	11,757	30,344	-	30,344
Sub-total		**27,977**	**869,642**	**28,062**	**865,551**	**1,791,232**	**50,226**	**1,841,458**
Government agency bonds[2]								
AAA		-	60,963	-	68,729	129,692	19,227	148,919
AA		-	118,847	-	2,769,073	2,887,920	47,441	2,935,361
A		-	205,270	3,101	618,142	826,513	7,512	834,025
BBB		-	127,380	9,531	415,069	551,980	-	551,980
Below investment grade		-	34,286	-	32,535	66,821	-	66,821
Sub-total		**-**	**546,746**	**12,632**	**3,903,548**	**4,462,926**	**74,180**	**4,537,106**
Corporate bonds								
AAA		-	154,653	-	129,189	283,842	5,215	289,057
AA		-	1,147,703	-	1,807,063	2,954,766	9,145	2,963,911
A		12,612	7,511,026	30,426	11,347,980	18,902,044	-	18,902,044
BBB		-	7,540,928	67,742	10,934,143	18,542,813	-	18,542,813
Below investment grade		-	391,316	3,922	563,304	958,542	-	958,542
Not rated		-	-	-	-	-	9,131	9,131
Sub-total		**12,612**	**16,745,626**	**102,090**	**24,781,679**	**41,642,007**	**23,491**	**41,665,498**
Structured securities[3]								
AA		-	9,974	-	54,408	64,382	-	64,382
A		-	143,680	-	157,183	300,863	-	300,863
BBB		-	167,894	-	57,931	225,825	-	225,825
Not rated		20,637	-	20,803	1,429	42,869	-	42,869
Sub-total		**20,637**	**321,548**	**20,803**	**270,951**	**633,939**	**-**	**633,939**
Total[4]		**61,226**	**18,507,254**	**163,587**	**36,071,214**	**54,803,281**	**421,306**	**55,224,587**

Notes:
(1) Of the total government bonds listed as "Other" at 30 November 2017, 100 per cent are rated as investment grade.
(2) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.
(3) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
(4) Debt securities of US$1,622m are restricted due to local regulatory requirement.
(5) The comparative information has been adjusted to conform to the current period presentation.
(6) Nil balance for Participating funds for the period/year ended.

The Company's debt securities classified at fair value through profit or loss can be analysed as follows:

US$'000	As at 31 December 2018	As at 30 November 2017
Debt securities – FVTPL		
Designated at fair value through profit or loss	204,912	646,119

16. Financial investments (continued)

Equity securities

Equity securities by type comprise the following:

US$'000	Policyholder and shareholder: Participating funds and Other participating business with distinct portfolios FVTPL(1)	Policyholder and shareholder: Other policyholder and shareholder FVTPL	Subtotal	Unit-linked FVTPL	Total
31 December 2018					
Equity shares	4,551,338	260,597	4,811,935	-	4,811,935
Interests in investment funds	2,463,565	61,782	2,525,347	6,752,481	9,277,828
Total	**7,014,903**	**322,379**	**7,337,282**	**6,752,481**	**14,089,763**

US$'000	Policyholder and shareholder: Participating funds and Other participating business with distinct portfolios FVTPL(1)	Policyholder and shareholder: Other policyholder and shareholder FVTPL	Subtotal	Unit-linked FVTPL	Total
30 November 2017					
Equity shares	4,099,156	439,369	4,538,525	524,613	5,063,138
Interests in investment funds	963,089	93,623	1,056,712	7,661,583	8,718,295
Total	**5,062,245**	**532,992**	**5,595,237**	**8,186,196**	**13,781,433**

Note:
(1) Nil balance for Participating funds for the period/year ended.
(2) The comparative information has been adjusted to conform to the current period presentation.

Debt and equity securities

US$'000	As at 31 December 2018	As at 30 November 2017
Debt securities		
Listed		
Hong Kong	5,748,398	7,346,538
Overseas	35,404,871	41,983,458
	41,153,269	49,329,996
Unlisted	5,348,146	5,894,591
Total	**46,501,415**	**55,224,587**
Equity securities		
Listed		
Hong Kong	2,321,928	1,934,585
Overseas	2,680,249	3,311,941
	5,002,177	5,246,526
Unlisted	9,087,586	8,534,907
Total	**14,089,763**	**13,781,433**

Note:
(1) Including US$8,554m (30 November 2017: US$8,146m) of investment funds which can be redeemed daily.

16. Financial investments (continued)

Interests in structured entities

The Company has determined that the investment funds and structured securities, such as collateralised debt obligations, mortgage-backed securities and other asset-backed securities that the Company has interest in are structured entities.

The following table summarises the Company's interest in unconsolidated structured entities:

US$'000	As at 31 December 2018 Investment funds	As at 31 December 2018 Structured securities[1]	As at 30 November 2017 Investment funds	As at 30 November 2017 Structured securities[1]
Available for sale debt securities	987,266[2]	684,434	876,804[2]	592,498
Debt securities at fair value through profit or loss	-	33,571	-	41,441
Equity securities at fair value through profit or loss	9,277,828	-	8,718,295	-
Total	**10,265,094**	**718,005**	**9,595,099**	**633,939**

Notes:
(1) Structured securities include collateralised debt obligation, mortgage-backed securities and other asset-backed securities.
(2) Balance represents the Company's interests in debt securities issued by real estate investment trusts.

The Company's maximum exposure to loss arising from its interests in these unconsolidated structured entities is limited to the carrying amount of the assets. Dividend income and interest income are received during the reporting period from these interests in unconsolidated structured entities.

Loans and deposits

US$'000	As at 31 December 2018	As at 30 November 2017
Policy loans	360,532	739,821
Mortgage loans on residential real estate	8,133	7,225
Intercompany loans to subsidiaries (see note 36)	42,353	51,614
Other loans	11,294	23,563
Allowance for loan losses	(1,046)	(594)
Loans	**421,266**	**821,629**
Term deposits	118,791	555,680
Total	**540,057**	**1,377,309**

Certain term deposits with financial institutions are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within the term deposits classification is US$104m (30 November 2017: US$81m).

17. Derivative financial instruments

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

US$'000		Fair value	
	Notional amount	Assets	Liabilities
31 December 2018			
Foreign exchange contracts			
Cross currency swaps	600,000	399	(2,747)
Forwards	520,066	789	(6,961)
Total foreign exchange contracts	**1,120,066**	**1,188**	**(9,708)**
Interest rate contracts			
Interest rate swaps	517,253	12,522	(20,944)
Other			
Warrants and options	4,062,863	53,964	-
Forward contracts	275,000	15,514	-
Total	**5,975,182**	**83,188**	**(30,652)**
30 November 2017			
Foreign exchange contracts			
Cross currency swaps	1,709,164	30,760	(9,927)
Forwards	485,645	6,535	(112)
Currency options	7,379	279	-
Foreign exchange futures	138,576	-	-
Total foreign exchange contracts	**2,340,764**	**37,574**	**(10,039)**
Interest rate contracts			
Interest rate swaps	460,499	378	(44,122)
Other			
Warrants and options	124,780	7,928	-
Netting	(139,437)	-	-
Total	**2,786,606**	**45,880**	**(54,161)**

17. Derivative financial instruments (continued)

The column "notional amount" in the above table represents the pay leg of derivative transactions other than equity index option. For certain equity-index call and put options with same notional amount that are purchased to hedge the downside risk of the underlying equities by means of a collar strategy, the notional amount represents the exposure of the hedged equities.

Of the total derivatives, no contract (30 November 2017: nil) is listed in exchange or dealer markets and all contracts are over-the-counter (OTC) derivatives. OTC derivative contracts are individually negotiated between contracting parties and not cleared through an exchange. OTC derivatives include forwards, swaps, and options. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments.

Derivative assets and derivative liabilities are recognised in the statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Company's derivative contracts are established to economic hedge financial exposures. The Company adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

Foreign exchange contracts

Foreign exchange forward and futures contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Currency options are agreements that give the buyer the right to exchange the currency of one country for the currency of another country at agreed prices and settlement dates. Currency swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gains and losses on the foreign exchange contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, implied volatilities of the underlying indices, and the timing of payments.

Interest rate swaps

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments.

Other derivatives

Warrants and options are option agreements that give the owner the right to buy or sell securities at an agreed price and settlement date. Forward contracts are contractual obligations to buy or sell a financial instrument on a predetermined future date at a specified price.

Netting adjustment

The netting adjustment is related to futures contracts executed through clearing house where the settlement arrangement satisfied the netting criteria under IFRS.

Collateral under derivative transactions

At 31 December 2018, the Company had posted cash collateral of nil (30 November 2017: US$10m) and pledged debt securities with carrying value of US$43m (30 November 2017: US$57m) for liabilities and cash collateral held US$67m (30 November 2017: nil), and debt securities collateral with carrying value of US$4m (30 November 2017: US$15m) for assets in respect of derivative transactions. The Company did not sell or repledge the collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard repurchase agreements.

18. Fair value measurement

Fair value of financial instruments

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

The following tables present the fair values of the Company's financial assets and financial liabilities:

		Fair value				
US$'000	*Notes*	Fair value through profit or loss	Available for sale	Cost/ amortised cost	Total carrying value	Total fair value
As at 31 December 2018						
Financial investments:	*16*					
Loans and deposits		-	-	540,057	540,057	538,934
Debt securities		204,912	46,296,503	-	46,501,415	46,501,415
Equity securities		14,089,763	-	-	14,089,763	14,089,763
Derivative financial instruments	*17*	83,188	-	-	83,188	83,188
Reinsurance receivables	*14*	-	-	203,274	203,274	203,274
Other receivables	*19*	-	-	691,530	691,530	691,530
Accrued investment income	*19*	-	-	577,800	577,800	577,800
Cash and cash equivalents	*21*	-	-	392,264	392,264	392,264
Financial assets		**14,377,863**	**46,296,503**	**2,404,925**	**63,079,291**	**63,078,168**

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities:					
Investment contract liabilities	*23*	4,156,229	27,979	4,184,208	4,184,208
Borrowings	*25*	-	4,588,282	4,588,282	4,588,282
Obligations under repurchase agreements	*26*	-	138,065	138,065	138,065
Derivative financial instruments	*17*	30,652	-	30,652	30,652
Other liabilities	29	-	1,539,451	1,539,451	1,539,451
Financial liabilities		**4,186,881**	**6,293,777**	**10,480,658**	**10,480,658**

18. Fair value measurement (continued)

Fair value of financial instruments (continued)

US$'000	*Notes*	Fair value: Fair value through profit or loss	Fair value: Available for sale	Cost/ amortised cost	Total carrying value	Total fair value
As at 30 November 2017						
Financial investments:	*16*					
Loans and deposits		-	-	1,377,309	1,377,309	1,376,015
Debt securities		646,119	54,578,468	-	55,224,587	55,224,587
Equity securities		13,781,433	-	-	13,781,433	13,781,433
Derivative financial instruments	*17*	45,880	-	-	45,880	45,880
Reinsurance receivables	*14*	-	-	237,849	237,849	237,849
Other receivables	*19*	-	-	687,655	687,655	687,655
Accrued investment income	*19*	-	-	557,058	557,058	557,058
Cash and cash equivalents	*21*	-	-	927,470	927,470	927,470
Financial assets		**14,473,432**	**54,578,468**	**3,787,341**	**72,839,241**	**72,837,947**

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities:					
Investment contract liabilities[(1)]	*23*	4,889,830	29,662	4,919,492	4,919,492
Borrowings	*25*	-	1,256,000	1,256,000	1,256,000
Derivative financial instruments	*17*	54,161	-	54,161	54,161
Other liabilities	29	-	1,780,882	1,780,882	1,780,882
Financial liabilities		**4,943,991**	**3,066,544**	**8,010,535**	**8,010,535**

Note:

(1) The comparative information has been adjusted to conform to the current period presentation.

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

Foreign currency exposure, including the net notional amount of foreign currency derivative positions, is shown in note 32 for the Company's key foreign exchange exposures.

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

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

Fair value measurements on a recurring basis

The Company measures at fair value property held for own use, investment property, financial instruments classified at fair value through profit or loss, available for sale securities portfolios, derivative assets and liabilities, investments in investment funds and certain investment contract liabilities on a recurring basis.

The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

18. Fair value measurement (continued)

Fair value measurements on a recurring basis (continued)

Fair value of properties is based on valuation by independent professional valuers.

The Company does not have assets or liabilities measured at fair value on a non-recurring basis during the thirteen months ended 31 December 2018.

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

Determination of fair value

Loans and receivables

For loans and advances that are repriced frequently and have not had any significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

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

Debt securities and equity securities

The fair values of equity securities are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from brokers, private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. Priority is given to values from independent sources when available, but overall the source of pricing and/or valuation technique is chosen with the objective of arriving at the price at which an orderly transaction would take place between market participants on the measurement date. The inputs to determining fair value that are relevant to fixed interest securities include, but not limited to risk-free interest rates, the obligor's credit spreads, foreign exchange rates, and credit default rates. For holdings in hedge funds and limited partnerships, fair values are determined based on the net asset values provided by the general partner or manager of each investment, the accounts of which are generally audited on an annual basis. The transaction price is used as the best estimate of fair value at inception.

Derivative financial instruments

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

When the Company holds a group of derivative assets and derivative liabilities entered into with a particular counterparty, the Company takes into account the arrangements that mitigate credit risk exposure in the event of default (e.g. International Swap and Derivatives Association (ISDA) Master Agreements and Credit Support Annex (CSA) that require the exchange of collateral on the basis of each party's net credit risk exposure). The Company measures the fair value of the group of financial assets and financial liabilities on the basis of its net exposure to the credit risk of that counterparty or the counterparty's net exposure to our credit risk that reflects market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Property held for own use and investment property

The Company engaged external, independent and qualified valuers to determine the fair value of the Company's properties at least on an annual basis. The valuation on open market value basis by independent professional valuer for certain investment properties was calculated by reference to net rental income allowing for reversionary income potential. The fair values of other properties were derived using the Market Data Approach. In this approach, the values are based on sales and listing of comparable property registered in the vicinity.

18. Fair value measurement (continued)

Determination of fair value for financial instruments (continued)

Property held for own use and investment property (continued)

The properties held for own use and investment properties, in most cases, are valued on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. The current use of the properties are considered to be its highest and best use; records of recent sales and offerings of similar property are analysed and comparison made for such factors as size, location, quality and prospective use. On limited occasions, potential redevelopment of the properties in use would be taken into account when they would maximise the fair value of the properties; the Company is occupying these properties for operational purposes.

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance receivables

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

Fair value of securities sold under repurchase agreements and the associated payables

The contract values of payables under repurchase agreements approximate their fair value as these obligations are short-term in nature.

Other assets

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

Investment contract liabilities

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

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured and classified according to the Company practice for insurance contract liabilities and hence are disclosed within note 22. These are not measured at fair value as there is currently not an agreed definition of fair value for investment and insurance contracts with DPF under IFRS. In the absence of any agreed methodology, it is not possible to provide a range of estimates within which fair value is likely to fall.

Borrowings

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

Other liabilities

The fair values of other unquoted financial liabilities is estimated by discounting expected future cash flows using current market rates applicable to their yield, credit quality and maturity, except for those without stated maturity, where the carrying value approximates to fair value.

Fair value hierarchy for fair value measurement on a recurring basis

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three “levels” based on the observability of inputs available in the marketplace used to measure their fair values as discussed below:

- **Level 1**: Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Company does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded equities. The Company considers that government debt securities issued by G7 countries (the United States, Canada, France, Germany, Italy, Japan, the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.

18. Fair value measurement (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

- **Level 2**: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include 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 curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, hedge fund investments and derivative contracts.

- **Level 3**: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include properties held for own use, investment properties, certain classes of structured securities, certain derivative contracts, private equity and real estate fund investments, and direct private equity investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement. In making the assessment, the Company considers factors specific to the asset or liability.

A summary of assets and liabilities carried at fair value on a recurring basis according to fair value hierarchy is given below:

US$'000	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
31 December 2018				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	-	-	52,371	**52,371**
Investment property	-	-	60,170	**60,170**
Financial assets				
Available for sale				
Debt securities				
Participating funds and Other participating business with distinct portfolios(1)	26,617	21,646,888	308,725	**21,982,230**
Other policyholder and shareholder	-	23,950,933	363,340	**24,314,273**
At fair value through profit or loss				
Debt securities				
Participating funds and Other participating business with distinct portfolios(1)	-	21,103	29,614	**50,717**
Unit-linked	-	98,708	-	**98,708**
Other policyholder and shareholder	-	26,108	29,379	**55,487**
Equity securities				
Participating funds and Other participating business with distinct portfolios(1)	6,387,842	94,540	532,521	**7,014,903**
Unit-linked	6,023,450	729,031	-	**6,752,481**
Other policyholder and shareholder	56,166	265,873	340	**322,379**
Derivative financial instruments				
Foreign exchange contracts	-	1,188	-	**1,188**
Interest rate contracts	-	12,522	-	**12,522**
Other contracts	-	69,478	-	**69,478**
Total assets on a recurring fair value measurement basis	**12,494,075**	**46,916,372**	**1,376,460**	**60,786,907**
% of Total	*20.6*	*77.2*	*2.2*	*100.0*
Financial liabilities				
Investment contract liabilities	-	-	4,156,229	**4,156,229**
Derivative financial instruments				
Foreign exchange contracts	-	9,708	-	**9,708**
Interest rate contracts	-	20,944	-	**20,944**
Total liabilities on a recurring fair value measurement basis	**-**	**30,652**	**4,156,229**	**4,186,881**
% of Total	-	*0.7*	*99.3*	*100.0*

Note:
(1) Nil balance for Participating funds for the period/year ended.

18. Fair value measurements (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

US$'000	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
30 November 2017				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	-	-	122,029	122,029
Investment property	-	-	301,377	301,377
Financial assets				
Available for sale				
Debt securities				
Participating funds and Other participating business with distinct portfolios(1)(2)	-	18,200,265	306,989	18,507,254
Other policyholder and shareholder	-	35,755,847	315,367	36,071,214
At fair value through profit or loss				
Debt securities				
Participating funds and Other participating business with distinct portfolios(1)(2)	-	27,976	33,250	61,226
Unit linked	-	421,306	-	421,306
Other policyholder and shareholder(1)	-	130,819	32,768	163,587
Equity securities				
Participating funds Other participating business with distinct portfolios(1)(2)	4,583,306	120,176	358,762	5,062,244
Unit-linked	7,587,726	598,470	-	8,186,196
Other policyholder and shareholder	242,125	262,164	28,704	532,993
Derivative financial instruments				
Foreign exchange contracts	-	37,574	-	37,574
Interest rate contracts	-	378	-	378
Other contracts	-	7,928	-	7,928
Total assets on a recurring fair value measurement basis	**12,413,157**	**55,562,903**	**1,499,246**	**69,475,306**
% of Total	*17.8*	*80.0*	*2.2*	*100.0*
Financial liabilities				
Investment contract liabilities(1)	-	-	4,889,830	4,889,830
Derivative financial instruments				
Foreign exchange contracts	-	10,039	-	10,039
Interest rate contracts	-	44,122	-	44,122
Total liabilities on a recurring fair value measurement basis	**-**	**54,161**	**4,889,830**	**4,943,991**
% of Total	-	*1.1*	*98.9*	*100.0*

Note:
(1) Nil balance for Participating funds for the period/year ended.
(2) The information has been adjusted to conform to the current period presentation.

The Company's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the thirteen months ended 31 December 2018, the Company transferred US$1m (twelve months ended 30 November 2017: US$3m) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Company did not transfer any assets from Level 2 to Level 1 during the thirteen months ended 31 December 2018 (twelve months ended 30 November 2017: US$105m).

The Company's Level 2 financial instruments include debt securities, equity securities and derivative instruments. The fair values of Level 2 financial instruments are estimated using values obtained from private pricing services and brokers corroborated with internal review as necessary. When the quotes from third-party pricing services and brokers are not available, internal valuation techniques and inputs will be used to derive the fair value for the financial instruments.

18. Fair value measurements (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

The tables below set out a summary of changes in the Company's Level 3 assets and liabilities measured at fair value on a recurring basis for the thirteen months ended 31 December 2018 and twelve months ended 30 November 2017. The tables reflect gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 31 December 2018 and 30 November 2017.

Level 3 assets and liabilities

US$'000	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/(liabilities)	Investment contracts[(1)]
At 1 December 2017	**122,029**	**301,377**	**688,374**	**387,466**	**-**	**(4,889,830)**
Net movement on investment contract liabilities						
Total (losses)/gains						
Reported under investment return and other expenses in the income statement	(1,876)	15,623	(24,115)	(9,004)	-	733,601
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the statement of comprehensive income	679	993	5,608	484	-	-
Transfer to other assets	-	(26,518)	-	-	-	-
Transfer from/(to) investment property	1,937	(1,937)	-	-	-	-
Purchases	87	11	440,371	202,083	-	-
Sales	-	-	(1,080)	(23,089)	-	-
Settlements	-	-	(220,003)	-	-	-
Impact of Korea business transfer[(2)]	(70,485)	(229,379)	(158,097)	(25,079)	-	-
At 31 December 2018	**52,371**	**60,170**	**731,058**	**532,861**	**-**	**(4,156,229)**
Change in unrealised (losses)/gains included in the income statement for assets and liabilities held at the end of the reporting period, under investment return	(1,876)	15,623	(6,115)	(311,949)	-	-

US$'000	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/(liabilities)	Investment contracts[(1)]
At 1 December 2016	**113,706**	**275,163**	**850,810**	**244,381**	**-**	**(4,483,436)**
Net movement on investment contract liabilities	-	-	-	-	-	(406,394)
Total (losses)/gains						
Reported under investment return and other expenses in the income statement	(3,377)	17,142	(8,401)	21,726	-	-
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the statement of comprehensive income	11,083	15,347	20,039	(13,202)	-	-
Transfer from/(to) investment property	513	(513)	-	-	-	-
Purchases	104	19	84,903	150,067	-	-
Sales	-	(5,781)	(7,891)	(15,430)	-	-
Settlements	-	-	(251,086)	-	-	-
Transfer into Level 3	-	-	-	741	-	-
Transfer out of Level 3	-	-	-	(817)	-	-
At 30 November 2017	**122,029**	**301,377**	**688,374**	**387,466**	**-**	**(4,889,830)**
Change in unrealised (losses)/gains included in the income statement for assets and liabilities held at the end of the reporting period, under investment return	(3,377)	17,142	(38,535)	15,357	-	-

Notes:

(1) The information has been adjusted to conform to the current period presentation.

(2) For details of Korea subsidiarisation, please refer to note 2.2.

18. Fair value measurements (continued)

Fair value hierarchy for fair value measurement on a recurring basis (continued)

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. Details of the movement in investment contract liabilities are provided in note 23.

Assets transferred out of Level 3 mainly relate to corporate debt instruments of which market-observable inputs became available during the period and were used in determining the fair value.

There are not any differences between the fair values on initial recognition and the amounts determined using valuation techniques since the models adopted are calibrated using initial transaction prices.

Fair value of financial and insurance assets and liabilities for which the fair value is disclosed at reporting date

A summary of fair value hierarchy of assets and liabilities not carried at fair value but for which the fair value is disclosed as at 31 December 2018 and 30 November 2017 is given below.

US$'000	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
31 December 2018				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	118,791	3,698	416,445	538,934
Reinsurance receivables	-	203,274	-	203,274
Other receivables	-	674,501	17,029	691,530
Accrued investment income	1,187	576,613	-	577,800
Cash and cash equivalents	392,264	-	-	392,264
Total assets for which the fair value is disclosed	**512,242**	**1,458,086**	**433,474**	**2,403,802**
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	-	-	27,979	27,979
Borrowings	-	4,265,282	323,000	4,588,282
Obligations under repurchase agreements	-	138,065	-	138,065
Other liabilities	148,262	1,360,700	30,489	1,539,451
Total liabilities for which the fair value is disclosed	**148,262**	**5,764,047**	**381,468**	**6,293,777**

US$'000	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
30 November 2017				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	555,680	21,633	798,702	1,376,015
Reinsurance receivables	-	237,849	-	237,849
Other receivables	-	656,560	31,095	687,655
Accrued investment income	2,992	554,066	-	557,058
Cash and cash equivalents	927,470	-	-	927,470
Total assets for which the fair value is disclosed	**1,486,142**	**1,470,108**	**829,797**	**3,786,047**
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	-	-	29,662	29,662
Borrowings	-	933,000	323,000	1,256,000
Other liabilities	346,108	1,418,802	15,972	1,780,882
Total liabilities for which the fair value is disclosed	**346,108**	**2,351,802**	**368,634**	**3,066,544**

19. Other assets

US$'000	As at 31 December 2018	As at 30 November 2017
Accrued investment income	577,800	557,058
Insurance receivables due from insurance and investment contract holders	563,462	432,979
Prepayments - Operating leases of leasehold land	298,511	277,028
Others	322,016	427,379
Total	**1,761,789**	**1,694,444**

All amounts other than certain prepayments are generally expected to be recovered within 12 months after the end of the reporting period.

20. Impairment of financial assets

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

Available for sale debt securities

During the thirteen months ended 31 December 2018, impairment losses of US$69m (twelve months ended 30 November 2017: nil) were recognised in respect of available for sale debt securities.

The carrying amounts of available for sale debt securities that are individually determined to be impaired at 31 December 2018 was nil (30 November 2017: nil).

Loans and receivables

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

The carrying amounts of loans and receivables that are individually determined to be impaired at 31 December 2018 was US$1.1m (30 November 2017: US$0.7m).

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

21. Cash and cash equivalents

US$'000	As at 31 December 2018	As at 30 November 2017
Cash	374,008	834,989
Cash equivalents	18,256	92,481
Total [(1)]	**392,264**	**927,470**

Note:

(1) Of cash and cash equivalents, US$4m (30 November 2017: US$102m) are held to back unit-linked contracts.

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

22. Insurance contract liabilities

The movement of insurance contract liabilities (including liabilities in respect of investment contracts with DPF) is shown as follows:

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
At beginning of financial period	**58,050,672**	**48,198,295**
Valuation premiums and deposits	12,298,588	11,312,592
Liabilities released for policy termination or other policy benefits paid and related expenses	(3,207,842)	(3,900,337)
Fees from account balances	(275,479)	(346,129)
Accretion of interest	2,204,849	1,835,116
Foreign exchange movements	227,225	761,810
Change in net asset values attributable to policyholders	(279,258)	382,050
Impact of Korea business transfer[(1)]	(13,152,006)	-
Other movements	187,047	(192,725)
At end of financial period	**56,053,796**	**58,050,672**

Note:

(1) For details of Korea subsidiarisation, please refer to note 2.2.

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF) can also be analysed as follows:

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Deferred profit	2,146,123	1,696,119
Unearned revenue	1,030,792	760,257
Liabilities for future policyholder benefits	52,876,881	55,594,296
Total	**56,053,796**	**58,050,672**

22. Insurance contract liabilities (continued)

Business description

The table below summarises the key variables on which insurance and investment contract cash flows depend.

Type of contract		Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows
Traditional participating life assurance with DPF	Participating funds	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities. The timing of dividend and bonus declarations is at the discretion of the insurer. Local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	• Investment performance • Expenses • Mortality • Surrenders
	Other participating business	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	• Investment performance • Expenses • Mortality • Surrenders • Morbidity
Traditional non-participating life assurance		Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	• Mortality • Morbidity • Lapses • Expenses
Accident and health		These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	• Mortality • Morbidity • Lapses • Expenses
Unit-linked		Unit-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitised funds	Benefits are based on the value of the unitised funds and death benefits	• Investment performance • Lapses • Expenses • Mortality
Universal life		The customer pays flexible premiums subject to specified limits accumulated in an account balance which are credited with interest at a rate set by the insurer, and a death benefit which may be varied by the customer.	Benefits are based on the account balance and death benefit	• Investment performance • Crediting rates • Lapses • Expenses • Mortality

22. Insurance contract liabilities (continued)

Methodology and assumptions

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

Type of contract		Market and credit risk – Direct exposure – Insurance and investment contract liabilities	Market and credit risk – Direct exposure – Risks associated with related investment portfolio	Market and credit risk – Indirect exposure	Significant insurance and lapse risks
Traditional participating life assurance with DPF	Participating funds	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Investment performance subject to smoothing through dividend declarations	• Impact of persistency on future dividends • Mortality
	Other participating business	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Investment performance subject to smoothing through dividend declarations	• Impact of persistency on future dividends • Mortality • Morbidity
Traditional non-participating life assurance		• Guarantees • Asset-liability mismatch risk	• Investment performance • Asset-liability mismatch risk • Credit risk	• Not applicable	• Mortality • Persistency • Morbidity
Accident and health		• Asset-liability mismatch risk	• Investment performance • Credit risk • Asset-liability mismatch risk	• Not applicable	• Morbidity • Persistency
Pension		• Net neutral • Asset-liability mismatch risk	• Net neutral • Asset-liability mismatch risk	• Performance-related investment management fees	• Persistency
Unit-linked		• Net neutral	• Net neutral	• Performance-related investment management fees	• Persistency • Mortality
Universal life		• Guarantees • Asset-liability mismatch risk	• Investment performance • Credit risk • Asset-liability mismatch risk	• Spread between earned rate and crediting rate to policyholders	• Mortality • Persistency • Withdrawals

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

Valuation interest rates

As at 31 December 2018 and 30 November 2017, the ranges of applicable valuation interest rates for traditional insurance contracts, which vary by territory, year of issuance and products, within the first 20 years are as follows:

	As at 31 December 2018	As at 30 November 2017
Hong Kong	3.50% - 7.50%	3.50% - 7.50%
Korea	N/A	2.85% - 6.50%
New Zealand	3.43% - 6.15%	2.97% - 5.75%
Taiwan	1.75% - 6.50%	1.75% - 6.50%

23. Investment contract liabilities

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
At beginning of financial period	**5,354,801**	**5,036,832**
Effect of foreign exchange movements	(3,520)	(4,629)
Investment contract benefits	(360,403)	937,119
Fees charged	(96,845)	(117,047)
Net withdrawals and other movements	(345,277)	(497,474)
At end of financial period[(1)]	**4,548,756**	**5,354,801**

Note:

(1) Of investment contract liabilities, US$365m (30 November 2017: US$435m) represents deferred fee income.

24. Effect of changes in assumptions and estimates

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

US$'000	As at 31 December 2018	As at 30 November 2017
(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax		
0.5 pps increase in investment return	706	14,640
0.5 pps decrease in investment return	(949)	(33,476)
10% increase in expenses	(211)	(2,342)
10% increase in mortality rates	(11,697)	(21,633)
10% increase in lapse/discontinuance rates	13,486	(2,009)

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

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

The impact of changes in assumptions on the valuation of insurance and investment contracts with DPF was US$13.5m (30 November 2017: US$19.2m) increase in profit.

25. Borrowings

US$'000	As at 31 December 2018	As at 30 November 2017
Loans from holding company	4,588,282	1,256,000
Total	**4,588,282**	**1,256,000**

On 9 January 2014, the Company entered into a committed multicurrency revolving credit facility in an aggregate amount equal to US$300m. The revolving credit facility bears floating rate interest. There were no outstanding borrowings under these credit facilities as of 31 December 2018.

The Company did not have assets pledged as security with respect to amounts disclosed as loans above.

Several loans from holding company are unsecured, interest-free and repayable on demand. Interest expense on borrowings is shown in note 6. Further information relating to interest rates and the maturity profile of borrowings is presented in note 32.

26. Obligations under repurchase agreements

The Company has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date.

The securities related to these agreements are not derecognised from the Company's statement of financial position, but are retained within the appropriate financial asset classification. During the term of the repurchase agreements, the Company is restricted from selling or pledging the transferred debt securities.

The following table specifies the amounts included within financial investments subject to repurchase agreements which do not qualify for de-recognition at each period end:

US$'000	As at 31 December 2018	As at 30 November 2017
Debt securities – AFS:		
Repurchase agreement	145,539	-
Total	**145,539**	**-**

Collateral

At 31 December 2018, the Company did not pledge debt securities with carrying value (30 November 2017: nil) and no cash collateral was held (30 November 2017: nil). In the absence of default, the Company does not sell or repledge the debt securities collateral received and they are not recognised in the statement of financial position.

At 31 December 2018, the obligations under repurchase agreements were US$138m (30 November 2017: nil).

27. Offsetting of financial assets and financial liabilities

Offsetting, enforceable master netting agreements and similar agreements

The following table shows the assets that are subject to offsetting, enforceable master netting agreements and similar arrangements at each period end:

				Related amounts not set off in the statement of financial position		
US$'000	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
31 December 2018						
Financial assets:						
Derivative assets	83,188	-	83,188	(4,273)	(66,986)	11,929
Total	**83,188**	**-**	**83,188**	**(4,273)**	**(66,986)**	**11,929**

				Related amounts not set off in the statement of financial position		
US$'000	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
30 November 2017						
Financial assets:						
Derivative assets	45,880	-	45,880	(14,918)	-	30,962
Total	**45,880**	**-**	**45,880**	**(14,918)**	**-**	**30,962**

27. Offsetting of financial assets and financial liabilities (continued)

Offsetting, enforceable master netting agreements and similar agreements (continued)

The following table shows the liabilities that are subject to offsetting, enforceable master netting agreements and similar arrangements at each period end:

US$'000	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position: Financial instruments	Related amounts not set off in the statement of financial position: Cash collateral pledged	Net amount
31 December 2018						
Financial liabilities:						
Derivative liabilities	30,652	-	30,652	(43,677)	-	(13,025)
Repurchase agreements	138,065	-	138,065	(138,065)	-	-
Total	**168,717**	**-**	**168,717**	**(181,742)**	**-**	**(13,025)**

US$'000	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position: Financial instruments	Related amounts not set off in the statement of financial position: Cash collateral pledged	Net amount
30 November 2017						
Financial liabilities:						
Derivative liabilities	54,161	-	54,161	(57,232)	(9,515)	(12,586)
Total	**54,161**	**-**	**54,161**	**(57,232)**	**(9,515)**	**(12,586)**

The Company entered into enforceable master netting agreements for derivative transactions, as well as the repurchase agreements for debt instruments with various counterparties. Except for certain futures contracts executed through clearing house mechanism where the settlement arrangement satisfied the IFRS netting criteria, the transactions under the enforceable master netting agreements and similar agreements involving the exchange of financial instruments or cash as collateral do not satisfy the IFRS netting criteria. The provision in the master netting agreement and similar agreements enables a party to terminate transactions early and settle at a net amount if a default or termination event occurs.

28. Provisions

US$'000	Employee benefits	Other	Total
At 1 December 2016	**25,997**	**36,390**	**62,387**
Charged to the income statement	2,272	18,478	20,750
Charged to other comprehensive income	(5,088)	-	(5,088)
Exchange differences	23	158	181
Released during the year	-	(5,083)	(5,083)
Utilised during the year	(6,872)	(24,218)	(31,090)
Other movements	70	887	957
At 30 November 2017	**16,402**	**26,612**	**43,014**
Charged to the income statement	1,117	4,695	5,812
Charged to other comprehensive income	(4,552)	-	(4,552)
Exchange differences	(3)	26	23
Released during the period	-	(4,923)	(4,923)
Utilised during the period	(2,631)	(21,224)	(23,855)
Impact of Korea business transfer[1]	1,666	(1,200)	466
Other movements	3,557	-	3,557
At 31 December 2018	**15,556**	**3,986**	**19,542**

Note:

(1) For details of Korea subsidiarisation, please refer to note 2.2.

Other provisions

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

29. Other liabilities

US$'000	As at 31 December 2018	As at 30 November 2017
Trade and other payables	1,265,212	1,432,560
Reinsurance payables	274,239	348,322
Total	**1,539,451**	**1,780,882**

Other liabilities are generally expected to be settled within 12 months after the end of the reporting period.

30. Share capital and reserves

Share capital

	As at 31 December 2018 Shares '000	As at 31 December 2018 US$'000	As at 30 November 2017 Shares '000	As at 30 November 2017 US$'000
Authorised				
Ordinary shares of US$1.2 each	3,000	3,600	3,000	3,600
Issued and fully paid				
At beginning and end of the financial period	**3,000**	**3,600**	**3,000**	**3,600**
Share premium		**945**		**945**
Capital contribution				
At beginning of the financial period		**2,316,822**		**2,231,428**
Increase during the period		85,394		85,394
At end of the financial period		**2,402,216**		**2,316,822**

There were no shares issued under share option schemes during the thirteen months ended 31 December 2018 (twelve months ended 30 November 2017: nil). The Company and its subsidiaries have not undertaken any purchase, sale, or redemption of the Company's issued share capital in the reporting period.

Reserves

Fair value reserve

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

Foreign currency translation reserve

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

Property revaluation reserve

Property revaluation reserve comprises the cumulative net change in the revalued amount of property held for own use at the end of the reporting period. Property revaluation surplus is not considered to be a realised profit available for distribution to shareholders.

Other reserves

Other reserves mainly include the share-based compensation and the impact of Korea business transfer.

31. Company capital structure

Capital Management Approach

The Company's capital management objectives focus on maintaining a strong capital base to support the development of its business, maintaining the ability to move capital freely and satisfying regulatory capital requirements at all times.

The Company's capital management function oversees all capital-related activities of the Company and assists senior management in making capital decisions. The capital management function participates in decisions concerning asset-liability management, strategic asset allocation and ongoing solvency management. This includes ensuring capital considerations are paramount in the strategy and business planning processes and when determining the Company's capacity to pay dividends to shareholders.

Regulatory Solvency

The Company is in compliance with the solvency and capital adequacy requirements applied by its regulators. The Company's primary insurance regulator is the Hong Kong Insurance Authority (HKIA), which requires that the Company meets the solvency margin requirements of the Hong Kong Insurance Ordinance (HKIO). The HKIO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. AIAGL has given a revised undertaking to the HKIA to maintain an excess of assets over liabilities for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement in the Company.

The capital positions of the Company as of 31 December 2018 and 30 November 2017 are as follows:

US$m			31 December 2018			30 November 2017
	Total available capital	Regulatory minimum capital	Solvency ratio	Total available capital	Regulatory minimum capital	Solvency ratio
The Company	6,772	1,855	365%	7,826	2,431	322%
Hong Kong Branch (Long term business)	5,778	1,628	355%	5,774	1,518	380%
Hong Kong Branch (General & other business)	79	17	480%	46	15	306%

For these purposes, the Company defines total available capital as the amount of assets in excess of liabilities measured in accordance with the HKIO and "regulatory minimum capital" as the required minimum margin of solvency calculated in accordance with the HKIO. The solvency ratio is the ratio of total available capital to regulatory minimum capital.

In respect of the Company's general business, the relevant premium income, the relevant claims outstanding and the relevant amount applicable, as defined in section 10 of the Ordinance amounted to US$154 million, US$22 million and US$18 million respectively as at 31 December 2018.

The Company's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries operate and, in relation to subsidiaries, in which they are incorporated. The various regulators overseeing the Company actively monitor our local solvency positions. The Company submits annual filings to the HKIA of its solvency margin position based on its annual audited financial statements.

The ability of the Company to pay dividends to shareholders and to meet other obligations depends ultimately on dividends and other payments being received from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations. The various regulators overseeing the individual branches and subsidiaries of the Company have the discretion to impose additional restrictions on the ability of those regulated subsidiaries and branches to make payment of dividends or other distributions and payments to the Company, including increasing the required margin of solvency that an operating unit must maintain. For example, capital may not be remitted without the consent from regulators for certain individual branches or subsidiaries of the Company. The payment of dividends, distributions and other payments to shareholders is subject to the oversight of the HKIA.

31. Company capital structure (continued)

Capital and Regulatory Orders Specific to the Company

As of 31 December 2018, the requirements and restrictions summarised below may be considered material to the Company and remain in effect unless otherwise stated.

Hong Kong Insurance Authority

AIAGL, its ultimate parent, has given to the HKIA an undertaking that AIAGL will:

(i) ensure that (a) the Company will at all times maintain an excess of assets over liabilities of not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of the Hong Kong branch and at no less than 100% of the Hong Kong statutory minimum solvency margin requirement for the branches other than Hong Kong ("minimum amount"); (b) it will not withdraw capital or transfer any funds or assets out of the Company that will cause the solvency ratio to fall below the minimum amounts specified in (a), except with, in either case, the prior written consent of the HKIA; and (c) should the solvency ratio of the Company falls below the respective minimum amounts, AIAGL will take steps as soon as possible to restore it to at least the respective minimum amounts in a manner acceptable to the HKIA;

(ii) notify the HKIA in writing as soon as AIAGL becomes aware of any person (a) becoming a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of the Company through the acquisition of AIAGL's shares traded on the HKSE; or (b) ceasing to be a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of the Company through the disposal of AIAGL's shares traded on the HKSE;

(iii) be subject to the supervision of the HKIA and AIAGL will be required to continually comply with the HKIA's guidance on the "fit and proper" standards of a controller pursuant to Section 8(2) of the HKIO. The HKIA is empowered by the HKIO to raise objection if it appears to it that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company's financial resources; the viability of a holding company's business plan for its insurance subsidiaries which are regulated by the HKIA; the clarity of the Company's legal, managerial and operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors or controllers is subject to receivership, administration, liquidation or other similar proceedings or failed to satisfy any judgement debt under a court order or the subject of any criminal convictions or in breach of any statutory or regulatory requirements; the soundness of the Company's corporate governance; the soundness of the Company's risk management framework; the receipt of information from its insurance subsidiaries which are regulated by the HKIA to ensure that they are managed in compliance with applicable laws, rules and regulation; and its role in overseeing and managing the operations of its insurance subsidiaries which are regulated by the HKIA; and

(iv) fulfil all enhancements or improvements to the guidance referred to in subparagraph (iii) above, as well as administrative measures issued from time to time by the HKIA or requirements that may be prescribed by the HKIA in accordance with the HKIO, regulations under the HKIO or guidance issued by the HKIA from time to time.

32. Risk management

Risk management framework

AIA recognises the importance of sound risk management in every aspect of our business and for all our stakeholders. The Risk Management Framework (RMF) provides the structure for identifying, quantifying and mitigating risk across the Company. An effective RMF is the key to avoiding the financial and reputational damage that arises from inadequate or ineffective control of the risks in the business.

Insurance risk

Insurance risk is the risk arising from changes in claims experience as well as more general exposure relating to the acquisition and persistency of insurance business. This also includes changes to assumptions regarding future experience for these risks.

Lapse

Lapse risk is the risk that the rate of policy termination deviates from the Company's expectation.

Ensuring customers buy products that meet their needs is central to the Company's Operating Philosophy. Through effective implementation of the Business Quality Framework, comprehensive sales training programmes and active monitoring of sales activities and persistency, the Company seeks to ensure that appropriate products are sold by qualified sales representatives and that standards of service consistently meet our customers' needs.

Expense

Expense risk is the risk that the cost of selling new business and of administering the in-force book exceeds the assumptions made in pricing and/or reserving.

Daily operations follow a disciplined budgeting and control process that allows for the management of expenses based on the Company's very substantial experience within the markets in which we operate.

Morbidity and Mortality

Morbidity and mortality risk is the risk that the occurrence and/or amounts of medical/death claims are higher than the assumptions made in pricing and/or reserving.

The Company adheres to well-defined market-oriented underwriting and claims guidelines and practices that have been developed based on extensive historical experience and with the assistance of professional reinsurers.

The Company's actuarial teams conduct regular experience studies of all the insurance risk factors in its in-force book. These internal studies together with external data are used to identify emerging trends which can then be used to inform product design, pricing, underwriting, claims management and reinsurance needs.

Through monitoring the development of both local and global trends in medical technology, health and wellness, the impact of legislation and general social, political and economic conditions the Company seeks to anticipate and respond promptly to potential adverse experience impacts on its products.

Reinsurance is used to reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophic events such as pandemics or natural disasters.

32. Risk management (continued)

Investment and financial risks

Credit risk

Credit risk is the risk that third parties fail to meet their obligations to the Company when they fall due. Although the primary source of credit risk is the Company's investment portfolio, such risk can also arise through reinsurance, procurement, and treasury activities.

The Company's credit risk management oversight process is governed centrally, but provides for decentralised management and accountability by our lines of business. A key to AIA's credit risk management is adherence to a well-controlled underwriting process. The Company's credit risk management starts with the assignment of an internal rating to all counterparties. A detailed analysis of each counterparty is performed and a rating recommended by the first lines of business. The Company's Risk Management function manages the Company's internal ratings framework and reviews these recommendations and make final decision on the assigned ratings. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

Interest rate risk

The Company's exposure to interest rate risk predominantly arises from any differences between the duration of the Company's liabilities and assets. Since most markets do not have assets of sufficient tenor to match life insurance liabilities, an uncertainty arises around the reinvestment of maturing assets to match the Company's insurance liabilities.

AIA manages interest rate risk primarily on an economic basis to determine the durations of both assets and liabilities. Interest rate risk on local solvency basis is also taken into consideration for business units where local solvency regimes deviate from economic basis. Furthermore, for products with discretionary benefits, additional modelling of interest rate risk is performed to guide determination of appropriate management actions. Management also takes into consideration the asymmetrical impact of interest rate movements when evaluating products with options and guarantees.

Exposure to interest rate risk

The table below summarises the nature of the interest rate risk associated with financial assets and financial liabilities. In preparing this analysis, fixed rate interest bearing instruments that mature or reprice within 12 months of the reporting date have been disclosed as variable rate instruments.

US$'000	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
31 December 2018				
Financial assets				
Loans and deposits	160,001	374,925	5,131	540,057
Other receivables	504	-	691,026	691,530
Debt securities	1,879,354	44,622,061	-	46,501,415
Equity securities	-	-	14,089,763	14,089,763
Reinsurance receivables	-	-	203,274	203,274
Accrued investment income	-	-	577,800	577,800
Cash and cash equivalents	346,584	-	45,680	392,264
Derivative financial instruments	-	-	83,188	83,188
Total financial assets	**2,386,443**	**44,996,986**	**15,695,862**	**63,079,291**
Financial liabilities				
Investment contract liabilities(1)	-	-	4,184,208	4,184,208
Borrowings	-	391,282	4,197,000	4,588,282
Obligations under repurchase agreements	138,065	-	-	138,065
Other liabilities	78,841	5	1,460,605	1,539,451
Derivative financial instruments	-	-	30,652	30,652
Total financial liabilities	**216,906**	**391,287**	**9,872,465**	**10,480,658**

Note:

(1) The comparative information has been adjusted to conform to the current period presentation.

32. Risk management (continued)

Investment and financial risks (continued)

Exposure to interest rate risk (continued)

US$'000	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 2017				
Financial assets				
Loans and deposits	198,342	1,170,964	8,003	1,377,309
Other receivables	645	-	661,700	662,345
Debt securities	2,266,303	52,958,284	-	55,224,587
Equity securities	-	-	13,781,433	13,781,433
Reinsurance receivables	-	-	237,849	237,849
Accrued investment income	-	-	557,058	557,058
Cash and cash equivalents	777,994	-	149,476	927,470
Derivative financial instruments	-	-	45,880	45,880
Total financial assets	**3,243,284**	**54,129,248**	**15,441,399**	**72,813,931**
Financial liabilities				
Investment contract liabilities(1)	-	-	4,919,492	4,919,492
Borrowings	-	323,000	933,000	1,256,000
Other liabilities	85,447	-	1,695,435	1,780,882
Derivative financial instruments	-	-	54,161	54,161
Total financial liabilities	**85,447**	**323,000**	**7,602,088**	**8,010,535**

Note:

(1) The comparative information has been adjusted to conform to the current period presentation.

32. Risk management (continued)

Investment and financial risks (continued)

Equity price risk

Equity price risk arises from changes in the market value of equity securities. Investments in equity securities on a long-term basis are expected to provide diversification benefits and enhance returns. The extent of exposure to equities at any time is subject to the terms of the Company's strategic asset allocations.

Equity price risk is managed in the first instance through the individual investment mandates which define benchmarks and any tracking error targets. Equity limits are also applied to contain individual exposures. Equity exposures are included in the aggregate exposure reports on each individual counterparty to ensure concentrations are avoided.

Sensitivity analysis

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in note 24. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices, the Company has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support unit-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders.

Information is presented to illustrate the estimated impact on profits and total equity arising from a change in a single variable before taking into account the effects of taxation.

The impact of any impairments of financial assets has been ignored for the purpose of illustrating the sensitivity of profit before tax and total equity before the effects of taxation to changes in interest rates and equity prices on the grounds that default events reflect the characteristics of individual issuers. As the Company's accounting policies lock in interest rate assumptions on policy inception and the Company's assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is not any corresponding effect on liabilities.

	31 December 2018		30 November 2017	
US$'000	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)
Equity market risk				
10 per cent increase in equity prices	733,728	733,728	559,524	559,524
10 per cent decrease in equity prices	(733,728)	(733,728)	(559,524)	(559,524)
Interest rate risk				
+50 basis points shift in yield curves	(73,733)	(2,624,421)	(28,443)	(2,981,404)
-50 basis points shift in yield curves	73,913	2,873,350	28,813	3,263,468

32. Risk management (continued)

Investment and financial risks (continued)

Foreign exchange rate risk

The Company's foreign exchange rate risk arises mainly from the Company's operations in multiple geographical markets in the Asia-Pacific region and the translation of multiple currencies to US dollars for financial reporting purposes. The balance sheet values of our operating units and subsidiaries are not hedged to the Company's presentation currency, the US dollar.

However, assets, liabilities and local regulatory and stress capital in each business unit are generally currency matched with the exception of holdings of equities denominated in currencies other than the functional currency, or any expected capital movements due within one year which may be hedged. Bonds denominated in currencies other than the functional currency are commonly hedged with cross-currency swaps or foreign exchange forward contracts.

Foreign exchange rate net exposure

US$'000	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korea Won
31 December 2018							
Equity analysed by original currency	3,909,686	(825,461)	124,945	289,976	42,861	114,533	910,248
Net notional amounts of currency derivative positions	(1,120,066)	595,087	-	-	-	-	-
Currency exposure	**2,789,620**	**(230,374)**	**124,945**	**289,976**	**42,861**	**114,533**	**910,248**
5% strengthening of original currency							
Impact on profit before tax	8,563	(40,366)	6,247	14,499	2,143	5,727	45,512
Impact on other comprehensive income	(8,617)	-	-	-	-	-	-
Impact on total equity	**(54)**	**(40,366)**	**6,247**	**14,499**	**2,143**	**5,727**	**45,512**
5% strengthening of the US dollar							
Impact on profit before tax	8,563	40,362	(6,247)	(14,499)	(2,143)	(5,727)	(45,512)
Impact on other comprehensive income	(8,617)	4	-	-	-	-	-
Impact on total equity	**(54)**	**40,366**	**(6,247)**	**(14,499)**	**(2,143)**	**(5,727)**	**(45,512)**

US$'000	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi	Korea Won
30 November 2017							
Equity analysed by original currency	12,450,037	(567,041)	131,828	156,925	58,541	309,142	2,535,984
Net notional amounts of currency derivative positions	(2,167,056)	596,891	-	-	-	7,697	1,113,909
Currency exposure	**10,282,981**	**29,850**	**131,828**	**156,925**	**58,541**	**316,839**	**3,649,893**
5% strengthening of original currency							
Impact on profit before tax	14,133	(26,009)	6,591	7,846	2,927	15,842	46,027
Impact on other comprehensive income	(16,264)	-	-	-	-	-	136,468
Impact on total equity	**(2,131)**	**(26,009)**	**6,591**	**7,846**	**2,927**	**15,842**	**182,495**
5% strengthening of the US dollar							
Impact on profit before tax	14,133	26,000	(6,591)	(7,846)	(2,927)	(15,456)	(46,027)
Impact on other comprehensive income	(16,264)	9	-	-	-	(386)	(136,468)
Impact on total equity	**(2,131)**	**26,009**	**(6,591)**	**(7,846)**	**(2,927)**	**(15,842)**	**(182,495)**

32. Risk management (continued)

Investment and financial risks (continued)

Liquidity risk

AIA identifies liquidity risk as occurring in two ways, financial liquidity risk and investment liquidity risk. Financial liquidity risk is the risk that insufficient cash is available to meet payment obligations to counterparties as they fall due. One area of particular focus in the management of financial liquidity is collateral. AIA manages this exposure by determining limits for its activities in the derivatives and repurchase agreement markets based on the collateral available within the relevant fund or subsidiary to withstand extreme market events. More broadly AIA supports its liquidity through committed bank facilities and use of the bond repurchase market.

Investment liquidity risk occurs in relation to the Company's ability to buy and sell investments. This is a function of the size of the Company's holdings relative to the availability of counterparties willing to buy or sell these holdings at any given time. In times of stress, market losses will generally be compounded by forced sellers seeking unwilling buyers.

While life insurance companies are characterised by a relatively low need for liquidity to cover those of their liabilities which are directly linked to mortality and morbidity, this risk is nevertheless carefully managed by continuously assessing the relative liquidity of the Company's assets and managing the size of individual holdings through limits.

US$'000	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
31 December 2018						
Financial assets (Policyholders and shareholder investments)						
Loans and deposits	540,057	122,675	9,477	651	6,283	400,971
Other receivables	686,618	674,040	11,252	141	-	1,185
Debt securities	46,402,706	349,004	3,877,698	6,993,266	35,182,738	-
Equity securities	7,337,282	-	-	-	-	7,337,282
Reinsurance receivables	203,274	203,274	-	-	-	-
Accrued investment income	577,799	576,691	-	-	-	1,108
Cash and cash equivalents	388,167	388,167	-	-	-	-
Derivative financial instruments	83,188	70,269	398	-	12,521	-
Subtotal	**56,219,091**	**2,384,120**	**3,898,825**	**6,994,058**	**35,201,542**	**7,740,546**
Financial assets (Unit-linked contract and consolidated investment funds)	6,860,200	-	-	-	-	6,860,200
Total	**63,079,291**	**2,384,120**	**3,898,825**	**6,994,058**	**35,201,542**	**14,600,746**
Financial and insurance contract liabilities (Policyholders and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	45,022,382	1,005,930	3,192,811	3,789,797	37,033,844	-
Borrowings	4,588,282	815,282	3,450,000	323,000	-	-
Obligations under repurchase agreements	138,065	138,065	-	-	-	-
Other liabilities	1,546,812	1,515,714	30,827	189	82	-
Derivative financial instruments	30,652	6,987	2,747	-	20,918	-
Subtotal	**51,326,193**	**3,481,978**	**6,676,385**	**4,112,986**	**37,054,844**	-
Financial and insurance contract liabilities (Unit-linked contract and consolidated investment funds)	6,861,306	-	-	-	-	6,861,306
Total	**58,187,499**	**3,481,978**	**6,676,385**	**4,112,986**	**37,054,844**	**6,861,306**

32. Risk management (continued)

Investment and financial risks (continued)

Liquidity risk (continued)

US$'000	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
30 November 2017						
Financial assets (Policyholders and shareholder investments)						
Loans and deposits	1,377,309	573,140	15,288	2,509	5,990	780,382
Other receivables	656,221	614,474	38,964	1,197	153	1,433
Debt securities	54,803,281	1,470,577	6,502,768	10,884,594	35,945,342	-
Equity securities	5,595,237	-	-	-	-	5,595,237
Reinsurance receivables	237,849	237,849	-	-	-	-
Accrued investment income	553,560	553,560	-	-	-	-
Cash and cash equivalents	825,835	825,835	-	-	-	-
Derivative financial instruments	37,986	11,799	2,767	23,420	-	-
Subtotal	**64,087,278**	**4,287,234**	**6,559,787**	**10,911,720**	**35,951,485**	**6,377,052**
Financial assets (Unit-linked contract and consolidated investment funds)	8,726,653	-	-	-	-	8,726,653
Total	**72,813,931**	**4,287,234**	**6,559,787**	**10,911,720**	**35,951,485**	**15,103,705**
Financial and insurance contract liabilities (Policyholders and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	45,438,800	1,236,843	3,339,593	3,961,990	36,900,374	-
Borrowings	1,256,000	-	933,000	323,000	-	-
Other liabilities	1,769,116	1,741,109	26,926	1,046	31	4
Derivative financial instruments	54,161	436	4,571	8,193	40,961	-
Subtotal	**48,518,077**	**2,978,388**	**4,304,090**	**4,294,229**	**36,941,366**	**4**
Financial and insurance contract liabilities (Unit-linked contract and consolidated investment funds)	8,736,958	-	-	-	-	8,736,958
Total	**57,255,035**	**2,978,388**	**4,304,090**	**4,294,229**	**36,941,366**	**8,736,962**

33. Employee benefits

Defined benefit plans

The Company operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong, Korea and Taiwan. The latest independent actuarial valuations of the plans were at 31 December 2018 and were prepared by credentialed actuaries. All the actuaries are qualified members of professional actuarial organisations to render the actuarial opinions. The actuarial valuations indicate that the Company's obligations under these defined benefit retirement plans are 4 per cent (30 November 2017: 50 per cent) covered by the plan assets held by the trustees. The fair value of plan assets as at period end at the date of valuation was US$0.6m (30 November 2017: US$16.2m). The total expense relating to these plans recognised in the income statement was US$1.1m (twelve months ended 30 November 2017: US$2.3m).

Defined contribution plans

The Company operates a number of defined contribution pension plans. The total expense relating to these plans in the current thirteen months was US$11.8m (twelve months ended 30 November 2017: US$11.7m). Employees and the employer are required to make monthly contributions equal to 3 per cent to 12.5 per cent of the employees' monthly basic salaries, depending on years of service and subject to any applicable caps of monthly relevant income in different jurisdictions. For defined contribution pension plans with vesting conditions, any forfeited contributions by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions are used by the employer to reduce any future contributions. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

34. Share-based compensation

Share-based compensation plans

During the thirteen months ended 31 December 2018, the AIA Group made further grants of share options, restricted share units (RSUs) and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Company under the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme) and the Employee Share Purchase Plan (ESPP). In addition, the AIA Group made further awards of restricted stock subscription units (RSSUs) to eligible agents under the Agency Share Purchase Plan (ASPP).

RSU Scheme

Under the RSU Scheme, the vesting of the awarded RSUs is conditional upon the eligible participants remaining in employment with the AIA Group during the respective vesting periods. RSU awards are vested either entirely after a specific period of time or in tranches over the vesting period. For RSU awards that are vested in tranches, each vesting tranche is accounted for as a separate award for the purpose 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 participants at the end of vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares of AIAGL. Except in jurisdictions where restrictions apply, the awarded RSUs are expected to be settled in equity; awards that the AIA Group has the legal or constructive obligation to settle in cash are insignificant to the AIA Group. The maximum number of shares of AIAGL that can be awarded under this scheme is 301,100,000 (30 November 2017: 301,100,000), representing approximately 2.5 per cent (30 November 2017: 2.5 per cent) of the number of shares of AIAGL in issue at 31 December 2018.

Number of shares	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Restricted Share Units		
Outstanding at beginning of financial period	5,791,416	6,665,294
Awarded	1,519,782	2,139,781
Net transfer in/(out)	182,821	(393,415)
Forfeited	(442,239)	(1,799,957)
Vested	(1,515,795)	(820,287)
Outstanding at end of financial period	**5,535,985**	**5,791,416**

SO Scheme

The objectives of the SO Scheme are to align eligible participants' interests with those of the shareholders of AIAGL by allowing eligible participants to share in the value created at the point they exercise their options. Share option (SO) awards are vested either entirely after a specific period of time or in tranches over the vesting period approximately three to five years, during which, the eligible participants are required to remain in employment with the AIA Group. For SO awards vested in tranches, each vesting tranche is accounted for as a separate award for the purposes of recognising the expense over the vesting period. The awarded share options expire 10 years from the date of grant and each share option entitles the eligible participant to subscribe for one ordinary share of AIAGL. Except in jurisdictions where restrictions apply, the awarded share options are expected to be settled in equity; awards that the Company has the legal or constructive obligation to settle in cash are insignificant to the Company. The total number of shares under option that can be awarded under the scheme is 301,100,000 (30 November 2017: 301,100,000), representing approximately 2.5 per cent (30 November 2017: 2.5 per cent) of the number of shares of AIAGL in issue at 31 December 2018.

34. Share-based compensation (continued)

SO Scheme (continued)

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

	Thirteen months ended 31 December 2018		Twelve months ended 30 November 2017	
	Number of share options	Weighted average exercise price (HK$)	Number of share options	Weighted average exercise price (HK$)
Share options				
Outstanding at beginning of financial period	566,393	41.02	723,461	39.37
Awarded	102,044	67.15	225,877	50.30
Exercised	(196,946)	36.60	(265,024)	35.34
Transfer in	-	-	196,946	36.60
Transfer out	(101,378)	45.76	(282,648)	46.35
Forfeited or expired	-	-	(32,219)	41.90
Outstanding at end of financial period	370,113	49.27	566,393	41.02
Share options exercisable at end of financial period	94,748	36.89	218,503	32.79
Weighted average remaining contractual life (years)	7.24		7.14	

At the respective dates on which the share options were exercised, the weighted average share price of AIAGL was HK$65.80 for the thirteen months ended 31 December 2018 (twelve months ended 30 November 2017: HK$53.68).

The range of exercise prices for the share options outstanding as of 31 December 2018 and 30 November 2017 is summarised in the table below.

	Thirteen months ended 31 December 2018		Twelve months ended 30 November 2017	
	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	65,696	3.70	169,666	4.79
HK$36 - HK$45	92,284	7.19	195,893	7.77
HK$46 - HK$55	110,089	7.59	200,834	8.51
HK$66 - HK$75	102,044	9.20	-	-
Outstanding at end of financial period	370,113	7.24	566,393	7.14

ESPP

Under the plan, eligible employees of the Company 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 per cent 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 thirteen months ended 31 December 2018, eligible employees paid US$5.7m (twelve months ended 30 November 2017: US$5.1m) to purchase 667,611 ordinary shares (twelve months ended 30 November 2017: 716,030 ordinary shares) of AIAGL.

34. Share-based compensation (continued)

ASPP

The structure of the ASPP generally follows that of the ESPP, the key difference being that the eligible agents are required to pay a subscription price of US$1 to subscribe for each new share of AIAGL at the end of the vesting period. Under the plan, eligible agents of the Company can purchase ordinary shares of AIAGL with qualified agent contributions and AIAGL will award one matching restricted stock subscription unit to them at the end of the vesting period for each two shares purchased through the qualified agent contributions (agent contribution shares). Each restricted stock subscription unit entitles eligible agents to subscribe for one new share of AIAGL. Agent contribution shares are purchased from the open market. During the vesting period, the eligible agents must hold the contribution shares purchased during the plan cycle and maintain their agent contracts with AIAGL. The awarded matching restricted stock subscription units are expected to be settled in equity. The level of qualified agent contribution is subject to a maximum of US$15,000 per annum. For the thirteen months ended 31 December 2018, eligible agents paid US$14.7m (twelve months ended 30 November 2017: US$12.2m) to purchase 1,709,433 ordinary shares (twelve months ended 30 November 2017: 1,672,946 ordinary shares) of AIAGL.

Valuation methodology

The Company utilises a binomial lattice model to calculate the fair value of the share option awards, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU, ESPP and ASPP awards, taking into account the terms and conditions upon which the awards were made. The price volatility is estimated on the basis of implied volatility of AIAGL's shares which is based on an analysis of historical data since they are traded in the Hong Kong Stock Exchange. The expected life of the share options is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behaviour of the Company's employees. The estimate of market condition for performance-based RSUs is based on one-year historical data preceding the grant date. An allowance for forfeiture prior to vesting is not included in the valuation of the awards.

The fair value calculated for share options is inherently subjective due to the assumptions made and the limitations of the model utilised.

	Thirteen months ended 31 December 2018			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	1.87%	1.48%*	1.35% - 2.27%	1.44%
Volatility	20%	20%	20%	20%
Dividend yield	1.80%	1.80%	1.50% - 1.80%	1.80%
Exercise price (HK$)	67.15	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.95	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK$)	13.68	57.54	60.39	54.25

	Twelve months ended 30 November 2017			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	1.90%	1.29%*	0.68% - 1.29%	1.25%
Volatility	20%	20%	20%	20%
Dividend yield	1.80%	1.80%	1.80%	1.80%
Exercise price (HK$)	50.30	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.95	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK$)	10.27	39.53	57.98	45.81

** Applicable to RSU with market conditions*

34. Share-based compensation (continued)

Valuation methodology (continued)

The weighted average share price for share option valuation for awards made during the thirteen months ended 31 December 2018 is HK$67.15 (twelve months ended 30 November 2017: HK$50.30).

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards made under the RSU Scheme, SO Scheme, ESPP and ASPP for the thirteen months ended 31 December 2018 is US$15.6m (twelve months ended 30 November 2017: US$12.3m).

35. Remuneration of directors and key management personnel

Directors' remuneration

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Directors' fee	68	60
Salaries, allowance and benefits in kind	-	-
Retirement scheme contribution	-	-
Share-based compensation	-	-
Total	**68**	**60**

The aggregate emoluments of the three highest paid directors	68	60

Key management personnel have been identified as the members of the Company's Board of Directors. Certain directors of the Company are also the directors of AIA Co. The corresponding directors' remuneration attributable to the Company were paid by AIA Co. and recharged to the Company during the period.

36. Related party transactions

US$'000	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Transactions with related parties		
Reinsurance related parties (income)/expense		
Premiums assumed	(3,071)	(932)
Premiums ceded to reinsurers	91,408	49,502
Claims recovered from reinsurers	(41,792)	(20,541)
Claims paid on inwards reinsurance	2,663	560
Commissions and fee income	(40,657)	(25,528)
	8,551	**3,061**
Non-insurance related party income		
Dividend income	(80,205)	(49,800)
Interest income	(1,774)	(1,542)
Income from services provided	(56,036)	(7,511)
	(138,015)	**(58,853)**
Non-insurance related party expenses		
Dividend declared	3,450,000	1,090,000
Interest expense	18,638	11,273
Purchases of services	97,291	74,216
Corporate service fees	167,868	161,162
	3,733,797	**1,336,651**
Total	**3,604,333**	**1,280,859**
Payment/(receipt) on behalf of related party		
Amounts paid on behalf of related parties	43,087	49,577
Amounts received on behalf of related parties	(12,471)	(39,677)
Total	**30,616**	**9,900**
Amounts due from related parties		
Insurance-related amounts receivable	8,699	11,975
Loans receivable	42,353	51,614
Other amounts receivable	17,808	22,383
Total	**68,860**	**85,972**
Amounts due to related parties		
Insurance-related amounts payable	(11,295)	(14,881)
Loan from holding company	(4,588,282)	(1,256,000)
Other amounts payable	(58,435)	(126,351)
Total	**(4,658,012)**	**(1,397,232)**

Transactions with related parties are transactions with subsidiaries of AIAGL, the ultimate parent of the Company and are carried out on normal commercial terms and conditions.

Insurance-related and other amounts due from/to related parties are unsecured which are expected to be settled within one year.

Remuneration of directors and key management personnel is disclosed in note 35.

37. Commitments and contingencies

Commitments under operating leases

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

US$'000	As at 31 December 2018	As at 30 November 2017
Properties and others expiring		
Not later than one year	61,648	55,223
Later than one and not later than five years	52,357	53,258
Later than five years	224	-
Total	**114,229**	**108,481**

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

Total future sub-lease payments receivable relating to the above operating leases amounted to US$0.5m (30 November 2017: nil).

Investment and capital commitments

US$'000	As at 31 December 2018	As at 30 November 2017
Not later than one year	899,494	893,746
Total	**899,494**	**893,746**

Investment and capital commitments consist of commitments to invest in private equity partnerships and other assets.

Contingencies

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

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

The Company is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. The Company is exposed to the risk of losses in the event of the failure of the retrocessionaire, a subsidiary of American International Group, Inc., to honour its outstanding obligations which is mitigated by a trust agreement. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US$486m at 31 December 2018 (30 November 2017: US$561m). The liabilities and related reinsurance assets, which totalled US$2m (30 November 2017: US$2m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Company's accounting policies. The Company expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

As at 31 December 2018, the Company had a Standby Letter of Credit of US$65m (30 November 2017: US$65m) from a bank to comply with Section 25C of the Insurance Ordinance (Cap.41).

38. Immediate and ultimate controlling party

At the reporting date, the Company was a wholly-owned subsidiary of AIA Co., whose ultimate holding company was AIAGL, a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited.

39. Events after the reporting period

In September 2017, the Company reached an agreement to acquire Commonwealth Bank of Australia's (CBA) life insurance business in Australia, including a 20-year strategic bancassurance partnership with CBA in Australia. The acquisition remains in progress, subject to securing all necessary regulatory and governmental approvals. The transaction aims to expand AIAGL and its subsidiaries' distribution capabilities and customer reach in Australia. The total gross consideration to be paid with respect to the proposed transaction is expected to be approximately US$2.0 billion payable in cash on completion of the proposed transaction and subject to certain adjustments at completion. After taking into account the expected proceeds from reinsurance agreement and the expected free surplus of the acquired business, the final net cash outlay by AIAGL is expected to be approximately US$1.0 billion.

To the Directors of AIA International Limited

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 this capacity, I am providing a Section 78 report to accompany the AIA International Limited Financial Statements.

I have reviewed the actuarial information used in the Financial Statements and the calculation of the Solvency Margin for AIA New Zealand. I have completed this review for AIA New Zealand only. I note that Sai Cheong Foong is the Approved Actuary for AIA International Limited and is responsible for conducting any investigations into the actuarial information reflected by AIA International Limited for other jurisdictions. I note that Marco Welgemoed is the Appointed Actuary for Sovereign Assurance Company Limited ("SACL") and is responsible for conducting any investigations into the actuarial information reflected in relation to SACL.

AIA New Zealand relies on an actuarial model that is managed by AIA Australia Limited. 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 RBNZ solvency returns for AIA New Zealand. My opinion on the financial position of AIA New Zealand is formed on the basis of the Audited Financial Statements of AIA New Zealand.

I have no other relationship with AIA New Zealand other than that of Appointed Actuary.

No limitations have been placed on me during the review of actuarial information and all information and explanations have been provided as required for my investigation, having appropriate regard for the size and nature of the business of AIA New Zealand.

In my opinion and from an actuarial perspective, 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 and from an actuarial perspective, at 31 December 2018 AIA New Zealand is maintaining the required solvency margin under the Insurance (Prudential Supervision) Act 2010.

Caroline Bennet
Appointed Actuary
Fellow of the Institute of Actuaries of Australia

30 April 2019

AIA International Limited-New Zealand Branch

Trading as AIA New Zealand

Financial Statements

For the thirteen months ended 31 December 2018

FOR THE PERIOD ENDED 31 DECEMBER 2018

Table of Contents

STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2018

	Note	Thirteen months ended 31 December 2018	Year ended 30 November 2017
		$	$
Revenue			
Premium revenue from insurance contracts		171,601,642	142,922,824
Less: Outward reinsurance expenses		(83,297,023)	(56,104,621)
Net premium revenue		88,304,619	86,818,203
Reinsurance commission income		39,266,390	20,566,339
Net investment income	4	7,164,553	8,576,340
Other income		21,340	19,661
Total revenue		**134,756,902**	**115,980,543**
Expenses			
Claims expense		95,575,278	70,452,072
Less: Reinsurance recoveries		(55,155,587)	(27,815,377)
Net claims expenses	5	40,419,691	42,636,695
Management and sales expenses	6	85,380,307	74,916,366
Movement in insurance contract asset	20	10,907,903	(8,893,490)
		136,707,901	**108,659,571**
(Loss)/Profit before taxation		**(1,950,999)**	**7,320,972**
Income tax expense	7(a)	1,376,768	4,445,131
(Loss)/Profit after taxation and total comprehensive (loss)/income for the period/year	3	**(3,327,767)**	**2,875,841**

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	31 December 2018 $	30 November 2017 $
Assets			
Cash and cash equivalents	9	7,907,486	14,658,481
Loans and receivables	8	31,471,886	19,787,599
Prepayments		865,637	665,915
Financial assets at fair value through profit or loss	10	160,534,320	161,782,330
Current tax asset		629,187	2,629,187
Property, plant and equipment	11	1,196,861	819,064
Intangible assets	12	5,471,395	5,707,644
Insurance contract assets	20	57,557,132	56,100,265
Total Assets		**265,633,904**	**262,150,485**
Liabilities			
Trade and other payables	14	15,476,860	19,299,001
Employee benefit obligations	13	4,024,618	4,621,979
Other insurance liabilities	16	10,654,132	8,539,891
Other financial liabilities	18	2,056,015	4,802,673
Liabilities arising from reinsurance contracts	20	14,318,924	1,954,160
Deferred tax liabilities	7(b)	54,070,315	54,571,974
Total Liabilities		**100,600,864**	**93,789,678**
Net Assets		**165,033,040**	**168,360,807**
Equity and Head Office Account			
Head office account		165,033,040	168,360,807
Total Equity and Head Office Account		**165,033,040**	**168,360,807**

The Financial Statements were approved for issue by the Board on 13 March 2019.

Wing Shing Chan
Director

Garth Brian Jones
Director

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

STATEMENT OF CHANGES IN EQUITY AND HEAD OFFICE ACCOUNT

For the period ended 31 December 2018

	Head office account	Total
Period ended 31 December 2018		
At the beginning of period	168,360,807	168,360,807
Loss after taxation and total comprehensive loss for the period	(3,327,767)	(3,327,767)
At the end of period	**165,033,040**	**165,033,040**
Year ended 30 November 2017		
At the beginning of year	165,484,966	165,484,966
Profit after taxation and total comprehensive income for the year	2,875,841	2,875,841
At the end of year	168,360,807	168,360,807

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

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STATEMENT OF CASH FLOWS

For the period ended 31 December 2018

	Note	Thirteen months ended 31 December 2018	Year ended 30 November 2017
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		171,854,023	143,402,851
Interest received		8,633,080	8,168,923
Other income received		21,333	19,661
Reinsurance recoveries		44,537,186	25,334,707
Reinsurance paid		(44,105,101)	(31,935,697)
Policy loan advancements		(293,463)	(168,711)
Repayment of policy loans		147,405	222,194
Payments to suppliers and employees		(91,603,774)	(68,670,440)
Payments to policyholders		(94,615,322)	(67,697,207)
Income tax paid		-	(53,294)
Net cash provided (used in)/by operating activities	9(b)	**(5,424,633)**	**8,622,986**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales / maturity of financial assets		61,906,782	21,907,615
Acquisition of financial assets		(61,887,093)	(34,091,668)
Purchase of property, plant and equipment		(481,951)	(760,137)
Incurred development costs capitalised within intangible assets		(1,164,122)	(1,696,097)
Disposal of property, plant and equipment		300,022	106,115
Net cash used in investing activities		**(1,326,362)**	**(14,534,173)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash provided by financing activities		**-**	**-**
Net (decrease) in cash and cash equivalents		**(6,750,995)**	**(5,911,186)**
Cash and cash equivalents at the beginning of the period/year		14,658,481	20,569,667
Cash and cash equivalents at the end of the period/year	9(a)	**7,907,486**	**14,658,481**

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

1. GENERAL INFORMATION

AIA International Limited - New Zealand Branch (the Branch or AIA NZ) trading as AIA New Zealand, is a branch of AIA International Limited. AIA International Limited is a wholly owned subsidiary of the AIA Company Limited whose ultimate holding company is AIA Group Limited, a company listed and incorporated in Hong Kong. The Branch is in the business of providing life and health insurance products within New Zealand. The financial statements are for AIA NZ.

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

Its registered office is at:

AIA House,
74 Taharoto Road,
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 statements are set out below. These policies have been applied to all the periods presented unless otherwise stated.

2.1 Basis of Preparation

The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other New Zealand accounting standards and authoritative notices that are applicable for for-profit entities. 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. The accounting policies adopted are consistent with those of the previous financial year.

These financial statements have been prepared using the historical cost convention, as modified by revaluation of certain financial assets and liabilities designated at fair value through profit or loss which are carried at fair value. The functional and presentation currency is New Zealand dollars (NZD) rounded to the nearest dollar.

The Branch has changed its financial year end from 30 November to 31 December to align with AIA Group Limited. These financial statements are for the thirteen-month period ended 31 December 2018 ('the period'), whereas the comparative period presented is for the twelve-month period ended 30 November 2017 ('the year'). Therefore, the periods presented are not entirely comparable.

In previous years the entity has prepared a set of financial statements that disclosed both the aggregated Branch (aggregating the Branch, AIA Financial Service Network Limited and AIA International Holdings (New Zealand) Limited), as well as the Branch on a stand-alone basis. In the current year, this set of financial statements is for the Branch only. As a result of the acquisition of the AIA Sovereign Limited on 2 July 2018 by AIA International Limited, a separate set of aggregated financial statements will also be prepared that will include AIA Sovereign Limited and its related entities for the 13-month period ended 31 December 2018, in order to represent the aggregated operations of AIA International Limited in New Zealand.

Accounting standards approved but not yet effective

The Branch has chosen not to early adopt the following standards and amendments that were issued but are not yet effective for the period ended 31 December 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Title of standard	Nature of change and impact	Mandatory application date
NZ IFRS 9 *Financial Instruments*	NZ IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Branch does not expect any material changes as a result of applying this standard as: • The classification and measurement of the financial assets held by the Branch will remain the same, and we will continue to designate financial assets that back insurance liabilities as fair value through profit and loss; • The change in classification and measurement of financial liabilities only affect the accounting for financial liabilities that are designated at fair value through profit or loss which the Branch does not hold; • The Branch does not apply hedge accounting; • Provision for doubtful debts under the new ECL model prescribed by NZ IFRS 9 does not differ materially from the current provisioning model applied by the Branch; and • NZ IFRS 9 introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Branch disclosures about its financial instruments.	NZ IFRS 9 is mandatory for financial years commencing on or after 1 January 2018. The Branch intends to apply the modified transition option in the financial statements for the year ending 31 December 2019.
NZ IFRS 15 *Revenue from Contracts with Customers*	NZ IFRS 15 defines principles for recognising revenue and introduces new disclosure requirements. Under NZ IFRS 15, revenue will be recognised at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer. The Branch has assessed the effects of applying NZ IFRS 15 and does not expect the new standard to have any material impact on the disclosures or the amounts recognised in the financial statements, as it will primarily apply to fee revenue, which for the financial 13 months ended 31 December 2018 was less than $100,000. Life insurance premium and related revenue will continue to fall outside the scope of NZ IFRS 15 and will be accounted for under other applicable standards.	NZ IFRS 15 is mandatory for financial years commencing on or after 1 January 2018 and will be prospectively applied by the Branch in the financial statements for the year ending 31 December 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Title of standard	Nature of change and impact	Mandatory application date
NZ IFRS 16 *Leases*	NZ IFRS 16 significantly changes accounting for lessees requiring recognition of all leases (subject to certain exceptions) in the Statement of Financial Position in a manner comparable to finance leases currently accounted under NZ IAS 17 *Leases*. Lessor accounting remains unchanged compared to NZ IAS 17. The Branch has completed its assessment of the impact of adoption of this standard from 1 January 2019. The Branch is currently a lessee under six leases and a sub-lessor under one lease. Upon adoption of NZ IFRS 16 all these leases will be recognised in the Statement of Financial Position, including the sublease. The Branch expects to recognise right-of use assets of approximately $3,072,910, lease liabilities of $3,730,107 and a lease receivable of $674,617 on 1 January 2019. Under NZ IFRS 16, for the year ending 31 December 2019, the Branch estimates that it will recognise depreciation expense of $599,680 on the right-of-use asset, interest expense of $79,033 on the lease liability and interest income of $12,158 on the lease receivable. This will be a change from current practice, where the rental expense would have been $690,366 and rental income $144,836 under NZ IAS 17. The impact of adoption on total profit or loss is not expected to be material in any given reporting period. The only alternative profit measure currently reported is underlying profit in Note 3, which shows an underlying financial result of the business before the impact of the movement in the discount rate during the reporting period. The impact of adoption of NZ IFRS 16 on this note disclosure will not be material. The Branch will adopt NZ IFRS 16 using the cumulative catch-up approach which allows the right-of-use asset to be calculated as equal to the lease liability, and adjusted for prepayments. Under this transition method, comparatives are not required to be restated. The only practical expedient that the Branch will apply on transition, and in accordance with NZ IFRS 16 guidance, will be to use a single discount rate for a portfolio of leases with similar characteristics, which in the Branch's case will be based on the remaining term of each lease. Key judgements made include the determination of the discount rate to apply and whether or not term extension options are reasonably certain to be exercised. The current operating lease commitment disclosure represents the future minimum lease payments under non-cancellable leases. Under NZ IFRS 16 the lease liability will be calculated based on the discounted present value of both committed payments and payments resulting from extension options which are reasonably certain to be exercised.	NZ IFRS 16 is mandatory for financial years commencing on or after 1 January 2019 and will be applied by the Branch using the cumulative catch-up approach.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Title of standard	Nature of change and impact	Mandatory application date
NZ IFRS 17 Insurance Contracts	NZ IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The Branch has commenced a project to assess the impact of this new standard.	NZ IFRS 17 is mandatory for financial years commencing on or after 1 January 2021. On 14 November 2018, the IASB proposed a one-year deferral of the effective date for IFRS 17, with the proposed adoption date of 1 January 2022. This proposal to defer is still subject to public consultation, which is likely to occur in 2019. If the option to defer is approved, an amendment will be issued. The New Zealand Accounting Standards Board (NZASB') will then need to determine if the amendment will also be adopted in New Zealand at that time.

There are no other new or revised standards issued that are not yet effective and that are expected to have a material impact on the Branch in the current or future reporting periods or on foreseeable future transactions.

2.2 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 investment 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)

2.3 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 as an increase in investment contract 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 on a due and receivable basis and are included in the Statement of Comprehensive Income under investment income. Interest income and all other investment income is recognised on an effective interest basis.

Net realised and unrealised gains and losses are included in the Statement of Comprehensive Income under investment income (refer to Note 2(o)).

d) Other income

Other income is 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 insurance contract liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Investment contracts

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

f) Policy acquisition expenses

For the purpose of determining insurance contract 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. 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 insurance contract liabilities (refer to note 2.3.v). These are then amortised over the period in which they will be recoverable.

DAC is amortised for the insurance products over the expected life of the contracts. DAC recoverability test is performed implicitly within the insurance contract liability calculation. If the recoverable amount is less than the carrying value, an impairment loss is recognised in the Statement of Comprehensive Income as an increase in insurance contract 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'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 as management and sales expenses 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 reporting date. These include salaries, wages, bonuses, annual leave, long service leave, pension obligations and share based compensation.

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.

Share based compensation

AIA Group Limited (AIAGL) operates a number of share-based compensation plans, under which the Branch 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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The share compensation plans of AIA Group offered to the Branch'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 at grant date 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 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 estimates the fair value of options using a binomial lattice model. This model requires inputs such as share price of AIAGL, implied volatility, risk free interest rate, expected dividend rate and the expected life of the option.

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

j) Other expenses

Other expenses which are not related to the above categories or to amortisation and depreciation (refer to note 2.3.p "Property, plant and equipment" and 2.3.q "Intangible assets") are recognised on an accrual basis and included in the Statement of Comprehensive Income as Management and sales expenses.

k) Taxation

Current tax

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

Deferred tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted at the time.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised.

Income tax for life insurance contracts

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 Branch 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 policyholder base and the shareholder base.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 reporting date is included as payable or receivable in the Statement of Financial Position. The Statement 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.

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 reporting 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 classified 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 insurance contract 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 Branch 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 financial assets have expired or have been transferred and substantially all risk and rewards of ownership have been transferred. If the Branch neither transfers nor retains substantially all the risk and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. In transfers where control over the asset is retained, the Branch continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which the Branch is exposed to changes in the fair value of the asset.

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.

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.

Financial liabilities are recognised when an obligation arises. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation is discharged, cancelled or expires).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Internally – developed software

The direct costs of developing new software or major enhancements to existing software are generally expensed if the software development costs are below US$50,000 on a project basis.

Major enhancements refer to significant enhancements that result in additional functionality or significantly extend the useful life of the software. Regular maintenance performed on software is expensed as incurred.

Software development costs may include the costs of salaried employees, consultants, software purchases, travel expenses and AIA technology related charges directly related to software development.

The capitalised costs are reviewed each reporting date by determining whether there is an indication that the capitalised value may be impaired.

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

Evidence of impairment may include indication that the debtor or a group of debtors is experiencing significant financial difficulty; a breach of contract, such as a default or delinquency in payments; the probability that the issuer or debtor will enter bankruptcy or other financial reorganisation; disappearance of an active market for that financial asset because of financial difficulties; and where observable data indicates that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in that group.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 first assesses 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 in the ordinary course of business and are recognised when the Branch becomes 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 has 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 reporting 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Insurance contract assets/liabilities

Insurance contract assets 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. Prophet model is used as a tool and detailed checks were performed to ensure correctness of the Prophet model. The model utilised 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.

The Branch incurs fixed and variable costs to acquire new business. This includes commissions, advertising and underwriting costs. To the extent that costs incurred can be recovered through future margins on the contracts, the costs are recognised in the Statement of Financial Position as a reduction in insurance contract liabilities and amortised through the Statement of Comprehensive Income over the expected duration of the relevant insurance contracts.

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

Insurance contract 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

Insurance contract liabilities 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 19 "Actuarial policies and methods".

Investment contracts

Insurance contract liabilities relating to the investment contracts are recognised and measured as current account balance, together with net present value of future receipts from and payments to policyholders on the basis of best estimate assumptions using a risk-free discount rate. Any change in value being recognised in the Statement of Comprehensive Income.

w) Liabilities arising from reinsurance contracts

Reinsurance expenses and reinsurance recoveries are presented on a gross basis in the statement of comprehensive income and statement of financial position. Liabilities arising from reinsurance contracts are 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

Insurance contract 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

y) 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 other activities that are not investing or financing activities.

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

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

z) 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 AIA International Limited subject to the requirements of statutory fund legislation.

aa) Critical accounting judgements and estimates

In the application of NZ IFRS, management is required to make judgements, 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 judgements. 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.

Insurance contract assets

Insurance contract assets 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.

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.

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 insurance contract assets/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 Branch'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; and
- policy holder take up rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Liabilities arising from reinsurance contracts

Liabilities arising from reinsurance contracts can be subject to similar factors to the insurance contract liabilities. Refer to above for key factors that impact estimation of the assets and note 19 "Actuarial policies and methods" for details of specific actuarial policies and methods.

Deferred tax assets

Estimating the amount of deferred tax assets arising from tax losses requires a process that involves determining appropriate provision for income tax expense, forecasting future year's taxable income and assessing the Branch's ability to utilise the tax benefits through future earnings. The Branch has reviewed its solvency projections over future years and considered the expected growth in annualised new premiums. Within the forecast period, management believe the commencement of income tax payments will occur and therefore it is probable that the Branch will be able to utilise the tax losses against future earnings, subject to maintaining shareholder continuity.

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.

3. UNDERLYING (LOSS)/PROFIT AFTER TAX FOR THE PERIOD

Underlying (loss)/profit after tax is presented to facilitate comparison of the Branch's (loss)/profit for the reported financial periods. It shows an underlying financial result of the business before the impact of the movement in the discount rate during the reporting period.

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

- Fair value movement (unrealised gains/(losses)) on the financial assets backing insurance contract liabilities; and
- Impact of the movement in the discount rate used in valuing insurance contract liabilities.

	Note	Thirteen months ended 31 December 2018 $	Year ended 30 November 2017 $
Components of underlying (loss)/profit			
Insurance contracts			
Planned margins of revenues over expenses		6,081,907	9,643,333
Difference between actual and assumed experience		(14,948,006)	(11,944,159)
Change in valuation assumptions (other than discount rate)		-	-
		(8,866,099)	(2,300,825)
Investment contracts			
Difference between actual and assumed experience		13,577	(220,059)
		13,577	(220,059)
Investment earnings on assets in excess of insurance contract liabilities		5,928,994	6,213,228
Total underlying (loss)/profit after tax		**(2,923,528)**	**3,692,344**
Adjusted for:			
Unrealised (gain)/loss from financial assets		(1,145,110)	529,847
Discount rate change effect on insurance contract liabilities	19	(15,916,841)	(4,252,282)
Fair value and discount rate change effect after tax		(17,061,951)	(3,722,435)
Reduction in deferred tax on insurance contract liabilities		16,657,712	2,905,932
		(404,239)	(816,503)
(Loss)/Profit after taxation		**(3,327,767)**	**2,875,841**

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, all profit or loss after taxation is attributable to the Head office.

4. NET INVESTMENT INCOME

	Thirteen months ended 31 December 2018	Year ended 30 November 2017
	$	$
Fixed interest securities:		
- Debt securities interest and other income	7,731,601	7,724,827
- Debt securities realised gain	292,644	40,189
- Debt securities unrealised (loss)/gain	(1,145,110)	529,847
Cash and cash equivalents interest	162,394	195,021
Loan interest	123,024	86,456
Total net investment income	**7,164,553**	**8,576,340**

5. NET CLAIMS EXPENSE

	Thirteen months ended 31 December 2018	Year ended 30 November 2017
	$	$
Claims	87,907,197	58,037,422
Surrenders	7,668,081	12,414,650
Claims expense	**95,575,278**	**70,452,072**
Less: Reinsurance recoveries	(55,155,587)	(27,815,377)
Net claims expense	**40,419,691**	**42,636,695**

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 an allocation model which factors premium percentage, and activity based on a survey across the business.

	Thirteen months ended 31 December 2018	Year ended 30 November 2017
	$	$
Insurance contract acquisition costs		
- Commission	32,874,720	31,042,100
- Other	15,729,256	15,861,896
Insurance contract maintenance costs		
- Commission	10,252,682	7,595,914
- Other	26,124,609	19,977,387
Investment management expenses	399,040	439,069
Total administration expenses	**85,380,307**	**74,916,366**

6. MANAGEMENT AND SALES EXPENSES (CONTINUED)

Specific expense disclosure

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

	Note	Thirteen months ended 31 December 2018	Year ended 30 November 2017
		$	$
Share-based compensation	15	136,521	(145,143)
Salaries and other short term benefits		16,543,887	16,339,297
Post-employment benefits		530,423	388,704
Amortisation of intangible assets		1,400,373	1,311,574
Depreciation of property, plant and equipment		358,917	284,258
Lease expenses		1,092,330	822,016
Group service fees		1,338,054	860,974
Sales and marketing related		4,800,618	3,520,904
Data processing		3,419,834	3,805,153
Audit fees		215,205	203,600
Fees for other assurance services paid to the auditor		18,000	8,500
Professional fees (excluding paid to auditors)		1,753,387	3,255,610
Medical adminstrative expenses		1,806,551	1,404,726
Other administrative expenses		8,439,765	3,779,110
		41,853,865	35,839,283

Other administrative expenses are largely comprised of non-operating expense (2018: $5,319,114; 2017: $1,487,707) associated with business integration activities.

Auditor Remuneration

The audit of financial statements includes fees for the annual audit of financial statements of the Branch as well as the aggregated New Zealand Group accounts, which includes the Branch, AIA Financial Service Network Limited, AIA International Holdings (New Zealand) Limited and AIA Sovereign Limited and its subsidiaries.

Other assurance services relate to assurance engagement over the solvency return.

Apart from the annual audit of the financial statements and the assurance engagements over the solvency return, no other services were performed by PwC in the period ended 31 December 2018.

In the year ended 30 November 2017, PwC Australia performed other services including tax consulting advice and tax due diligence services with respect to AIA International Limited – NZ Branch. The costs in relation to these services (except for solvency return) were borne by AIA Australia.

7. TAXATION

	Thirteen months ended 31 December	Year ended 30 November 2017
	$	$
(a) Income tax expense		
Current tax expense		
Current taxation	2,000,000	-
Prior period adjustment	(121,573)	(45,817)
Deferred tax expense		
Deferred tax expense	(1,389,260)	4,673,832
Prior year tax balance adjustment	887,601	(182,884)
Income tax expense	**1,376,768**	**4,445,131**
The accounting profit can be reconciled to the income tax expense recognised as follows:		
Total (loss)/profit before taxation	(1,950,999)	7,320,972
Income tax at the current rate of 28%	(546,280)	2,049,872
Taxation effect of non-deductible expenses/non-assessable revenue		
Permanent differences - current period	810,649	2,212,375
Prior period adjustment-deferred tax asset-other	(887,601)	182,884
Provision for uncertain tax position	2,000,000	-
Income tax expense	**1,376,768**	**4,445,131**

(b) Deferred tax assets and liabilities

	Opening Balance at 1 December	(Charged)/ credited to profit or loss	Closing Balance at 31 December
2018	$	$	$
Movements in deferred tax			
Provisions and accruals	2,444,220	(351,833)	2,092,387
Insurance contract liabilities	(75,593,841)	(2,908,452)	(78,502,293)
Tax losses	18,577,647	3,761,944	22,339,591
Total net deferred tax liability	**(54,571,974)**	**501,659**	**(54,070,315)**

	Opening Balance at 1 December	(Charged)/ credited to profit or loss	Closing Balance at 30 November
2017			
Movements in deferred tax			
Provisions and accruals	1,855,975	588,245	2,444,220
Insurance contract liabilities	(64,928,143)	(10,665,698)	(75,593,841)
Tax losses	12,991,142	5,586,505	18,577,647
Total net deferred tax liability	**(50,081,026)**	**(4,490,948)**	**(54,571,974)**

Uncertain tax position

The Premium Smoothing Reserve (PSR) is used to spread the earning of premium across the expected life of certain products. The methodology adopted for the PSR is currently under review with the Inland Revenue Department (IRD). Depending on the outcome of this review, revised income tax filings might need to be completed which could impact the amount of tax losses available to the Branch. There is some judgement applied in the calculation of tax losses and an alternative treatment of the PSR may vary the amount of tax losses available to the Branch, possibly significantly.

7. TAXATION (CONTINUED)

Deferred tax on insurance contract liabilities

Insurance contract 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 Statement of Comprehensive Income over the period services are provided to policyholders. A deferred tax liability of $78.5m (2017 $75.6m) has been separately disclosed and included in the deferred tax liabilities balance representing taxable temporary differences which are implicitly embedded within insurance contract liabilities.

The Branch has recognised a deferred tax asset resulting from tax losses in the period. 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.

8. LOANS AND RECEIVABLES

	31 December 2018	30 November 2017
	$	$
Receivables from policyholders	3,944,996	3,024,885
Impairment provision	(18,206)	(18,206)
Loans receivable	1,268,474	1,141,861
Loans and receivables from policyholders	**5,195,264**	**4,148,540**
Due from brokers and intermediaries	2,930,564	2,634,646
Impairment provision	(2,359,336)	(2,175,521)
Receivables from brokers and intermediaries	**571,228**	**459,125**
Reinsurance recoveries	22,266,522	12,009,596
Receivables from reinsurers	**22,266,522**	**12,009,596**
Sovereign Services Limited	1,319,340	-
AIA Reinsurance Limited	361,475	1,007,891
Receivables from related parties	**1,680,815**	**1,007,891**
Accrued interest	1,685,683	1,906,440
Sundry debtors	72,374	256,007
Other receivables	**1,758,057**	**2,162,447**
Total loans and receivables	**31,471,886**	**19,787,599**
Analysed as:		
Current	30,203,412	18,645,738
Non current	1,268,474	1,141,861
	31,471,886	**19,787,599**

8. LOANS AND RECEIVABLES (CONTINUED)

Included in loans and receivables balance are debtors with a net carrying amount of $2,851,498 (2017: $2,629,295) which are past due at the reporting date for which the Branch has not provided as the amounts are still considered recoverable.

	31 December 2018	30 November 2017
	$	$
Ageing past due receivables (net)		
1-30 days	1,556,651	999,604
31-90 days	839,909	493,794
91-365 days	298,566	479,236
Over 1 year	156,372	656,661
Total	**2,851,498**	**2,629,295**

	31 December 2018	30 November 2017
	$	$
Provision for impairment of receivables from brokers and intermediaries		
At beginning of the period/year	(2,175,521)	(1,764,729)
Additional provisions	(183,815)	(410,792)
At the end of the period/year	**(2,359,336)**	**(2,175,521)**
Analysed as:		
Current	(2,359,336)	(2,175,521)

The provision is calculated on a collective basis. There are no individually assessed provisions at 31 December 2018 (2017: nil).

9. CASH AND CASH EQUIVALENTS

(a) Components of cash and cash equivalents

	31 December 2018	30 November 2017
	$	$
Cash at bank and in hand	7,553,188	14,351,363
Deposits at call	354,298	307,118
Total cash and cash equivalents	**7,907,486**	**14,658,481**

9. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Thirteen months ended 31 December 2018	Year ended 30 November 2017
	$	$
(Loss)/profit after taxation for the period/year	**(3,327,767)**	**2,875,841**
Add/(less) non cash items		
Depreciation	358,917	284,258
Amortisation of intangibles	1,400,373	1,311,574
Fair value losses/(gains) from financial assets	1,145,110	(529,847)
Movement in insurance contract assets	10,907,903	(8,893,490)
Deferred and current tax	1,376,768	4,490,948
	15,189,071	**(3,336,557)**
Add/(less) movements in working capital relating to operating activities		
Increase in loans and receivables	(11,501,716)	(3,489,848)
Increase in prepayments	(199,724)	(477,969)
Increase/(decrease) in income tax assets	-	(53,294)
Increase/(decrease) in trade and other payables	(3,266,470)	4,366,926
Increase/(decrease) in employee benefit obligations	(614,502)	1,454,905
Increase/(decrease) in other insurance liabilities	2,114,241	3,272,513
Increase/(decrease) in other financial liabilities	(3,817,766)	4,010,469
	(17,285,937)	**9,083,702**
Net cash (used in)/ provided by operating activities	**(5,424,633)**	**8,622,986**

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	30 November 2017
	$	$
Debt securities		
Annuity bonds	-	2,615,103
Medium term notes	160,534,320	159,167,227
Total financial assets through profit or loss	**160,534,320**	**161,782,330**
Analysed as:		
Current	37,424,401	22,728,266
Non current	123,109,919	139,054,064
	160,534,320	**161,782,330**

11. PROPERTY, PLANT AND EQUIPMENT

	31 December 2018	30 November 2017
	$	$
Furniture, fittings and office equipment		
Cost		
At beginning of the period/year	2,716,709	2,042,149
Additions	508,806	677,197
Disposals	(1,754,460)	(2,637)
At end of the period/year	1,471,055	2,716,709
Accumulated depreciation		
At beginning of the period/year	(2,007,929)	(1,822,015)
Depreciation charge	(264,513)	(188,139)
Disposals	1,454,740	2,225
At end of the period/year	(817,702)	(2,007,929)
Closing net book value	**653,353**	**708,780**
Computer equipment		
Cost		
At beginning of the period/year	1,824,424	1,766,839
Additions	527,930	82,946
Disposals	(96,370)	(25,360)
At end of the period/year	2,255,984	1,824,424
Accumulated depreciation		
At beginning of the period/year	(1,714,140)	(1,642,296)
Depreciation charge	(94,404)	(96,119)
Disposals	96,068	24,275
At end of the period/year	(1,712,476)	(1,714,140)
Closing net book value	**543,508**	**110,284**
Total net book value of property, plant and equipment	**1,196,861**	**819,064**

12. INTANGIBLE ASSETS

	31 December 2018	30 November 2017
	$	$
Purchased computer software		
Cost		
At beginning of the period/year	1,804,268	1,804,268
Additions	-	-
Disposals	(1,506,155)	-
At end of the period/year	298,113	1,804,268
Accumulated amortisation		
At beginning of the period/year	(1,751,543)	(1,713,824)
Amortisation charge	(24,682)	(37,719)
Disposals	1,506,155	-
At end of the period/year	(270,070)	(1,751,543)
Closing net book value	**28,043**	**52,725**
Internally developed software		
Cost		
At beginning of the period/year	10,177,529	8,591,992
Additions	501,443	548,682
Transfers from work in progress	1,196,219	1,036,855
Disposals	(1,235,759)	-
At end of the period/year	10,639,432	10,177,529
Accumulated amortisation		
At beginning of the year	(5,718,828)	(4,444,973)
Amortisation charge	(1,375,691)	(1,273,855)
Disposals	1,235,758	-
At end of the period/year	(5,858,761)	(5,718,828)
Closing net book value	**4,780,671**	**4,458,701**
Work in progress		
At beginning of the period/year	1,196,218	1,190,280
Additions	662,682	1,042,793
Transfers to internally developed software	(1,196,219)	(1,036,855)
Closing net book value	**662,681**	**1,196,218**
Total intangible assets	**5,471,395**	**5,707,644**

13. EMPLOYEE BENEFIT OBLIGATIONS

	31 December 2018	30 November 2017
	$	$
Employee entitlements	4,024,618	4,621,979
Total employee benefit obligations	**4,024,618**	**4,621,979**
Analysed as:		
Current	3,904,483	4,518,985
Non current	120,135	102,994
	4,024,618	**4,621,979**

14. TRADE AND OTHER PAYABLES

	31 December 2018	30 November 2017
Amounts due to reinsurers	10,625,944	11,893,093
Other payables and accruals	4,850,916	7,405,908
Total trade and other payables	**15,476,860**	**19,299,001**
Analysed as:		
Current	15,476,860	19,299,001
	15,476,860	**19,299,001**

15. SHARE BASED COMPENSATION

Stock compensation plans

During the period, AIA Group Limited ('AIA Group" or "AIAGL") made further grants of restricted share units (RSU) to certain employees, directors and officers of the Branch under the RSU Scheme and the employee share purchase scheme (ESPP).

No further grants were made under share option (SO) scheme in the current period.

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 31 December 2018.

15. SHARE BASED COMPENSATION (CONTINUED)

	Number of shares	
	31 December 2018	30 November 2017
Restricted share units		
Outstanding at beginning of financial period/year	46,592	179,834
Granted	30,918	27,490
Exercised	(19,966)	(54,617)
Forfeited	(26,389)	(106,115)
Outstanding at end of financial period/year	**31,155**	**46,592**

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 31 December 2018.

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

	Period ended 31 December 2018		Year ended 30 November 2017	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		HK$		HK$
Share Options				
Outstanding at beginning of financial period/year	-	-	32,219	-
Granted	-	-	-	41.90
Exercised	-	-	-	-
Forfeited	-	-	(32,219)	-
Outstanding at end of financial period/year	**-**	**-**	**-**	**-**

Employee Share Purchase Plan (ESPP)

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 period ended 31 December 2018, eligible employees of the Branch paid NZD$108,088 (2017: $85,393) to purchase 8,749 ordinary shares (2017: 9,847 ordinary shares) of AIAGL.

15. SHARE BASED COMPENSATION (CONTINUED)

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.

	Thirteen months ended 31 December 2018			Year ended 30 November 2017		
	Share options	Restricted share units	ESPP Restricted stock purchase units	Share options	Restricted share units	ESPP Restricted stock purchase units
Risk-free interest rate	2.33%	2.11%	1.35% - 2.27%	1.45%	0.83%	0.68% - 1.29%
Volatility	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
Dividend yield	1.50%	1.50%	1.80%	1.80%	1.80%	1.80%
Exercise price (HK$)	N/A	N/A	N/A	N/A	N/A	N/A
Option life (in years)	N/A	N/A	N/A	N/A	N/A	N/A
Expected life (in years)	N/A	N/A	N/A	N/A	N/A	N/A
Weighted average fair value per option / unit at measurement date (HK$)	N/A	N/A	61.97	N/A	37.64	51.10

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards granted under the RSU Scheme and ESPP for the period ended 31 December 2018 is $136,521. (2017: $(145,143)). No compensation cost was recognised in 2018 or 2017 for the SO Scheme.

16. OTHER INSURANCE LIABILITIES

	31 December 2018	30 November 2017
	$	$
Outstanding claims	8,670,186	7,710,230
Premiums received in advance	1,983,946	829,661
Total other insurance liabilities	**10,654,132**	**8,539,891**
Analysed as:		
Current	10,654,132	8,539,891

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Branch operates risk management policies in accordance with AIA Group policies and procedures.

The financial condition and operating results of the Branch is 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 depending on the nature of the risk. The Branch'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 does not enter into or trade financial instruments including derivative financial instruments for speculative purposes.

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 where the carrying value of the financial instruments are not considered to be materially different from the fair value due to their short-term nature.

	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
	$	$	$	$	$	$	$
31 December 2018							
Financial assets measured at fair value							
Annuity bonds	-	-	-	-	-	-	-
Medium term notes	-	160,534,320	-	**160,534,320**	160,534,320	-	**160,534,320**
Financial assets not measured at fair value							
Cash and cash equivalents	7,907,486	-	-	**7,907,486**			
Loans and receivables	31,471,886	-	-	**31,471,886**			
	39,379,372	**160,534,320**	**-**	**199,913,692**			
Financial liabilities measured at fair value							
Insurance contract liabilities - investment contracts	-	6,257,100	-	**6,257,100**	-	6,257,100	**6,257,100**
Financial liabilities not measured at fair value							
Trade and other payables	-	-	15,476,860	**15,476,860**			
Outstanding claims provision	-	-	8,670,186	**8,670,186**			
Other financial liabilities	-	-	2,056,015	**2,056,015**			
	-	**6,257,100**	**26,203,061**	**32,460,161**			

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

	Carrying amount				Fair value		
	Loans and receivables	Designated at fair value through profit or loss	Financial liabilities at amortised cost	Total	Level 2	Level 3	Total
	$	$	$	$	$	$	$
30 November 2017							
Financial assets measured at fair value							
Annuity bonds	-	2,615,103	-	**2,615,103**	2,615,103	-	**2,615,103**
Medium term notes	-	159,167,227	-	**159,167,227**	159,167,227	-	**159,167,227**
Financial assets not measured at fair value							
Cash and cash equivalents	14,658,481	-	-	**14,658,481**			
Loans and receivables	19,787,599	-	-	**19,787,599**			
	34,446,080	**161,782,330**	-	**196,228,410**			
Financial liabilities measured at fair value							
Insurance contract liabilities - investment contracts	-	5,758,777	-	**5,758,777**	-	5,758,777	**5,758,777**
Financial liabilities not measured at fair value							
Trade and other payables	-	-	19,299,001	**19,299,001**			
Outstanding claims provision	-	-	7,710,230	**7,710,230**			
Other financial liabilities	-	-	4,802,673	**4,802,673**			
	-	**5,758,777**	**31,811,904**	**37,570,681**			

(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.

The fair value of a financial asset is normally the transaction price i.e. the amount of consideration given or received. A clean price is used as the fair value for a bond or a fixed income security. The accrued interest between coupon dates is subtracted from the fair value and accounted for as accrued interest (refer to note 8) separately. The fair value included above therefore excludes an interest accrued component.

Fair value of investments classified as level 1 is based on quoted prices in active markets. The Branch did not have any level 1 investment assets at reporting date. (2017: nil).

Investments classified as level 2 comprise debt securities (bonds and notes) 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.

Insurance contract 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:

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Surrender rate	31 December 2018	30 November 2017
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%
Assumed crediting rate	6.00%	6.00%
Discount rate, net of investment related expenses (gross of tax)	2.84%	3.50%
Discount rate, net of investment related expenses (net of tax)	2.04%	2.52%

Future policy cash flows are projected with client account balances augmented each period 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. Investment management expense is also deducted from the discount rate by 0.22%. 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	Insurance contract liabilities- Investment contracts	
	31 December 2018	30 November 2017
	$	$
Opening balance:	**5,758,777**	**5,471,933**
Fair value movements recognised in the statement of comprehensive income	328,041	29,061
Investment income net of tax and expenses	259,543	242,583
Contributions received	125,817	67,310
Withdrawals	(215,078)	(52,110)
Closing balance:	**6,257,100**	**5,758,777**

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 insurance contract liabilities – investment contracts as at 31 December 2018.

Variation	Profit and equity increase/ (decrease)	Profit and equity increase/ (decrease)
	31 December 2018	30 November 2017
	$	$
Interest rates + 1%	570,000	480,000
Interest rates - 1%	(640,000)	(550,000)
Surrenders + 10%	190,000	150,000
Surrenders - 10%	(230,000)	(170,000)

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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. There is also an Investment Committee comprised of members of local management 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 exposure to foreign exchange risk arises primarily with respect to the Australian dollar (AUD).

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

	31 December 2018		30 November 2017	
	AU$	$	AU$	$
Annuity Bonds	0	0	2,360,960	2,615,103

Foreign currency sensitivity

There was no foreign currency denominated financial instruments as at 31 December 2018. In prior year, based on the financial instruments held at 31 December 2017, had the New Zealand dollar strengthened / weakened by 5% against the AUD with all other variables held constant, the Branch's profit after tax and equity would have been $130,755 lower / $130,755 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's exposure to other foreign exchange movements is not material.

(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 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 31 December 2018, if interest had changed by -/+ 1% from the year end rates with all other variables held constant, loss after tax and equity for the period would have been $56,934 lower/higher (2017:profit would have been $102,266 lower/higher) for the Branch.

Sensitivity of fixed interest rate investments

At 31 December 2018, if interest rate had changed by -/+ 1% from the year end rates with all other variables held constant, the loss after tax and equity for the period would have been $3,577,914 higher / $3,367,217 lower (2017: profit would have been $4,138,741 higher / $4,138,741 lower) for the Branch.
Interest rate risk sensitivity on the fair value of insurance contract liabilities is disclosed in note 19 and for investment contract liabilities is disclosed in Note 17 under Financial Risks (ii).

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(iii) Price risk

The Branch'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 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 AIA 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 Branch into relevant maturity groups based on the remaining period of reporting date to contractual maturity date.

All amounts disclosed are contracted undiscounted cash flows that include interest payments.

	Weighted average interest rate %	Under 1 year	Over 1 years	Total	Carrying Value
As at 31 December 2018					
Trade and other payables	N/A	15,476,860	-	15,476,860	15,476,860
Outstanding claims provision	N/A	8,670,186	-	8,670,186	8,670,186
Other financial liabilities					
- Amounts due to related parties	N/A	2,056,015	-	2,056,015	2,056,015
Insurance contract liabilities - Investment contracts	3.03%	152,762	7,952,059	8,104,821	6,257,100
Total financial liabilities		26,355,823	7,952,059	34,307,882	32,460,161
As at 30 November 2017					
Trade and other payables	N/A	19,299,001	-	19,299,001	19,299,001
Outstanding claims provision	N/A	7,710,230	-	7,710,230	7,710,230
Other financial liabilities					
- Amounts due to related parties	N/A	4,802,672	-	4,802,672	4,802,672
Insurance contract liabilities - Investment contracts	3.53%	205,038	7,497,112	7,702,150	5,758,777
Total financial liabilities		32,016,941	7,497,112	39,514,053	37,570,680

N/A - non-interest bearing

Credit risk

Credit risk which the Branch has 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 is exposed to credit risk are:

- Cash and cash equivalents;
- Counterparty risk with respect to debt securities;
- Reinsurers' share of insurance liabilities;
- Loans and receivables.

17. 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 Group in Hong Kong, who performs this function for all companies within the AIA Group. Every new treaty and amendment requires sign-off by the AIA Group Enterprise Risk Management, except for treaties with pre-approved reinsurers and with a volume within stated limits set by AIA Group Enterprise Risk Management. The AIA 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 AIA Group in case of deterioration of an existing reinsurer's status.

Financial assets of the Branch are analysed in the table below using S&P Global (S&P) rating (or equivalent when not available from S&P).

	31 December 2018	30 November 2017
	$	$
AA	121,017,218	112,215,870
A	50,452,711	54,811,813
BBB	18,972,795	18,122,589
Non- Rated	9,470,968	11,078,138
Total Financial Assets	**199,913,692**	**196,228,410**

Capital management

The Branch manages its capital to ensure that the Branch will be able to continue as a going concern while maximising 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 consists of equity attributable to equity holders, comprising the Head Office account as disclosed in the statement of changes in equity. During the current reporting period, the Branch 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 that solely relate to the life insurance business were allocated to the Statutory Fund upon inception. Further discussion in regard to the Statutory Fund is included in note 21.

The solvency capital of the Branch is presented below.

As at 31 December 2018

(Calculated in accordance with RBNZ requirements)	**Branch**	**Statutory Fund**	**Non- Statutory Fund**
	$	$	$
Actual solvency capital	97,133,002	60,094,711	37,038,291
Minimum solvency capital	66,416,944	39,656,749	26,760,195
Solvency Margin	**30,716,058**	**20,437,962**	**10,278,096**
Solvency ratio	146%	152%	138%

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

As at 30 November 2017

(Calculated in accordance with RBNZ requirements)	**Branch**	**Statutory Fund**	**Non- Statutory Fund**
	$	$	$
Actual solvency capital	120,292,340	91,776,919	28,515,421
Minimum solvency capital	102,736,154	82,035,315	20,700,839
Solvency Margin	**17,556,186**	**9,741,604**	**7,814,582**
Solvency ratio	117%	112%	138%

The basis of calculation of the solvency reserves for 2018 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 (external and AIA Reinsurance Limited, a subsidiary of AIA Group) 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, a subsidiary of AIA Group 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 companies within the AIA Group 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. Refer to Note 19 for the details of methodology and assumptions in relation to insurance contract liabilities.

17. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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

Operational and 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 Executive Committee, AIA Australia and AIA Group in Hong Kong.

18. OTHER FINANCIAL LIABILITIES

	31 December 2018	30 November 2017
	$	$
Amounts due (from)/to related parties:		
AIA Company Limited	405,472	15,221
AIA Shared Services (Hong Kong) Limited	40,955	(47,031)
AIA Australia Limited	241,451	283,160
AIA Information Technology (Guangzhou) Co. Limited	61,081	74,888
AIA Information Technology (Beijing) Company, Limited	14,536	30,144
AIA Shared Services Sdn Bhd	106,027	50,463
AIA Group Limited	(15,522)	30,083
AIA Reinsurance Limited	1,192,681	4,365,745
AIA Financial Services Network Limited	9,334	-
	2,056,015	**4,802,673**
Analysed as:		
Current	2,056,015	4,802,673

19. ACTUARIAL POLICIES AND METHODS

The actuarial report on insurance contract liabilities and solvency reserves for the current reporting period was prepared as at 31 December 2018.

Caroline Bennet, Fellow of Institute of Actuaries of Australia, is the Appointed Actuary of the Branch. The value of insurance contract 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 insurance contract liabilities has been determined.

The valuation methodology and assumptions for insurance applied for the reporting period are as follows: (Refer to Note 17 for valuation methodology and assumptions of investment contracts).

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

Major Product Groups	Carrier	Valuation method
Lump sum products - Permanent Term, Express Life, Permanent Life, 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
Risks and Insurance	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: 2018: 2.84% p.a. (2017: 3.50% p.a.) 2018: NZ Treasury short term rates with interpolation for long term rates (2017: NZ Zero Coupon Government Bond Yield and NZ Treasury's assumed long-term forward rate)
Investment expenses (before tax)	2018:0.22% (2017:0.17%)

19. 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	54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits (2017: 64%, 128%)	54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits. Real Easy Life and Real Family Protection has additional 30% loading. (2017: 64%, 128%)	54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits (2017: 64%, 128%)	54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits (2017: 64%, 128%)
Mortality improvement	Yes (2017: Yes)	Yes (2017: Yes)	Yes (2017: Yes)	Yes (2017: Yes)
Morbidity	Nil (2017: Nil)	Percentage of reinsurer risk premium rates, strengthening of crisis assumptions (2017: Percentage of reinsurer risk premium rates, strengthening of crisis assumptions)	Incidence and termination rates as a percentage of IAD89-93 (2017: Incidence and termination rates as a percentage of IAD89-93)	Superior Health is based on loss ratio, varying between 20% to 67.5% depending on duration. Real Health is based on 2015 medical claim assumption table with duration factors varying between 48.31% to 102.79% (2017: 20% to 67.5%)
Initial expense allowance (before tax)	Nil (2017: Nil)	14.4% to 46.7% of New Annualised Premium Income (API); and $44.1 to $205.1 per cover (2017: 14.4% to 46.7% of API; and $44.1 to $205.1 per cover)	51.9% of New Annualised Premium Income (API); and $224.4 per cover (2017: 51.9% of API; and $224.4 per cover)	59.1% of New Annualised Premium Income (API); and $250.2 to $463.0 per cover (2017: 59.1% of API; and $250.2 to $463.0 per cover)
Renewal expenses (before tax)	4.3% of Annualised Premium Income (API); and $83.1 p.a., escalating at 2.0% p.a. (2017: 4.3% of API; and $83.1 p.a., escalating at 2.5% p.a.)	5.4% to 11.8% of Annualised Premium Income (API); and $46.1 to $81.5 p.a., escalating at 2.0% p.a. (2017: 5.4% to 11.2% of API; and $46.1 to $111.5 p.a., escalating at 2.5% p.a)	6.2% of Annualised Premium Income (API); and $79.8 p.a., escalating at 2.0% p.a. (2017: 6.2% of API; and $79.8 p.a., escalating at 2.5% p.a)	8.3% of Annualised Premium Income (API); and $78.0 to $144.4 per cover, escalating at 2.0% p.a. (2017: 8.3% of API; and $78.0 to $144.4 per cover, escalating at 2.5% p.a.)
Cover escalation	2.5% p.a. (2017: 2.5% p.a.)	2.5% p.a. (2017: 2.5% p.a.)	2.5% p.a. (2017: 2.5% p.a.)	4.5% p.a. graded down to 2.5% p.a. in 3 years (2017: 4.5% to 2.5% p.a.)
Lapses / surrenders	Based on experience analysis, varying between 1% and 11% 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) (2017: 1% and 12%, shock lapses of 50%, 30%, 20% and 10% in each year after the full payback)	Based on experience analysis, varying between 2% and 25% depending on duration and product (2017: 8% and 19%)	Based on experience analysis, varying between 10% and 25% depending on duration and product (2017: 10% and 25%)	Based on experience analysis, varying between 5.8% and 16% depending on duration and product (2017: 5.8% and 16%)
Tax rate	28% (2017: 28%)	28% (2017: 28%)	28% (2017: 28%)	28% (2017: 28%)
Inflation rate	2.5% (2017: 2.5%)	2.5% (2017: 2.5%)	2.5% (2017: 2.5%)	2.5% (2017: 2.5%)

19. ACTUARIAL POLICIES AND METHODS (CONTINUED)

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

Impact of changes in assumptions

	Thirteen months ended 31 December 2018			Year ended 30 November 2017		
	Profit margin increase/ (decrease)	Insurance contract liability increase/ (decrease)	Profit & equity increase/ (decrease)	Profit margin increase/ (decrease)	Insurance contract liability increase/ (decrease)	Profit & equity increase/ (decrease)
	$	$	$	$	$	$
Interest rate change - movement in market rates	9,283,905	4,864,278	(4,864,278)	4,296,232	661,083	(661,083)
Operating assumptions change:						
Renewal commisssion	-	-	-	(3,256,353)	-	-
Investment management expenses	(2,101,681)	-	-	(818,267)	-	-
Mortality	17,094,438	-	-	-	-	-
Morbidity	(6,391,676)	-	-	-	-	-
Lapse	(89,872,605)	-	-	-	-	-
Inflation	2,548,751	-	-	-	-	-
Total	**(69,438,868)**	**4,864,278**	**(4,864,278)**	**221,612**	**661,083**	**(661,083)**

Assumption changes in the current period included improvement in mortality experienced studied over the past number of years, strengthening of trauma claims rates and strengthening of level premium lapse assumptions. In prior year there were not many recommended assumption changes.

Sensitivity analysis

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

	Thirteen months ended 31 December 2018		Year ended 30 November 2017	
	Insurance contract liability increase/ (decrease)	Profit increase/ (decrease)	Insurance contract liability increase/ (decrease)	Profit increase/ (decrease)
	$	$	$	$
Base				
Interest rates + 1% per annum	(14,000,000)	14,000,000	(4,700,000)	4,700,000
Interest rates - 1% per annum	16,600,000	(16,600,000)	8,200,000	(8,200,000)
Inflation + 1% per annum	2,100,000	(2,100,000)	3,400,000	(3,400,000)
Inflation - 1% per annum	1,200,000	(1,200,000)	-	-

For sensitivity on termination rates of open disability income claims, insurance contract 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 reporting period.

19. ACTUARIAL POLICIES AND METHODS (CONTINUED)

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 Dec 2018 period 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	164.1	155.3	147.9	141.7	135.7	2,336.1
Cash outflows	(145.5)	(133.3)	(127.3)	(123.0)	(120.2)	(2,397.2)

From Nov 2017 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	144.5	136.9	129.7	123.8	118.8	1,928.3
Cash outflows	(111.3)	(121.7)	(115.1)	(108.4)	(104.6)	(1,822.8)

20. INSURANCE CONTRACT LIABILITIES/(ASSETS)

	Branch	
	31 December 2018	30 November 2017
	$	$
Opening insurance contract liabilities	21,447,739	19,675,532
Movement in insurance contract liabilities - Insurance contracts	10,409,580	(9,180,333)
Movement in insurance contract liabilities - Investment contracts	587,583	271,643
Universal life premiums received - Investment contracts	125,817	67,310
Universal life payments to policyholders - Investment contracts	(215,077)	(52,110)
Movement through Statement Of Comprehensive Income	10,907,903	(8,893,490)
Movement in deferred tax	2,908,443	10,665,697
Closing insurance contract liabilities	**35,264,085**	**21,447,739**

Closing insurance contract liabilities contain the following components:

	31 December 2018	30 November 2017
Insurance contracts		
Future premiums	(1,093,572,970)	(942,104,071)
Future policy benefits	705,377,109	578,927,161
Future expenses	361,974,947	255,136,946
Planned margin	55,227,899	123,728,926
Insurance contract liabilities	**29,006,985**	**15,688,962**
Investment contracts		
Future insurance contract benefits	6,257,100	5,758,777
Investment contract liabilities	**6,257,100**	**5,758,777**
Net insurance contract liabilities including deferred tax and reinsurance	**35,264,085**	**21,447,739**
Assets/(liabilities) arising from reinsurance contracts		
Balance at 1 December	(1,954,160)	(1,172,014)
Movement through Statement Of Comprehensive Income	(12,364,764)	(782,146)
Balance at 31 December / 30 November	**(14,318,924)**	**(1,954,160)**
Deferred tax	(78,502,293)	(75,593,841)
Total insurance contract (assets)/ liabilities excluding deferred tax and reinsurance	**(57,557,132)**	**(56,100,265)**
Analysed as:		
Current	4,024,143	4,810,446

21. 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.

	Statutory Fund		Non Statutory Fund	
	Investment linked policies	Non-investment linked policies	Non-investment linked policies	Branch total
As at 31 December 2018	$	$	$	$
Cash and cash equivalents	-	4,399,616	3,507,870	7,907,486
Investment assets	6,257,100	140,245,621	14,031,599	160,534,320
Insurance contract (liabilities) / assets	(6,257,100)	34,463,011	29,351,221	57,557,132
Other assets	-	59,682,617	4,384,320	64,066,937
	-	**238,790,865**	**51,275,010**	**290,065,875**
Liabilities other than insurance contract liabilities	-	113,841,479	11,191,356	125,032,835
Retained profits attributable to head office	-	124,949,386	40,083,654	165,033,040
	-	**238,790,865**	**51,275,010**	**290,065,875**
Premium revenue from insurance contracts	-	148,973,721	22,627,921	171,601,642
Outwards reinsurance expense (net of commission)	-	(44,030,633)	-	(44,030,633)
Investment income	360,476	6,386,689	417,388	7,164,553
Fee and other income	-	21,340	-	21,340
Claims expense	(200,616)	(81,126,203)	(14,248,460)	(95,575,278)
Reinsurance recovery revenue	-	55,155,587	-	55,155,587
Management and sales expenses	-	(80,339,043)	(5,041,264)	(85,380,307)
Movement in insurance contract liabilities	(498,323)	(16,859,475)	6,449,895	(10,907,903)
Profit before taxation	**(338,463)**	**(11,818,018)**	**10,205,480**	**(1,950,999)**
Income tax expense	100,933	(345,331)	1,621,166	1,376,768
Profit after taxation for the period	**(439,396)**	**(11,472,687)**	**8,584,314**	**(3,327,767)**

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.

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21. 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 2017	$	$	$	$
Cash and cash equivalents	-	6,577,281	8,081,200	14,658,481
Investment assets	5,758,777	150,023,320	6,000,233	161,782,330
Insurance contract (liabilities) / assets	(5,758,777)	38,957,715	22,901,327	56,100,265
Other assets	-	46,600,711	4,030,565	50,631,276
	-	**242,159,027**	**41,013,325**	**283,172,352**
Liabilities other than insurance contract liabilities	-	105,510,794	9,300,751	114,811,545
Retained profits attributable to head office	-	136,648,233	31,712,574	168,360,807
	-	**242,159,027**	**41,013,325**	**283,172,352**
Premium revenue from insurance contracts	-	124,775,552	18,147,272	142,922,824
Outwards reinsurance expense (net of commission)	-	(35,538,282)	-	(35,538,282)
Investment income	336,921	8,150,558	88,861	8,576,340
Fee and other income	-	19,648	13	19,661
Claims expense	(52,110)	(59,305,025)	(11,094,937)	(70,452,072)
Reinsurance recovery revenue	-	27,815,377	-	27,815,377
Management and sales expenses	-	(70,462,422)	(4,453,944)	(74,916,366)
Movement in insurance contract liabilities	(286,844)	8,084,475	1,095,859	8,893,490
Profit before taxation	**(2,033)**	**3,539,881**	**3,783,124**	**7,320,972**
Income tax expense	94,339	4,336,564	14,228	4,445,131
Profit after taxation for the year	**(96,372)**	**(796,683)**	**3,768,896**	**2,875,841**

22. 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 reporting period with the related parties are as follows:

22. OWNERSHIP AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	31 December 2018	30 November 2017
	$	$
Parent		
AIA International Limited		
Share based compensation	136,521	(145,143)
Data processing	28,197	37,237
Other administrative fees	1,499,941	996,031
	1,664,659	888,125
Fellow subsidiaries of the ultimate holding company		
(i) New Zealand		
AIA Financial Services Network Limited		
Commissions	801,457	1,081,581
Reimbursement of various expenses and other payables	749,411	277,345
	1,550,868	1,358,926
Sovereign Services Limited		
Reimbursement of various expenses and other payables	(1,319,340)	-
(ii) Overseas		
Data processing	1,041,125	1,162,029
Investment service and administration fee	272,182	276,043
Actuarial fees	1,232,986	1,136,622
Reinsurance premiums	29,131,878	9,544,252
Reinsurance commission income	(30,887,106)	(13,600,941)
Reinsurance claims recoveries	(7,229,567)	(1,037,891)
Other administrative fees	1,153,582	745,185

For balances with related parties refer to notes 18 "Other Financial Liabilities" and 8 "Loans and Receivables". All transactions were based on normal commercial terms and conditions. Amounts owing to/from related parties are interest-free and payable on demand.

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 directly or indirectly. KMP includes executive members of the Branch.

During the period ending 31 December 2018, executives in AIA Australia performed certain functions for the Branch. The compensation to these executives is paid by AIA Australia, which makes no recharge to the Branch. From 1 July 2018, executives in AIA Sovereign Limited and the Branch performed certain functions for both entities. Cross charges were done for the net cost between AIA Sovereign Limited and the Branch and is included above under Reimbursements of various expenses and other payables in note 22 (b)(i). The compensation for key management personnel disclosed below excludes executives from AIA Sovereign Limited as they are not on the payroll of the Branch.

	31 December 2018	30 November 2017
	$	$
The compensation for key management personnel during the period/year was as follows:		
Salaries and other short term benefits	1,993,645	2,041,621
Terminations	682,661	944,248
Share based compensation	136,521	(145,143)
	2,812,827	**2,840,726**

23. OPERATING LEASES

	31 December 2018	30 November 2017
	$	$
Future operating non cancellable lease commitments on premises and assets leased are as follows:		
Period from balance date payable:		
Not later than one year	688,905	1,159,761
Later than one year but not later than five years	2,408,148	3,249,577
Over five years	918,038	156,286
	4,015,091	**4,565,624**

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.

24. CAPITAL COMMITMENTS

There are no material capital commitments at reporting date (2017: nil).

25. CONTINGENT LIABILITIES

There are no material contingent liabilities at reporting date (2017: nil).

26. EVENTS OCCURRING AFTER BALANCE DATE

There were no events occurring after balance date that required adjustment to or disclosure in the financial statements (2017:nil).

Independent auditor's report

To the Directors of AIA International Limited

We have audited the financial statements of AIA International Limited – New Zealand Branch (the Branch) which comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the 13 month period then ended;
- the statement of changes in equity and head office account for the 13 month period then ended;
- the statement of cash flows for the 13 month period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of the Branch, present fairly, in all material respects, the financial position of the Branch as at 31 December 2018, its financial performance and its cash flows for the 13 month period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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.

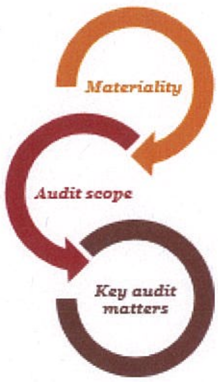
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Branch 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.

Our firm carries out other services for the Branch through an assurance engagement over the solvency return. The provision of these other services has not impaired our independence as auditor of the Branch. In addition, certain partners and employees of our firm may deal with the Branch on normal terms within the ordinary course of trading activities of the Branch.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Branch materiality: $1.5 million, which represents approximately 1% of average premium revenue from insurance contracts for the past three financial reporting periods.

We chose average premium revenue from insurance contracts because, in our view, it is a key financial statement metric used in assessing the performance of the Branch and is not as volatile as other profit and loss measures, and is a generally accepted benchmark for life insurers. The 1% is based on our professional judgement, noting that it is also within the range of commonly accepted revenue related thresholds.

We have determined that there are two key audit matters:

- Measurement of insurance contract assets and associated liabilities arising from reinsurance contracts
- Operation of financial reporting Information Technology (IT) systems and controls

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Branch materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Branch, the accounting processes and controls, and the industry in which the Branch operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the 13 month period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the key audit matter

Measurement of insurance contract assets and associated liabilities arising from reinsurance contracts

As at 31 December 2018 the Branch has insurance contract assets of $57,557,132 (30 November 2017: $56,100,265) and insurance contract liabilities arising from reinsurance contracts of $14,318,924 (30 November 2017: $1,954,160).

The Directors' valuation of these balances involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in a material impact to the measurement of these balances.

We considered this a key audit matter due to the subjective judgements made by the Directors around the key actuarial assumptions used in determining the balances. These key actuarial assumptions represent best estimate assumptions at reporting date and include:

- Expected cost of providing benefits and administering the insurance contracts, likely lapse rates of policies by policyholders, mortality and morbidity rates, initial and renewal expenses, investment expenses; and
- Long term economic assumptions including discount rates and inflation rate.

Further, the Directors perform a liability adequacy test (at individual related product group level) to ensure that any deficiency in the measurement of insurance contract liabilities are appropriately recognised at the reporting date. This involves a comparison of the amount of insurance contract liabilities against the estimated future cash flows calculated based on best estimate assumptions. Any deficiencies in the measurement of insurance contract liabilities are recognised through the statement of comprehensive income.

Together with PwC actuarial experts, we:

- Assessed the reasonableness of the key assumptions including those for cost of providing benefits and administering the insurance contracts, lapse rates of policies by policyholders, mortality and morbidity rates, initial and renewal expenses, investment expenses, discount rates and inflation rate. Our assessment of the assumptions included:
    - Obtaining an understanding of the controls in place to determine the assumptions;
    - Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience; and
    - Challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.
- Assessed the valuation methodologies used by applying our industry knowledge and experience to compare whether the methodologies and changes to those are consistent with recognised actuarial practices and expectations derived from market experience.
- Checked the calculation of the liability adequacy test and assessed the outcome in order to ascertain whether the insurance contract liabilities are adequate in the context of a valuation on best estimate assumptions at reporting date.

Policy data is a key input to the actuarial estimates. Accordingly, we:

- Evaluated the design effectiveness and tested the operating effectiveness of controls over underwriting and policy administration processes;

Key audit matter | **How our audit addressed the key audit matter**

Measurement of insurance contract assets and associated liabilities arising from reinsurance contracts

Refer to the following notes in the Branch's financial statements: Note 2(v) and (w) for related accounting policies, Note 2(aa) for critical accounting Refer to the following notes in the Branch's financial statements: Note 2(v) and (w) for related accounting policies, Note 2(aa) for critical accounting judgements and estimates, Note 19 and Note 20.

- Tested the completeness and accuracy of data between source and actuarial valuation systems; and
- Tested the completeness and accuracy of data between source and
- Assessed a sample of premiums received during the 13 month period to confirm that they were supported by appropriate documentation and approved within delegated authority limits.

We have no matters to report from the procedures performed.

Operation of financial reporting Information Technology (IT) systems and controls

We focused on this area because the Branch's operations and financial reporting processes are heavily dependent on IT systems, including automated accounting procedures, IT dependent manual controls and controls preventing unauthorised access to systems and data.

The Branch's controls over IT systems include:

- The framework of governance over IT systems;
- Program development and changes;
- Access to process, data and IT operations; and
- Governance over generic and privileged user accounts.

Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting.

We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.

When we noted design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures. This involves a combination of the following procedures:

- Testing mitigating controls;
- Investigating to determine that the exception has not been exploited;
- Validating the appropriateness of transactions associated with the identified exception;
- Determining whether key programs have changed during the period under audit; and
- Increasing sample sizes for our substantive test of details for the relevant attributes.

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 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://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

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 of AIA International Limited, 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 Karl Deutschle.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
13 March 2019

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").

I have reviewed the actuarial information used in the Financial Statements and the calculation of the Solvency Margin for AIA New Zealand.

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 2018 Financial Condition Report for AIA New Zealand. My opinion on the financial position of AIA New Zealand is formed on the basis of the Audited Financial Statements of AIA New Zealand. I have investigated the financial position of AIA New Zealand only.

I have no other relationship with AIA New Zealand other than that of Appointed Actuary.

No limitations have been placed on me during the review of actuarial information and all information and explanations have been provided as required for my investigation, having appropriate regard for the size and nature of the business of AIA New Zealand.

In my opinion and from an actuarial perspective, 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 and from an actuarial perspective, at 31 December 2018 AIA New Zealand is maintaining the required solvency margin under the Insurance (Prudential Supervision) Act 2010.

Caroline Bennet
Appointed Actuary
Fellow of the Institute of Actuaries of Australia
27 February 2019

AIA International Limited-New Zealand

Financial Statements

For the thirteen months ended 31 December 2018

Contents

Income Statement

$ millions	Note	13 months to 31 December 2018	12 months to 30 November 2017
Revenue			
Premium revenue from insurance contracts	6	536	143
Less: Outward reinsurance expenses	6	(260)	(56)
Net premium revenue		276	87
Reinsurance commission	8	789	21
Investment revenue	7	11	8
Other revenue	7	8	-
Total Revenue		1,084	116
Expenses			
Claims expense	9	320	71
Less: Reinsurance recoveries	9	(144)	(28)
Net claims expense		176	43
Other operating expenses	10	250	74
Life insurance contract liabilities - Increase/(decrease)	21	648	(9)
Life investment contract liabilities - (decrease)	21	(22)	-
Total Expenses		1,052	108
Profit before taxation		32	8
Taxation expense	12	26	5
Profit after taxation and comprehensive income for the period/year	5	6	3

Statement of comprehensive income

$ millions	13 months to 31 December 2018	12 months to 30 November 2017
Net profit after taxation	6	3
Total comprehensive income	6	3

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These statements are to be read in conjunction with the notes on pages 6 to 55 and the Independent Auditor's Report on pages 56 and 57

Statement of financial position

$ millions	Note	31 December 2018	30 November 2017
Assets			
Cash and cash equivalents	14	369	16
Trade and other receivables	17	133	20
Financial assets at fair value through profit or loss	15	1,982	162
Current taxation asset		9	2
Liabilities ceded under reinsurance	21	33	-
Derivative assets	31	4	-
Plant and equipment	19	15	1
Intangible assets	18	531	6
Policyholder assets	21	58	56
Other assets		1	1
Retirement benefit surplus	20	1	-
Total assets		3,136	264
Liabilities			
Trade and other payables	22	161	28
Derivative liabilities	31	2	-
Life investment contract liabilities	21	646	-
Life insurance contract liabilities	21	26	-
Other financial liabilities		2	5
Employee benefit obligations	20	4	5
Liabilities arising from reinsurance contracts	21	723	2
Deferred taxation liability	25	605	55
Total liabilities		2,169	95
Net Assets		967	169
Shareholders' Equity			
Head office account		164	168
Contributed capital	26	620	-
Retained earnings		183	1
Total shareholders' equity		967	169
Total liabilities and shareholders' equity		3,136	264

The Board of Directors authorised these financial statements for issue on 9 April 2019

Director

Director

These statements are to be read in conjunction with the notes on pages 6 to 55 and the Independent Auditor's Report on pages 56 and 57.

Statement of changes in equity and head office account

$ millions	Note	Head office account	Contributed Capital	Retained Earnings	Total Shareholders' Funds
For the 13 months ended 31 December 2018					
Balance at beginning of year		168	-	1	169
Acquisition of Sovereign		-	1,080	172	1,252
Net profit after taxation		(4)	-	10	6
Total comprehensive income		164	1,080	183	1,427
Share buyback	26	-	(460)	-	(460)
Balance as at 31 December 2018		164	620	183	967
For the year ended 30 November 2017					
Balance at beginning of year		165	-	1	166
Profit after taxation		3	-	-	3
Total comprehensive income		168	-	1	169
Balance as at 30 November 2017		168	-	1	169

These statements are to be read in conjunction with the notes on pages 6 to 55 and the Independent Auditor's Report on pages 56 and 57

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Statement of cash flows

$ millions	Note	13 months to 31 December 2018	12 months to 30 November 2017
Cash flows from operating activities			
Cash was provided from:			
Premium and deposit premium receipts		543	143
Dividend receipts		7	-
Interest receipts		36	8
Reinsurance receipts		842	25
Management fees and commission receipts		2	-
		1,430	176
Cash was applied to:			
Claims, surrenders and maturities payments		365	68
Commission payments		74	-
Payments to suppliers and employees		172	68
Tax payments		9	-
Reinsurance premiums		197	32
		817	168
Net cash flows from operating activities		613	8
Cash flows from investing activities			
Cash was provided from:			
Cash balances acquired on acquisition		461	-
Proceeds from sale of securities		304	22
		765	22
Cash was applied to:			
Purchase of securities		557	34
Purchase of plant and equipment		1	1
Purchase and development of intangible assets		6	1
Net settlement of foreign exchange contracts		1	-
		565	36
Net cash flows from investing activities		200	(14)
Cash flows from financing activities			
Cash was applied to:			
Share buyback		460	-
		460	-
Net cash flows from financing activities		(460)	-
Summary of movements in cash flows			
Net increase/(decrease) in cash and cash equivalents		353	(6)
Add: cash and cash equivalents at beginning of year		16	22
Cash and cash equivalents at end of year		369	16

These statements are to be read in conjunction with the notes on pages 6 to 55 and the Independent Auditor's Report on pages 56 and 57.

Statement of cash flows (continued)

$ millions	Note	13 months to 31 December 2018	12 months to 30 November 2017
Reconciliation of net profit after taxation to net cash flows from operating activities			
Net profit after taxation		6	3
Non-cash items included in net profit after taxation			
Amortisation and depreciation		4	2
Net realised and unrealised gains		34	(1)
Non-cash dividends received		(3)	-
Deferred Tax		1	4
Life insurance contract liabilities recognised in the Income Statement - increase/(decrease)		649	(8)
Life investment contract liabilities recognised in the Income statment - (decrease)		(23)	-
		662	(3)
Movements in assets and liabilities - Working Capital relatilng to Operating Acitivities			
Trade and other receivables - increase		(51)	(3)
Employee benefit obligations provisions - (decrease)/increase		(1)	1
Other Assets - (decrease)		-	(1)
Net income tax liability - increase		16	-
Trade and other payables - increase		24	4
Other financial liabilities - (decrease)/increase		(4)	4
Life investment contract liabilities recognised in the statement of financial position - (decrease)		(41)	-
Other insurance liabilities movement - increase		2	3
		(55)	8
Net cash flows from operating activities		613	8

These statements are to be read in conjunction with the notes on pages 6 to 55 and the Independent Auditor's Report on pages 56 and 57.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

1 General Information

AIA International Limited-New Zealand (the Group) comprises the New Zealand Branch of AIA International (the Branch), AIA Financial Services Network Limited (FSN), AIA International Holdings (New Zealand) Limited (Holdings), plus AIA Sovereign Limited and its subidiaries (Sovereign). AIA International Limited (AIAI) is domiciled in Bermuda and is the parent entity of Sovereign. The ultimate parent entity is AIA Group Limited (AIAGL) domiciled in Hong Kong. The Group is in the business of providing life and health insurance products within New Zealand. The financial statements are for the New Zealand based operations of the Group.

For the purposes of complying with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), the Group is a for-profit entity. AIA International Limited is an overseas company registered under the Companies Act 1993.

Acquisition of AIA Sovereign Limited

On 21 September 2017, the Commonwealth Bank of Australia (CBA) announced the sale of 100% of its life insurance businesses in Australia and New Zealand, of which AIA Sovereign Limited and its subsidiaries (Sovereign) is a part, to AIA International Limited, a subsidiary of AIA Group Limited (AIAGL) for AUD $3.8 billion The sale agreement includes a 20-year distribution agreement with AIAGL for the provision of life insurance products to CBA and ASB Bank customers in Australia and New Zealand. The New Zealand sale completed on 2 July 2018.

Accordingly, these financial statements include for the first time the financial activity of Sovereign.

Change in Financial Year End Date

In February 2018, the board of Directors of AIAI resolved to change AIAI's financial year-end date from 30 November to 31 December. The Branch, FSN and Holdings have aligned their reporting dates to those of AIAI. Accordingly, the current financial period-end date of the Branch is 31 December 2018. In conjunction with this change the financial information presented in these financial statements covers a thirteen (13) month period from 1 December 2017 to 31 December 2018 (the period) for the current period and a twelve (12) month period from 1 December 2016 to 30 November 2017 (the year) for the prior period.

Sovereign changed its financial year end date to 31 December, from 30 June to align its financial year end date with that of AIAI. These financial statements reflect the results for the period from the date of acquisition to 31 December 2018.

Registered Office

The registered office for AIA International Limted - New Zealand is:

AIA House

74 Taharoto Road

Takapuna Auckland 0622

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

Notes to the Financial Statements

For the 13 months ended 31 December 2018

2 Statement of Accounting Policies

Statement of significant accounting policies

The aggregated financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and comply with International Financial Reporting Standards (IFRS) and the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS, as appropriate for for-profit entities.

The financial statements have been prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 2013.

Comparative information has been reclassified or restated to ensure consistency with presentation in the current reporting period. These reclassifications and restatements have no impact on net profit after taxation.

There are no new or revised NZ IFRS applicable for the first time for the financial period beginning on or after 1 December 2017 that would have a material impact to the Group.

The following new standards relevant to the Group have been issued. The Group does not intend to apply these standards until their effective dates.

- NZ IFRS 9 *Financial Instruments* addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 *Financial Instruments: Recognition and Measurement* that relates to the classification and measurement of financial instruments. This standard will apply to the Group from 1 January 2019.

  NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit losses model that replaces the incurred loss impairment model for financial assets used in NZ IAS 39.

  NZ IFRS 9 relaxes the requirements for hedge effectiveness, and requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same that is used by management for risk management purposes. The standard is effective for the Group's reporting period beginning on 1 January 2019. Early adoption is permitted.

- NZ IFRS 15 *Revenue from Contracts with Customers* 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* and is applicable to all entities with revenue from contracts with customers. It sets out a five-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. This standard is effective for the Group's reporting periods beginning on or after 1 January 2019. Early adoption is permitted. The Group has assessed the effect of adopting NZ IFRS 15 on its financial statements, deeming the impact to be low. Implementation of NZ IFRS 15 will have no impact on existing revenue recognition process; however, it will require additional disclosures and changes in presentation for investment linked products. This standard will be applied by the Group from 1 January 2019.

  For the purposes of preparation of this consolidated financial statements, NZ IFRS 15 is adopted but the implementation has had minimal impact on the financial position as only a small portion of its revenue is within the scope of the new standard given most of AIA Sovereign's revenue recognition is determined under IFRS 4 Insurance Contracts.

- NZ IFRS 16 *Leases* replaces the current guidance in NZ IAS 17 *Leases*. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use (ROU) asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. This standard is effective for reporting periods beginning on or after 1 January 2019. Early adoption is only permitted following adoption of NZ IFRS 15 *Revenue from Contracts with Customers*. The Group has assessed the effects of adopting NZ IFRS 16 on its financial statements as low.

  NZ IFRS 16 requires lessees to recognise most leases on their balance sheet. Lessees are required to initially recognise a lease liability for the obligation to make lease payments and ROU asset for the right to use the underlying asset for the term of the lease term. The lease liability is measured at the present value of the lease payment to be made over the lease term. The asset will then be subject to depreciation, while interest will be recognised on the lease liability over the lease term.

  NZ IFRS 16 prescribes two transitional methods for lessees to implement the new standard. Under the full retrospective approach, lessees must restate comparative information. Under the cumulative catch up approach, lessees do not need to restate comparative information, but are required to adjust the opening value of equity for the accumulative effect of initially applying NZ IFRS 16 at the initial date of application. If this method is adopted, a number of more specific transitional requirements and optional reliefs also apply.

Notes to the Financial Statements

For the 13 months ended 31 December 2018

2 Statement of Accounting Policies (continued)

General Accounting Policies (continued)

The transitional approach adopted by the Group will be aligned with that taken by the parent company at the time of adoption.

- NZ IFRS 17 *Insurance Contracts* was issued in Aug 2017 as a replacement for NZ IFRS 4 *Insurance Contracts* and is mandatory for financial years commencing on or after 1 Jan 2021. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:
  · discounted probability-weighted cash flows
  · an explicit risk adjustment, and
  · a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

  The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under NZ IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

  There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

  The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The Group is currently assessing the effect of adopting NZ IFRS 17 on its financial statements.

Basis of Preparation

The measurement base adopted is historical cost, modified by the fair value measurement of financial instruments, including derivative contracts, at fair value through the income statement.

The financial statements have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). 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. The accounting policies adopted are consistent with those of the previous financial year

These financial statements are 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.

The Branch has changed its financial year end from 30 November to 31 December to align with AIAI. These audited financial statements are for the thirteen-month period ended 31 December 2018 ('the period'), whereas the comparative period presented is for the twelve-month period ended 30 November 2017 ('the year'). Therefore, the periods presented are not entirely comparable.

In previous years the Branch has prepared a set of financial statements that disclosed both the consolidated Branch, AIA Financial Service Network Limited and AIA International Holdings (New Zealand) Limited accounts, as well as disclosing the Branch only financial statements for comparison. In the current year, this set of financial statements, as a result of the acquisition of the AIA Sovereign Limited and its subsidiaries on 2 July 2018 by AIA International Limited, are aggregated financial statements comprising the Branch, FSN and Holdings, plus AIA Sovereign Limited and its subsidiaries for the 13-month period ended 31 December 2018. These financial statements represent the aggregated operations of AIA International Limited in New Zealand.

Principles Underlying the Conduct of Insurance Business

The insurance operations of the Group 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 Group that do not meet the definition of an investment contract are classified as investment contracts.

Notes to the Financial Statements

For the 13 months ended 31 December 2018

2 Statement of Accounting Policies (continued)

Principles Underlying the Conduct of Insurance Business *(continued)*

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.

Critical accounting estimates and judgements

Preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Note 3 outlines information on the Group critical accounting estimates and judgements.

Presentation currency and rounding

The functional and presentation currency of the Group is New Zealand dollars. All amounts are presented in millions, unless otherwise stated.

Specific accounting policies

Accounting policies have been consistently applied to all periods presented, unless otherwise stated.

(a) Basis of consolidation

Where AIAI have determined that there is a capacity to control, the Group financial statements consolidate the AIAI financial statements of a parent and all its subsidiaries using the acquisition method of consolidation. Control exists when AIAI is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to AIAI and are no longer consolidated from the date that control ceases. AIAI has 100% ownership of each of its subsidiaries (refer note 13). There are no substantial removal rights and it has controlling economic interests.

All intragroup balances and transactions have been eliminated in preparing the consolidated financial statements.

The cost of an acquisition is measured as the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The excess of purchase consideration over the fair value of identifiable net assets acquired is recorded as goodwill, except in the case of acquisitions of entities under common control, where the difference is recorded directly in equity.

Goodwill on Acquisition

Following initial recognition, goodwill on acquisition of a business combination is not amortised but is tested annually for impairment, or more regularly where an indication of impairment exists. If any such indication exists, the asset's recoverable amount is estimated, and an impairment loss is recognised immediately in the Statement of Comprehensive Income. Impairment losses on goodwill are not reversed. For the purposes of impairment testing, goodwill is allocated to cash generating units or groups of units, based on how goodwill is monitored by management. A cash generating unit is the smallest identifiable group of assets that generate independent cash flows. Gains and losses on the disposal of an entity include the carrying value of goodwill relating to the entity sold.

Group Companies Acting as Trustee or Manager of Superannuation Schemes

As at the balance date, the Group provides investment management services for the Sovereign Superannuation Retirement Fund (SSRF). The assets and liabilities of SSRF are not included in the Group financial statements as there is no capacity to control.

(b) Foreign currency translation

All foreign currency monetary assets and liabilities are translated to New Zealand currency at the exchange rate ruling as at balance date.

Non-monetary assets and liabilities denominated in foreign currencies, measured at fair value, are translated to New Zealand currency at the exchange rate ruling at the dates that the values were determined. Foreign currency exchange differences relating to securities and derivative financial instruments are included in investment income or other income.

Foreign currency transactions are translated to New Zealand currency at the exchange rate ruling at the date of the transaction.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

2 Statement of accounting policies (continued)

(c) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group, and that the revenue and stage of completion of the transaction can be reliably measured. The principal sources of revenue are premium revenue and investment income.

Premium Revenue

(i) Life Insurance Contracts

Premiums received for providing services and bearing risks are recognised as revenue on an accrual basis.

(ii) Life Investment Contracts

Premiums received are split, with the fee portion recognised as revenue on an accrual basis and the deposit portion recognised as an increase in life investment contract liabilities.

Initial entry fee income on life investment contracts is recognised as revenue at the outset of the contract only if a specific initial service (for which the fee relates) is provided by the Group at that time. Otherwise initial entry fee income is deferred as a component of life investment contract liabilities and is amortised as related services are provided under the contract.

Investment Income

Interest income is recognised in the Income Statement using the effective interest method. Dividend income is recognised in the Income Statement when the Group's right of receipt is established. Realised gains and losses on financial instruments are included as part of investment income. Unrealised gains and losses from fair value re-measurement of financial instruments are also included in investment income (refer to note 2(f)).

Reinsurance revenue

Upfront reinsurance commissions are initially recognised in the Income Statement and then deferred as liabilities arising from reinsurance contracts. This amount is then amortised over the life of the underlying policies, in line with the release of profit margins associated with these policies. Ongoing reinsurance commission income is recognised in the period in which it is earned.

Other Revenue

Other revenue is recognised on an accrual basis.

(d) Expense recognition

Claims

Life insurance contract claims are recognised as an expense when a liability has been established. Claims under life investment contracts represent withdrawals of investment deposits and are recognised as a reduction in life investment contract liabilities.

Commission and Management Expenses

Commission and management expenses are categorised into acquisition, investment management or maintenance costs on the basis of a detailed functional analysis of activities carried out by the Group. Expenses are further categorised into life insurance and life investment expenses based on new business volumes (acquisition costs) and inforce volumes (maintenance and investment management costs).

Acquisition Costs

Acquisition costs are the fixed and variable costs of accepting, issuing and initially recording policies, including initial commission and similar distribution costs. Acquisition costs do not include general growth and development costs that are not specifically related to acquisition activity.

Acquisition Costs - Life Insurance Contracts

Acquisition costs attributable to life insurance contracts are deferred as an element of life insurance contract liabilities. These costs are amortised over the life of the policies written. Unamortised acquisition costs are a component of the life insurance contract liabilities. Amortisation of acquisition costs are recognised in the income statement as a component of 'net change in insurance contract liabilities' at the same time as policy margins are released.

Acquisition Costs - Life Investment Contracts

Commission that varies with and is directly related to securing new contracts is capitalised as a deferred acquisition cost asset and is included in intangible assets. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in other operating expenses in the Income statement.

Maintenance and Investment Management Expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and are recognised in the income statement on an accrual basis. These include general growth and development costs. Maintenance costs include all operating costs other than acquisition and investment management costs.

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

Other Operating Expenses

All other operating expenses are recognised in the income statement on an accrual basis.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

2 Statement of Accounting Policies (continued)

(d) Expense recognition *(continued)*

Other operating expenses also include employee benefits, depreciation, amortisation and other management costs. Employee benefits include salaries and wages, annual and long service leave, annual bonuses, KiwiSaver contributions, and premiums on employee life, disability income and medical schemes

(e) Dividend recognition

Ordinary dividends are recognised as a movement in equity in the reporting period within which they have been approved.

Where a dividend is declared post reporting date, but prior to the date of issue of the financial statements, disclosure of the declaration is made in the notes to the financial statements but no liability is recognised on the Balance Sheet.

(f) Financial Instruments

BASIS OF RECOGNITION AND MEASUREMENT

Sovereign classifies financial instruments into one of the following categories at initial recognition: financial assets at fair value through the income statement, held for trading, loans and receivables, financial liabilities at fair value through the income statement and financial liabilities at amortised cost. Regular purchases and sales of financial assets are recognised and derecognised, as applicable, using trade date accounting.

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

Financial assets that are stated at cost or amortised cost are reviewed at each balance date to determine whether there is objective evidence of impairment. Impairment losses are calculated by discounting the expected future cash flows, at the original effective interest rate or approximation thereof, and comparing the resultant present value with the assets current carrying amount. An impairment loss is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. The impairment loss is reversed only to the extent that the financial asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired. Derecognition also occurs when the rights to receive cash flows from financial assets have been transferred together with substantially all of their risks and rewards. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

Assets in this category are measured at fair value at inception and on an on-going basis and include:

Securities

Securities held by life insurance companies are recognised at fair value through the income statement at inception because they back life insurance contract liabilities or life investment contract liabilities. Gains and losses arising from the fair value remeasurement of securities are included as part of investment revenue in the income statement.

Securities include equity securities, fund certificates, property securities, fixed interest securities.

HELD FOR TRADING

Forward currency contracts are used to reduce Sovereign's exposure to currency movements affecting the market value of Sovereign's investments denominated in foreign currencies.

Derivative financial instruments are recorded at fair value through the income statement, based on market accepted valuation techniques using observable market inputs. Subsequent gains and losses arising from the fair value remeasurement of derivative financial instruments are recognised immediately in investment revenue in the income statement. All derivatives used by Sovereign are classified as held for trading as they do not meet the criteria for hedge accounting under NZ IAS 39.

Sovereign recognises derivatives in the statement of financial position at their fair value. Derivative assets are the fair value of derivatives which have a positive fair value. Derivative liabilities are the fair value of derivatives which have a negative fair value.

LOANS AND RECEIVABLES

Assets in this category are recognised initially at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method less any allowance for uncollectible amounts. Loans and receivables include:

Cash and cash equivalents

Cash and Cash Equivalents include bank current accounts, cash on deposit and registered certificates of deposit, readily convertible to known amounts of cash, that are subject to an insignificant risk of changes in value. Assets in this category are at face value and interest is taken to the income statement when earned. Bank overdrafts are shown within cash and cash equivalents if the net position is an asset due to Sovereign's right to offset overdrafts within its banking facility.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

2 Statement of Accounting Policies (continued)

(f) Financial instruments (continued)

Trade and other receivables

Trade and other receivables include investment receivables, amounts due from related parties, amounts due from agents and other current assets. These assets are short term in nature and the carrying amount includes allowances for impaired receivables and therefore is considered a reasonable estimate of fair value.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH INCOME STATEMENT

Life investment contract liabilities are measured at fair value, with subsequent gains and losses arising from fair value remeasurement recognised in the income statement. Refer to note 2(k) for more details of life investment contract liabilities.

FINANCIAL LIABILITIES AT AMORTISED COST

This category includes all financial liabilities other than those designated by the Group as at fair value through the income statement. Liabilities in this category include:

Trade and Other Payables

Trade and other payables includes amounts due to agents, outstanding claims, investment creditors, trade creditors and accruals, amounts due to related parties and other payables. Liabilities in this category are initially measured at fair value plus transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method.

(g) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of property, plant and equipment less the estimated residual value is depreciated over their useful lives on a straight-line basis. Depreciation of work in progress will not begin until the asset is available for use i.e. when it is in the location and condition necessary for it to be operating in the manner intended by management. The estimated useful lives of the major assets are:

› Leasehold improvements and services	10 - 18 years
› Office equipment, furniture and fittings and computer equipment	3 - 10 years

Plant and equipment assets are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Any impairment loss is recognised immediately in the income statement. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

(h) Intangible assets

Goodwill

Refer to (a) for details on goodwill.

Internally developed software, acquired software licences and application software

The Group generally expenses computer software costs in the year incurred. However, some costs associated with developing identifiable and unique software products controlled by the Group, including employee costs and an appropriate portion of relevant overheads, are capitalised and treated as intangible assets when certain criteria are met. Acquired computer software licenses are capitalised on the basis that they are costs incurred to acquire and to use specific software. These assets are amortised using the straight-line method over their useful lives (not exceeding five years).

Other Intangible Assets and Deferred Acquisition Costs

Costs for the right to service policies have been capitalised and treated as intangible assets. These assets are amortised using the straight-line method over their useful lives. Other operating costs (refer note 2(d)) that vary with, and are directly related to securing new life investment policies, are capitalised as a deferred acquisition cost intangible asset, and are subsequently amortised over the life of the contracts.

› Agency purchases	18 - 54 months
› Deferred acquisition costs	6 - 17 years

Intangible assets impairment reviews

Intangible assets are assessed at an asset level when they generate independent cash inflows, otherwise they are grouped into Cash Generating Units (CGU) for impairment purposes. Impairment reviews are performed annually to identify events or changes in circumstances that indicate that the carrying amount may not be recoverable. If the asset or the CGU's carrying amount is greater than its estimated recoverable amount, the carrying amount of the asset or CGU is written down to its recoverable amount. The recoverable amount is the higher of the asset or CGU's fair value less costs to sell and the value in use. Any impairment loss is recognised immediately in the income statement.

(i) Taxation

Tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case, the tax is recognised in other comprehensive income or directly in equity, respectively

Notes to the Financial Statements

For the 13 months ended 31 December 2018

2 Statement of Accounting Policies (continued)

(i) Taxation (continued)

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at balance date after taking advantage of all allowable deductions under current taxation legislation. It also includes any adjustment to tax payable in respect of previous financial years. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at balance date.

In accordance with NZ IAS 12 *Income Taxes*, a deferred taxation asset is recognised only to the extent that it is probable (i.e. more likely than not) that a future taxable profit will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Any reduction is recognised in the income statement.

Tax liabilities and assets are transferred among group companies through intercompany accounts at the current tax rate if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the entities intend to make or receive such a net payment or to recover the asset and settle the liability simultaneously.

Life Insurance Tax

From 1 July 2010, life insurers have been subject to a new tax regime. Two tax bases are maintained; the shareholder base which is subject to tax on life risk products (premiums less claims and expenses) and net investment income from shareholder funds, and the policyholder base which is subject to tax on net investment income from policyholder funds. The life insurer pays tax on both bases at the prevailing corporate tax rate of 28% (30 November 2017 28%). As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

The regime is applicable to all life insurance policies, irrespective of when they were issued. However, the new regime offers a concessional tax treatment (known as a transitional adjustment) for life insurance policies that were in force prior to 1 July 2010. The impact of the transitional adjustment is that it effectively treats designated policies (known as grandparented policies) as having income tax levied on a basis equivalent to the life office base under the old tax regime. In general, grandparented status lasted for 5 years from 1 July 2010. However, for certain policy types, namely level term policies, the grandparented status can be for the duration of the policy.

Goods and Services Tax

Where a transaction is subject to Goods and Services Tax (GST), the financial statements have been prepared so that all components are stated exclusive of GST, with the exception of trade receivables and trade payables, which includes GST invoiced.

(j) Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(k) Life Insurance business

Statutory obligations

The New Zealand insurance industry is regulated by the Reserve Bank of New Zealand (RBNZ), under the Insurance (Prudential Supervision) Act 2010 (IPSA). IPSA requires all entities carrying on insurance business in New Zealand (as defined by IPSA) to hold a licence. Both the Branch and Sovereign Assurance Company Limited (SACL, a subsidiary of AIA Sovereign Limited) hold a full licence under IPSA. Key elements of the insurance prudential supervision regime include minimum solvency requirements and regular reporting to the RBNZ, the need for directors and other relevant officers to meet fit and proper standards, and governance and risk management requirements.

IPSA requires that a life insurer must at all times have at least one statutory fund in respect of its life insurance business. On 1 July 2013, the Branch and SACL established a statutory fund, that relates solely to the life insurance business as defined by IPSA. SACL standalone health insurance business (which is not classified as life insurance business under IPSA) and business that does not relate to contracts of insurance are included in Other Fund. The activities of the statutory fund are reported in aggregate with the Other Fund in the financial statements. Further information on the statutory fund is provided in notes 27 and 33.

The Branch has a current insurer financial strength rating of AA- (Very Strong) issued by international rating agency Standard & Poor's. SACL has an insurer financial strength rating of A+ (Superior) issued by international rating agency A.M. Best Company Inc. with an effective date of 14 December 2018.

Life insurance and life investment contracts - classification

The Group's life insurance business is split between life insurance contracts and life investment contracts. Life insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4 *Insurance Contracts*. Life investment contracts are accounted for in accordance with NZ IAS 39

Notes to the Financial Statements

For the 13 months ended 31 December 2018

2 Statement of Accounting Policies (continued)

(k) Life insurance business (continued)

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those contracts with no significant insurance risk, but which give rise to a financial liability under NZ IAS 39.

Contracts that contain a discretionary participation feature are also classified as life insurance contracts.

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS), as set out in New Zealand Society of Actuaries Professional Standard No. 20: *Determination of Life Insurance Policy Liabilities*. MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Under MoS, the planned profit margins of premium received less expenses is deferred and amortised over the life of the contract, whereas losses are recognised immediately.

Life insurance contract liabilities are calculated in a way that allows for the systematic release of planned profit margins as services are provided to policyholders and the revenues relating to those services are received. Services used to determine profit recognition include the cost of expected insurance claims and annuity payments. Life insurance contract liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins, reduced by the present value of all future expected premiums.

Profit is analysed into the following categories:

(i) *Planned margins of revenues over expenses*

At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments (including tax) and premiums. Where actual experience replicates best estimate assumptions, the expected profit margins will be released to profit over the life of the policy.

(ii) *The difference between Actual and Assumed experience*

Experience profits and losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits and losses include variations in claims, expenses, mortality, discontinuance and investment returns (to the extent the shareholder assumes investment risk).

(iii) *Changes to underlying assumptions*

Assumptions used for measuring life insurance contract liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year.

The financial effect of a change in discount rates resulting from changes in market conditions is recognised in the year that the rates are changed. The financial effect of all other changes to assumptions is recognised in the income statement over the future years during which services are provided to policyholders. If, based on best estimate assumptions, written business of a group of related products is expected to be unprofitable, the total expected loss for that related product group is recognised in the income statement immediately. When loss making business becomes profitable previously recognised losses are reversed.

(iv) *Investment earnings on assets in excess of policy liabilities*

Profits are generated from investment assets in excess of those required to meet policy liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

Life investment contract liabilities

All contracts issued by the Group which are classified as life investment contracts are unit linked. The fair value of a unit linked contract is determined using the current unit values that reflect the fair value of the financial assets backing the contract, multiplied by the number of units attributed to the contract holder.

Identification of Assets Backing Life Investment Contracts

All contracts issued by the Group that are classified as life insurance contracts are non linked. The assets backing unit linked contracts are in separate investment funds from those backing non linked contracts.

Reinsurance

Contracts entered into by the Group with reinsurers all meet the definition of an insurance contract.

As the reinsurance agreements provide for indemnification of the Group by the reinsurers against loss or liability, reinsurance income and expenses are recognised separately in the income statement when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries for claims are recognised as reinsurance income, and reinsurance premiums are recognised as reinsurance expenses when they become due and payable in accordance with the reinsurance agreements.

Liabilities ceded under reinsurance are the present value of future reinsurance claims receivable and premiums payable by the Group and have been classified as an asset. They are assessed for impairment on a quarterly basis.

(l) Retirement benefits obligations

SACL currently sponsors the Sovereign Superannuation Retirement Fund (SSRF) superannuation plan for its employees and ex-employees. The assets and liabilities of this plan are held independently of SACL's assets in a separate trustee administered fund. The plan has both a defined benefit and defined contribution section and has been closed to new members since 01 July 2004.

Full disclosures of the defined benefit and contribution plan as required by NZ IAS 19 *Employee Benefits* have not been presented on the basis that these assets and liabilities are not material in the context of the Group's statement of financial position.

Notes to the Financial Statements

For the 13 months ended 31 December 2018

2 Statement of accounting policies (continued)

(l) Retirement Benefits Obligations (continued)

Defined Benefit Plans

Defined benefit plans are formal arrangements under which an entity provides post-employment benefits.

The asset recognised on the statement of financial position in respect of SSRF is calculated as the present value of the defined benefit obligation and the fair value of the plan's assets deducted. The discount rate is the yield at balance date on government securities which have approximately the same terms to maturity. Where the calculation results in a benefit to the Group, the recognised asset is limited to the present value of any future employer contributions to the plan that can be funded from the plan surplus.

Actuarial gains and losses arising from the above valuation are charged or credited directly to retained earnings.

Defined contribution plans

The SSRF Defined Contribution Plan is a post-employment benefit plan under which the Group pays fixed contributions to the plan and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior years.

Contributions to SSRF are recognised as an expense in the income statement as incurred.

(m) Contingent liabilities

The Group discloses a contingent liability when it has a possible obligation arising from past events, that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

(n) Cash flow statement

This has been prepared using the direct approach, modified by the netting of cash flows associated with related parties and foreign exchange forward contracts. For these items, the Group considers that knowledge of gross receipts and payments is not essential to understanding the activities of the Group and it is considered acceptable to report only the net cash flows. This is based on the fact that the turnover of these items is quick, the amounts are large, and the maturities are short.

(o) Segment reporting

The Group is not required to disclose geographic or operating segment information under NZ IFRS 8 Operating Segments. On this basis there are no disclosures relating to the Group's geographic or operating segments.

(p) Operating 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 are charged to the income statement on a straight-line basis over the period of the lease.

(q) Head office accounts

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 AIA International Limited subject to the requirements of statutory fund legislation.

3 Critical accounting estimates and judgements

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 assets

Policyholder Assets 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 policies 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 Group's ability to recover the cost of acquiring new business over the lives of the contracts;

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

3 Critical accounting estimates and judgements (continued)

- 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.

The Group 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. The Branch exercises significant judgement in making appropriate assumptions.

Liabilities arising from reinsurance contracts

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

Deferred tax assets

Estimating the amount of deferred tax assets arising from tax losses requires a process that involves determining appropriate provision for income tax expense, forecasting future year's taxable income and assessing the Group's ability to utilize the tax benefits through future earnings The Group has reviewed its solvency projections over future years and considered the expected growth in annualized new premiums. Within the forecast period, management believe the commencement of income tax payments will occur and therefore it is probable that the Group will be able to utilize the tax losses against future earnings, subject to maintaining shareholder continuity.

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 Group 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 Group about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- significant financial difficulty of the issuer or debtor;
- 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.

Life insurance contract liabilities and life investment contract liabilities

Estimates and assumptions made by the management relates to life insurance contract and life investment contract liabilities that affect the amounts reported in the financial statements and accompanying notes are within note 2(k).

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

4 Actuarial assumptions and methods

Both the Branch and Sovereign currently operate separate life insurance and life investment activities. Both currently operate their own IPSA statutory funds. The plan is to bring both insurance and investment businesses together into a single operating unit in the near future. Until this has occurred, for purposes of financial reporting and disclosure, this note will detail actuarial assumptions and methods adopted by both business units.

The Branch

The actuarial report on insurance contract liabilities and solvency reserves for the current reporting period was prepared as at 31 December 2018.

Caroline Bennet, Fellow of Institute of Actuaries of Australia, is the Appointed Actuary of the Branch. The value of insurance contract 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 insurance contract liabilities has been determined.

The valuation methodology and assumptions for insurance applied for the reporting period are as follows: (Refer to Note 34 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
Risks and Insurance	Not applicable	Discounted value of expected future claim payments and

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: 2018: 2.84% p.a. (2017: 3.50% p.a.) 2018: NZ Treasury short term rates with interpolation for long term rates (2017: NZ Zero Coupon Government Bond Yield and NZ Treasury's assumed long-term forward rate)
Investment expenses (before tax)	2018:0.22% (2017:0.17%)

Notes to the Financial Statements

For the 13 months ended 31 December 2018

4 **Actuarial assumptions 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	54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits (2017: 64%, 128%)	54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits. Real Easy Life and Real Family Protection has additional 30% loading. (2017: 64%, 128%)	54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits (2017: 64%, 128%)	54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits (2017: 64%, 128%)
Mortality improvement	Yes (2017: Yes)	Yes (2017: Yes)	Yes (2017: Yes)	Yes (2017: Yes)
Morbidity	Nil (2017: Nil)	Percentage of reinsurer risk premium rates, strengthening of crisis assumptions (2017: Percentage of reinsurer risk premium rates, strengthening of crisis assumptions)	Incidence and termination rates as a percentage of IAD89-93 (2017: Incidence and termination rates as a percentage of IAD89-93)	Superior Health is based on loss ratio, varying between 20% to 67.5% depending on duration. Real Health is based on 2015 medical claim assumption table with duration factors varying between 48.31% to 102.79% (2017: 20% to 67.5%)
Initial expense allowance (before tax)	Nil (2017: Nil)	14.4% to 46.7% of New Annualised Premium Income (API); and $44.1 to $205.1 per cover (2017: 14.4% to 60.1% of API; and $44.1 to $336.7 per cover)	51.9% of New Annualised Premium Income (API); and $224.4 per cover (2017: 51.9% of API; and $224.4 per cover)	59.1% of New Annualised Premium Income (API); and $250.2 to $463.0 per cover (2017: 59.1% of API; and $250.2 to $463.0 per cover)
Renewal expenses (before tax)	4.3% of Annualised Premium Income (API); and $83.1 p.a., escalating at 2.0% p.a. (2017: 4.3% of API; and $83.1 p.a., escalating at 2.5% p.a.)	5.4% to 11.8% of Annualised Premium Income (API); and $46.1 to $81.5 p.a., escalating at 2.0% p.a. (2017: 5.4% to 11.2% of API; and $46.1 to $111.5 p.a., escalating at 2.5% p.a)	6.2% of Annualised Premium Income (API); and $79.8 p.a., escalating at 2.0% p.a. (2017: 6.2% of API; and $79.8 p.a., escalating at 2.5% p.a)	8.3% of Annualised Premium Income (API); and $78.0 to $144.4 per cover, escalating at 2.0% p.a. (2017: 8.3% of API; and $78.0 to $144.4 per cover, escalating at 2.5% p.a.)
Cover escalation	2.5% p.a. (2017: 2.5% p.a.)	2.5% p.a. (2017: 2.5% p.a.)	2.5% p.a.(2017: 2.5% p.a.)	4.5% p.a. graded down to 2.5% p.a. in 3 years (2017: 4.5% to 2.5% p.a.)
Lapses / surrenders	Based on experience analysis, varying between 1% and 11% 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) (2017: 1% and 12%, shock lapses of 50%, 30%, 20% and 10% in each year after the full payback)	Based on experience analysis, varying between 2% and 25% depending on duration and product (2017: 8% and 19%)	Based on experience analysis, varying between 10% and 25% depending on duration and product (2017: 10% and 25%)	Based on experience analysis, varying between 5.8% and 16% depending on duration and product (2017: 5.8% and 16%)
Tax rate	28% (2017: 28%)	28% (2017: 28%)	28% (2017: 28%)	28% (2017: 28%)
Inflation rate	2.5% (2017: 2.5%)	2.5% (2017: 2.5%)	2.5% (2017: 2.5%)	2.5% (2017: 2.5%)

Notes to the Financial Statements

For the 13 months ended 31 December 2018

4 Actuarial assumptions and methods (continued)

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

Impact of changes in assumptions

$ millions	13 months to 31 December 2018 Profit margin increase/ (decrease)	Insurance contract liability increase/ (decrease)	Profit & equity increase/ (decrease)	12 months to 30 November 2017 Profit margin increase/ (decrease)	Insurance contract liability increase/ (decrease)	Profit & equity increase/ (decrease)
Interest rate change - movement in market rates	9	5	(5)	4	1	(1)
Operating assumptions change:						
Renewal Commisssion	-	-	-	(3)	-	-
Investment management expenses	(2)	-	-	(1)	-	-
Mortality	17	-	-	-	-	-
Morbidity	(6)	-	-	-	-	-
Level lapse	(90)	-	-	-	-	-
Inflation	3	-	-	-	-	-
Total	(69)	5	(5)	0	1	(1)

Sentivity Analysis

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

$ millions	13 months to 31 December 2018 Insurance contract liability increase/ (decrease)	Profit increase/ (decrease)	12 months to 30 November 2017 Insurance contract liability increase/ (decrease)	Profit increase/ (decrease)
Base				
Interest rates + 1% per annum	(14)	14	(5)	5
Interest rates - 1% per annum	17	(17)	8	(8)
Inflation + 1% per annum	2	(2)	3	(3)
Inflation - 1% per annum	1	(1)	-	-

For sensitivity on termination rates of open disability income claims, insurance contract 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 reporting period.

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 Dec 2018 period 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	164	155	148	142	136	2,336
Cash outflows	(145)	(133)	(127)	(123)	(120)	(2,397)

From Nov 2017 period 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	145	137	130	124	119	1,928
Cash outflows	(111)	(122)	(115)	(108)	(105)	(1,823)

Notes to the Financial Statements

For the 13 months ended 31 December 2018

4 Actuarial assumptions and methods (continued)

Sovereign

The actuarial report on insurance contract liabilities and solvency reserves for the current reporting period was prepared as at 31 December 2018.

Charmaine Green, Fellow of Institute of Actuaries of Australia (FIAA), was the Acting Chief Actuary of Sovereign as at 31 December 2018. After making appropriate checks, the actuary is satisfied as to the accuracy of the data from which the amount of life insurance, and life investment contract liabilities has been determined. As of the 14th January 2019, Jack Chau (FIAA) has been appointed Head of Actuarial of Sovereign.

The projection method is used to determine life insurance, and life investment contract liabilities. In principle, the projection method uses expected cash flows (premiums, investment income, surrenders or benefit payments, expenses) plus profit margins to be released in future periods, to calculate the present value of contract liabilities.

Life insurance and life investment contract liabilities have been determined in accordance with Professional Standard No. 20 of the New Zealand Society of Actuaries and the requirements of NZ IFRS 4.

Key assumptions used in determining life insurance and life investment contract liabilities are as follows:

(a) Discount Rates

(i) *Business Where Benefits are Contractually Linked to the Performance of Assets Held*

The discount rates used to determine life insurance and life investment contract liabilities reflect the expected future gross returns on Sovereign's current strategic asset mix. Fixed interest investments were assumed to earn 2.4% pa and equity investments 6.4% pa. The discount rates used for individual classes of business varied between 2.4% pa and 3.8% pa.

(ii) *Other Business*

The discount rate used to determine life insurance contract liabilities is a risk free discount rate. Single point discount rates have been determined so that the term structure of the products is taken into account in setting the discount rate. For annuities and risk business rates between 2.2% and 3.3% pa were used.

(b) Profit Carriers

Policies are divided into related product groups with profit carriers and profit margins as follows:

Policy type	Carrier
Risk	Expected claims payments
Savings business	Funds under management/investment management expens[e]
Traditional participating business	Bonuses

(c) Investment and Maintenance Expenses

Future maintenance and investment expenses have been assumed at current levels in line with contractual fees set out in agreement with Sovereign Services Limited (SSL), a wholly owned subsidiary of SACL, and external fund managers. Future inflation has been assumed to be 2.0% pa for determining future expenses and inflation linked increases in benefits and premiums.

(d) Taxation

The rates of taxation enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used is 28%. Allowance has been made for the "fair dividend rate" rules that apply to global equities, where tax is paid on 5% of the market value of investments, regardless of the actual rate of investment income.

(e) Rates of Growth of Unit Prices

Unit price growth is assumed to be equal to the assumed investment earning rates less tax and asset based charges for each product.

(f) Mortality and Morbidity

Projected future rates of mortality experience are based on a proportion of the NZ97 tables. These are then adjusted by comparing the standard tables with Sovereign's own experience using geometric smoothing techniques or moving averages. Annuitant mortality is assumed to be a proportion of the PMA92 and PMF92 tables, adjusted for mortality improvements prior to and after the valuation date.

In general, mortality assumptions are reviewed based on annual experience studies.

There have been no changes in mortality assumptions since 2 July 2018.

For the other business, there have been no changes in mortality assumptions since 2 July 2018.

The proportions of NZ97 adopted for the major products range from 47% to 96%.

Projected future morbidity experience are based on a combination of reinsurers' tables, industry tables, industry experience and internal investigations. For significant classes of business, internal experience is compared with reinsurers' tables using geometric smoothing techniques or moving averages.

Notes to the Financial Statements

For the 13 months ended 31 December 2018

4 Actuarial assumptions and methods (continued)

(f) Mortality and Morbidity (continued)

In general, morbidity assumptions are reviewed based on annual experience studies.

There have been no changes in morbidity assumptions since 2 July 2018.

(g) Rates of Discontinuance

Assumptions for the incidence of withdrawal, partial termination and transfer of policies to paid-up are primarily based on investigations of Sovereign's own experience.

Discontinuance rates were reviewed since 2 July 2018.

Future rates of discontinuance are:

	Age	Policy Duration (years) 1	2	3	4	5	6	7	8	9	10+
As at 31 December 2018											
Life rate for age	< 30	9%	14%	16%	15%	15%	14%	13%	13%	12%	10%
	30 - 39	6%	10%	14%	13%	12%	12%	11%	11%	10%	9%
	40 - 49	7%	10%	14%	13%	12%	12%	11%	11%	11%	10%
	50 - 64	8%	13%	17%	14%	15%	14%	14%	15%	13%	12%
	65+	13%	17%	23%	21%	21%	20%	20%	19%	19%	18%
Life level to age 80	< 30	16%	13%	14%	13%	11%	8%	8%	7%	6%	6%
	30 - 39	12%	10%	10%	9%	8%	6%	6%	5%	5%	4%
	40 - 49	8%	6%	7%	6%	5%	4%	4%	3%	3%	3%
	50 - 64	6%	7%	8%	6%	6%	5%	5%	4%	4%	3%
	65+	5%	6%	7%	6%	6%	5%	4%	4%	4%	3%

	Age	31 December 2018 Life	Non-Life	Total
Other Risk	< 30	20%	12%	
	30 - 39	14%	12%	
	40 - 49	11%	11%	
	50 - 64	10%	12%	
	65+	8%	15%	
Participating				3%
Savings				8%

(h) Basis of Calculation of Surrender Values

Surrender values are set using an asset share approach and taking into consideration equity between continuing and terminating policyholders.

The surrender value basis has not been changed since 2 July 2018.

Notes to the Financial Statements

For the 13 months ended 31 December 2018

4 Actuarial assumptions and methods (continued)

(i) Participating business

For most participating business, bonus rates are set such that, over long periods, the returns to policyholders are commensurate with the investment returns achieved on the relevant assets, together with other sources of profit arising from this business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions at a maximum allowable rate of 20%

In applying the policyholders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of policies in force. Assumed future bonus rates included in life insurance contract liabilities were set such that the present value of life insurance contract liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholder's right to participate in distributions.

Assumed future bonus rates per annum for the major classes of individual participating business were:

		31 December 2018
Ex-Colonial policies	Bonus rate on sum assured	0.20%
	Bonus rate on existing bonus	0.20%
Ex-Prudential policies	Bonus rate on sum assured	0.25%
	Bonus rate on existing bonus	0.25%
Ex-NZI policies	Bonus rate on sum assured	0.13%
	Bonus rate on existing bonus	0.25%
Ex-Metropolitan life policies	Bonus rate on sum assured	0.00%
	Bonus rate on existing bonus	0.00%
Investment account policies	Crediting Rate	2.65%

(j) Impact of Changes in Assumptions

Refer to note 2(k) for an explanation of the treatment of changes in actuarial assumptions on life insurance contract liabilities. The impact of changes in actuarial assumptions made during the reporting period are:

$ millions	Effect on Future Profit Margins	Effect on Life Insurance Contract Liabilities
For the period ended 31 December 2018	**31 December 2018**	**31 December 2018**
Market related changes to discount rates	23	18
Mortality and morbidity	30	-
Discontinuance rates	-	-
Maintenance expenses	(3)	1
Reinsurance*	(477)	-
Other assumptions	(5)	-

The implementation of a new reinsurance treaty has adversely impacted on future profit margins.

*This relates to the impact from the reinsurance treaty entered into by the Group during the period.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

5 Sources of profit

$ millions	13 months to 31 December 2018	12 months to 30 November 2017
Life insurance		
Planned margins of revenues over expenses	29	10
Difference between actual and assumed experience	(23)	(12)
Effects of changes in underlying assumptions	(11)	-
Reversal / (recognition) of future expected losses	(1)	-
Net profit after taxation arising from life insurance contracts	(6)	(2)
Life investment		
Planned margins of revenues over expenses	3	-
Investment earnings on assets in excess of insurance contract liabilities	6	6
Net profit after taxation arising from life investment contracts	9	6
Shareholder investment earnings	4	-
Total underlying (loss)/profit after tax	7	4
Adjusted for:		
Unrealised (gain)/loss from financial assets	(1)	1
Discount rate change effect on insurance contract liabilities	(16)	(5)
Fair value and discount rate change effect after tax	(17)	(4)
Reduction in deferred tax on insurance contract liabilities - current period	16	3
Net profit after taxation attributed to shareholders	6	3

6 Premium revenue

$ millions	Note	13 months to 31 December 2018	12 months to 30 November 2017
Life insurance contract premiums		535	143
Life investment contract deposit premiums and fee income		10	-
Total premiums		545	143
Less: Deposit premiums recognised as an increase in life investment contract liabilities	21	(9)	-
Total premium income		536	143
Less: Reinsurance expense		(260)	(56)
Total net premium income		276	87

7 Investment and Other Revenue

$ millions	13 months to 31 December 2018	12 months to 30 November 2017
Dividends	6	-
Realised and unrealised losses	(43)	-
Total equity securities and fund certificates	(37)	-
Dividends	1	-
Realised and unrealised losses	(3)	-
Total property securities	(2)	-
Interest	38	7
Realised and unrealised gains	8	1
Total fixed interest securities and cash	46	8
Realised and unrealised gains	4	-
Total derivatives	4	-
Total investment revenue	11	8
Other revenue		
Investment fee	8	-
Total other revenue	8	-

Notes to the Financial Statements

For the 13 months ended 31 December 2018

8 Reinsurance Commission

$ millions	Note	13 months to 31 December 2018	12 months to 30 November 2017
Initial commission		725	-
Ongoing commission		64	21
Total Reinsurance Commission		789	21

Sovereign entered into a new reinsurance treaty arrangement on 2 July 2018, subsequent to the acquisition by AIA International Limited. Under this treaty, Sovereign received an upfront reinsurance commission of $725mil, and ongoing commission of $25 mil for the six month period to 31st December 2018.

9 Claims expense

$ millions	Note	13 months to 31 December 2018	12 months to 30 November 2017
Death, disability and medical claims		294	59
Maturities		15	-
Surrenders		51	12
Annuities		2	-
Total claims		362	71
Less: Claims recognised as a decrease in life investment contract liabilities	21	(42)	-
Total claims expense		320	71
Less: Reinsurance recoveries		(144)	(28)
Total net claims expense		176	43

10 Other operating expenses

	Life insurance contracts		Life investment contracts		Total	
$ millions	13 months to 31 December 2018	12 months to 30 November 2017	13 months to 31 December 2018	12 months to 30 November 2017	13 months to 31 December 2018	12 months to 30 November 2017
Initial commission	60	30	-	-	60	30
Other acquisition expenses	49	16	1	-	50	16
Policy acquisition expenses	109	46	1	-	110	46
Renewal commission	55	8	1	-	56	8
Other maintenance expenses	81	20	1	-	82	20
Policy maintenance expenses	136	28	2	-	138	28
Investment management expense:	1	-	1	-	2	
Total life expenses	246	74	4	-	250	74
Total other operating expenses					250	74
Included above:						
Operating lease expenses					3	1
Amortisation of intangible assets					2	1
Depreciation					1	-
Employee benefits expense						
Wages and salaries					58	17
Defined contribution plan expense					2	-
Fiduciary expenses					1	-
Group service fees					1	1
Sales and marketing related					5	4
Data Processing					3	4
Professional fees (excluding paid to auditors)					2	3
Medical administrative expenses					2	1
Other administrative expenses					9	4

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

11 Auditor's remuneration

$ thousands	13 months to 31 December 2018	12 months to 30 November 2017
PricewaterhouseCoopers (PwC) is the appointed auditor of the Group for the current and prior year.		
Fees paid to PricewaterhouseCoopers are as follows:		
Fees for the audit of financial statements	969	204
Assurance and agreed upon procedures over solvency return	62	9
Other assurance services related to the acquisition of the Group	582	-
Agreed upon procedures related to reinsurance	72	-

In the year ended 30 November 2017, PwC performed other services including tax consulting advice and tax due diligence services with respect to the Branch. The costs in relation to these services (except for solvency return) were borne by AIA International Limited - Australia.

12 Taxation

$ millions	Note	31 December 2018	30 November 2017
Current taxation expense		4	-
Deferred taxation expense	25	22	5
Total taxation expense recognised in the Income Statement		26	5

The taxation expense on AIA NZ net profit before taxation differs from the theoretical amount that would arise using the domestic rate as follows:

Net profit before taxation		32	8
Income tax at the current rate of 28% (2017 28%)		9	2
Investment income adjustments		13	-
Imputation and PIE tax credit adjustments		(2)	-
Movement in investment contract liabilities and adjustments		(8)	-
Movement in insurance contract liabilities, reserves and adjustments		10	-
Other non-deductible expenditure and permanent differences		3	3
Prior period adjustments		1	-
Total taxation expense recognised in the Income Statement		26	5
Weighted average effective tax rate		82%	60%

13 Imputation credit account

Companies may attach imputation credits to dividends paid, which represent the New Zealand tax already paid by the company or tax group on profits. New Zealand resident shareholders may claim a tax credit to the value of the imputation credit attached to dividends.

The Group has formed an imputation group with eligible members of the AIA NZ Group (ICA Group). The closing balance of imputation credits available to all members of the ICA Group as at 31 December 2018 is $7 million (30 November 2017 nil). This amount includes imputation credits that will arise from the payment of the provision for income tax and from the receipt of dividends recognised as receivables as at the reporting date, and imputation debits that will arise from the payment of dividends recognised as payables as at the reporting date.

Notes to the Financial Statements

For the 13 months ended 31 December 2018

14 Cash and cash equivalents

$ millions	31 December 2018	30 November 2017
Cash at bank and on deposit	367	16
Foreign currency deposits	2	-
Total cash and cash equivalents	369	16

15 Securities

$ millions	31 December 2018	30 November 2017
Equity securities and fund certificates	604	-
Fixed interest securities		
New Zealand government stock	1,036	11
Corporate bonds	171	151
Foreign government stock	107	-
Total fixed interest securities	1,314	162
Property securities	64	
Total securities	1,982	162

As at 31 December 2018 no investments were pledged under repurchase agreements or other arrangements (30 November 2017 nil). A maturity analysis for equity securities, fund certificates, and property securities has not been presented because these investments are liquid assets and the timing of realisation is not known.

Fixed Interest Securities

Maturity analysis:		
Under one year	44	23
Between one and two years	20	58
Between two and three years	76	5
Between three and four years	20	20
Between four and five years	497	13
Greater than five years	657	43
	1,314	162

16 Investments in subsidiaries

AIA International Limited has an interest in the following entities:

Entity Name	%	Nature of Business	Balance Date
AIA International Limited - New Zealand Branch	100	Life insurance	31 December
AIA International Holding (New Zealand) Limited	100	Holding company	31 December
AIA Financial Services Network Limited	100	Insurance brokerage	31 December
AIA Sovereign Limited	100	Holding company	31 December
Sovereign Assurance Company Limited	100	Life insurance	31 December
Sovereign Services Limited	100	Administration services	31 December
Sovereign Superannuation Trustees Limited	100	Trustee company	31 December
Westside Properties Limited	100	Asset leasing	31 December
Sovereign Superannuation Funds Limited*	100	Asset management company	31 December

On 2 July 2018 AIA International Limited acquired 100% of the issued capital of AIA Sovereign Limited and its subsidiaries from the Commonwealth Bank of Australia.

All entities were incorporated in New Zealand.

*Sovereign Superannuation Funds Limited ceased trading during the period, and was de-registered from the New Zealand Company Register on 30 January 2019.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

17 Trade and other receivables

$ millions	31 December 2018	30 November 2017
Receivables from Policyholders	23	3
Loan receivable	1	1
Loans and recoverables from Policyholders	24	4
Due from brokers and intermediaries	62	3
Impairment provision	(2)	(2)
Receivables from brokers and intermediaries	60	1
Reinsurance recoveries	22	12
Receivable from reinsurers	22	12
AIA Reinsurance Limited	-	1
Receivables from related parties	-	1
Accrued interest	2	2
Investment Receivables	18	-
Other Assets	7	-
Other receivables	27	2
Total loan and receivables	133	20
Analysed as:		
Current	132	19
Non current	1	1
	133	20

The Branch

Included in loans and receivables balance are debtors with a carrying amount of $ 2,851,498 (2017: $2,629,295) which are past due at the reporting date for which the Branch has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Ageing past due receivable		
1 - 30 days	2	1
31 - 90 days	1	-
91 - 365 days	-	1
Over 365 days	-	1
Total	3	3

Provision for impairment of receivables from brokers and intermediaries		
Opening balance	(2)	(2)
Closing balance	(2)	(2)
Analysed as:		
Current	(2)	(2)

Notes to the Financial Statements

For the 13 months ended 31 December 2018

18 Intangible assets

The Group has goodwill of $507 million (30 November 2017 $Nil) for which the cash generating unit is the life insurance and life investment business, being for the acquisition of AIA Sovereign and it's subsidiaries on 2 July 2018.

The recoverable amount for the life insurance and investment business is based on fair value calculations. The market value estimate has been used in assessing excess market value over net tangible assets of the Group.

No impairment losses were recognised against the carrying amount of goodwill for the year ended 31 December 2018.

$ millions	31 December 2018	30 November 2017
Purchased computer software		
Cost		
Opening balance	2	2
Disposals	(2)	-
Closing Balance	-	2
Accumulated amortisation		
Opening balance	(2)	(2)
Disposals	2	-
Closing Balance	-	(2)
Net Book Value	-	-
Software development		
Cost		
Opening balance	36	9
Additions	5	1
Transfers from work in progress	1	-
Disposals	(1)	-
Closing Balance	41	10
Accumulated amortisation		
Opening balance	(23)	(4)
Amortisation charge	(1)	(1)
Disposals	1	-
Closing Balance	(23)	(5)
Net Book Value	18	5
Life investment contract deferred acquisition cost		
Cost		
Opening balance	6	-
Closing Balance	6	-
Accumulated amortisation		
Amortisation charge	(1)	-
Closing Balance	(1)	-
Net Book Value	5	-
Work in progress		
Cost		
Opening balance	1	1
Additions	1	1
Transfer to internally developed software	(1)	(1)
Closing Balance	1	1
Net Book Value	1	1

Notes to the Financial Statements

For the 13 months ended 31 December 2018

18 Intangible assets (continued)

$ millions	31 December 2018	30 November 2017
Goodwill		
Cost		
Opening balance	507	-
Closing Balance	507	-
Net Book Value	507	-
Other intangible assets		
Cost		
Opening balance	1	-
Closing Balance	1	-
Accumulated amortisation		
Opening balance	(1)	-
Closing Balance	(1)	-
Net Book Value	-	-
Total intangible assets	531	6

No impairment losses were recognised against the carrying amount of other intangible assets for the period ended 31 December 2018 (30 November 2017 $nil).

Notes to the Financial Statements

For the 13 months ended 31 December 2018

19 Plant and Equipment

$ millions	31 December 2018	30 November 2017
Furniture, fittings and office Equipment		
Cost		
Opening balance	43	2
Additions	1	1
Disposals	(2)	-
Closing Balance	42	3
Accumulated Depreciation		
Opening balance	(28)	(2)
Depreciation charge	(1)	-
Disposals	1	-
Closing Balance	(28)	(2)
Net Book Value	14	1
Computer equipment		
Cost		
Opening balance	10	2
Additions	1	-
Closing Balance	11	2
Accumulated Depreciation		
Opening balance	(10)	(2)
Closing Balance	(10)	(2)
Net Book Value	1	-
Total net book value of property, plant and equipment	15	1

20 Employee benefit obligation

$ millions	31 December 2018	30 November 2017
Employee Entitlements	4	5
Total employee benefit obligations	4	5
Analysed as:		
Current	4	5
	4	5

Retirement benefits surplus

Actuarial gains and losses are recognised in full each year.

SSRF is a superannuation scheme with a defined benefit section and a defined contribution section. The last full triennial actuarial review was completed in 2016. The next triennial actuarial review is scheduled for 31 March 2019

$ millions	31 December 2018
Reconciliation of amounts recognised in the statement of financial position	
Present value of funded obligations	(3)
Fair value of fund assets	9
Surplus	6
Adjustment for limit on the use of net assets *	(5)
Total retirement benefit surplus (inclusive of specified superannuation contribution withholding tax)	1

* SSRF's estimated net assets at 31 December 2018 were $9 million, but a large part of the value of the surplus assets cannot be brought into the employer's financial statements. This is because SSL is not expected to be able to make use of all the surplus assets for its future employer contributions due to the current size of SSRF's membership.

Notes to the Financial Statements

For the 13 months ended 31 December 2018

21 Policyholder Liabilities (Assets)

The following disclosures relate to the Branch's recognised policyholder assets:

$ millions	31 December 2018	30 November 2017
Opening insurance contract liabilities	21	20
Movement in insurance contract liabilities - Insurance contracts	10	(9)
Movement in insurance contract liabilities - Investment contracts	1	-
Movement through income statement	32	(9)
Movement in deferred tax	3	10
Closing insurance contract liabilities	35	21
Closing insurance contract liabilities contain the following components:		
Insurance contracts		
Future premiums	(1,093)	(942)
Future policy benefits	705	579
Future expenses	362	255
Planned margin	55	124
Insurance contract liabilities	29	16
Investment contracts		
Future insurance contract benefits	6	6
Investment contract liabilities	6	6
Net insurance contract liabilities including deferred tax and reinsurance	35	22
Assets/(liabilities) arising from reinsurance contracts		
Balance at 1 December	(2)	(1)
Movement through income statement	(13)	(1)
Balance at 31 December / 30 November	(15)	(2)
Deferred tax	(78)	(76)
Total insurance contract (assets)/ liabilities excluding deferred tax and reinsurance	(58)	(56)
Analysed as:		
Current	4	5
Non current	(62)	(61)
	(58)	(56)

Life insurance and life investment contract liabilities

The following disclosures relate to Sovereign's recognised life insurance and life investment contract liabilities

$ millions	Life insurance contracts 31 December 2018	Life investment contract liabilities 31 December 2018
Reconciliation of movements in policy liabilities		
Balance at the beginning of the period	73	710
Decrease in liabilities recognised in the income statement, excluding reinsurance and deferred fee income reserve	(47)	(22)
Investment contract fees	-	(8)
Decrease in deferred fee income reserve recognised in the income statement	-	(1)
Deposit premium recognised as an increase in policy liabilities	-	9
Claims recognised as a decrease in policy liabilities	-	(42)
Total policy liabilities	26	646

$ millions	Life insurance contracts Under one year	Between one and five years	Greater than five years	Total
Expected realisation maturity analysis				
Expected realisation of policy liabilities as at 31 December 2018	(26)	(194)	246	26

The maturity value of life investment contract liabilities is determined by the fair value of the linked assets at maturity date. Refer to note 35 for a contractual maturity analysis of life investment contract liabilities.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

Life insurance and life investment contract liabilities (continued)

The following table provides information on the net of liabilities ceded under reinsurance, $33mil and liabilities arising from reinsurance contract, $708mil.

$ millions	Life insurance contracts 31 December 2018	Life investment contracts 31 December 2018
Liabilities ceded under reinsurance		
Balance at the beginning of the period	10	-
Decrease in liabilities ceded under reinsurance recognised in the Income Statement	(685)	-
Total liabilities ceded under reinsurance	(675)	-
Maturity analysis		
Under one year	(38)	-
Greater than one year	(637)	-
	(675)	-

$ millions	Life insurance contracts 31 December 2018
Policy liabilities related to guarantees	
Policy liabilities with a discretionary participation feature	664
Valuation of policy liabilities	
Cash flows net of tax:	
Future policy benefits	8,606
Future bonuses	41
Future expenses	3,402
Future planned margins of revenue over expenses	1,326
Future premiums	(12,866)
Unvested policyholder benefits	72
Deferred tax gross up	(555)
Total policy liabilities	26

Life investment contract policy liabilities with an investment performance guarantee at 31 December 2018 were $6 million

Life insurance contract liabilities future net cash inflows	
Under one year	151
Between one and five years	512
Greater than five years	2,615
	3,278

The table above shows the estimated timing of undiscounted future net cash flows resulting from life insurance contract liabilities. This includes estimated future surrenders, claims and maturity benefits, and bonuses, offset by expected future premiums and reinsurance recoveries. All values are undiscounted to the reporting date using the assumed future investment earning rate for each product.

Reconciliation of amounts recognised within the Income Statement to information within the above note

$ millions	31 December 2018	30 November 2017
Life insurance contract liabilities		
The Branch		
Movement in insurance contract liabilities	10	9
Sovereign		
Movement in insurance contract liabilities excluding reinsurance and deferred fee income reserve	(47)	-
Movement in liabilities ceded under reinsurance	685	-
	648	9
Life investment contract liabilities		
The Branch		
Movement in investment contract liabilities	1	-
Sovereign		
Movement in investment contract liabilities excluding reinsurance and deferred fee income reserve	(22)	
Movement in deferred fee income reserve	(1)	
	(22)	-

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Notes to the Financial Statements

For the six months ended 31 December 2018

22 Trade and other payables

$ millions	31 December 2018	30 November 2017
Outstanding claims	65	8
Expense creditors	13	-
Prepaid premiums	11	1
Employee benefits	9	-
Investment creditors	5	-
Agent balances	6	-
Amounts due to reinsurers	36	12
Amounts due to related parties	11	-
Other payables and accruals	5	7
Total trade and other payables	161	28

As at 31 December 2018 all trade and other payables have an expected settlement date of less than 12 months, with the exception of $2m long term employee benefits (30 November 2017 $Nil).

A maturity analysis of current and non-current financial liabilities is presented in note 36.

23 Share based compensation

During the period ended 31 December 2018, AIA NZ made further awards of restricted share units (RSUs) to certain employees, directors and officers under the Restricted Share Unit Scheme (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 Group during the retrospective 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 the 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 the scheme is 301,100,000 representing approximately 2.5 per cent of the number of shares on issue of AIAGL at 31 December 2018.

	Number of Shares 13 months to 31 December 2018	Number of Shares 12 months to 30 November 2017
Restricted share units		
Outstanding at beginning of financial period/year	46,592	179,834
Granted	30,918	27,490
Vested or exercised	(19,966)	(54,617)
Transfer in	-	-
Forfeited or expired	(26,389)	(106,115)
Outstanding at end of financial period/year	31,155	46,592

Share Option Scheme

The objectives of the Share Option (SO) Scheme is 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 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 31 December 2018.

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

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Notes to the Financial Statements

For the six months ended 31 December 2018

23 Share Based Compensation *(continued)*

$	Number of Share Options	Weighted average exercise price	Number of Share Options	Weighted average exercise price
	13 months to 31 December 2018		12 months to 30 November 2017	
Share Options		HKD$		HKD$
Outstanding at beginning of financial period/year	-	-	32,219	-
Granted	-	-	-	41.90
Exercised	-	-	-	-
Transfer out	-	-	(32,219)	-
Cancelled	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at end of financial period/year	-	-	-	41.90
Share options exercisable at end of financial period/year			-	-
Weighted average remaining contractual life (years)			-	-

No share options were outstanding as of 31 December 2018 and 30 November 2017

Employee Share Purchase Plan (ESPP)

Under the plan, eligible employees of the Group can purchase ordinary shares of AIA Group Limited (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 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 period ended 31 December 2018, eligible employees of the Group paid NZD $124,719 (30 November 2017: $85,393) to purchase 20,204 ordinary shares (30 November 2017: 9,847 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 Group's employees. The estimate of market condition for performance based RSUs is based on one-year historical data preceding the grant date.

Year ended 31 December 2018	Share options	Restricted share units	ESPP Restricted stock purchase units
Risk-free interest rate	2.33%	2.11%	1.35% - 2.27%
Volatility	20.00%	20.00%	20.00%
Dividend yield	1.50%	1.50%	1.80%
Exercise price (HK$)	N/A	-	-
Option life (in years)	N/A	-	-
Expected life (in years)	N/A	-	-
Weighted average fair value per option / unit at measurement date (H	-	-	61.97

Year ended 30 November 2017	Share options	Restricted share units	ESPP Restricted stock purchase units
Risk-free interest rate	1.45%	0.83%	0.68% - 1.29%
Volatility	20.00%	20.00%	20.00%
Dividend yield	1.80%	1.80%	1.80%
Exercise price (HK$)	N/A	N/A	N/A
Option life (in years)	N/A	N/A	N/A
Expected life (in years)	N/A	N/A	N/A
Weighted average fair value per option / unit at measurement date (H	N/A	37.64	

Notes to the Financial Statements

For the 13 months ended 31 December 2018

23 Share Based Compensation *(continued)*

The weighted average share price for share option valuation for grants made during the period ended 31 December 2018 is not applicable as all the options were forfeited. (2017· HK$41.90).

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various snare-based compensation awards granted under the RSU Scheme and ESPP for the period ended 31 December 2018 is $153,152 (30 November 2017 $(145,143)). No compensation cost was recognised in 2018 or 2017 for the SO Scheme.

24 Directors and Key Management Personnel

$ millions	31 December 2018	30 November 2017
Short term employee benefits	7	2
Directors fees	-	-
Terminations	1	1
Share based compensation (refund)/payments	-	-
Total directors and key management personnel compensation	8	3
Provisions for short term benefits	2	-
Provisions for long term benefits	1	-

Key management personnel are defined as members of the executive leadership team.

Executives in AIA Australia perform certain functions for the Group The compensation to these executives is paid by AIA Australia, which makes no recharge to the Group.

Information in relation to Share based compensation for Directors and Key Management personnel is disclosed in note 23.

25 Deferred Taxation Liability

$ millions	31 December 2018	30 November 2017
Balance at beginning of year	583	50
Recognised in the income statement	22	5
Recognised in shareholders' equity	-	-
Total deferred taxation liability	605	55
Deferred taxation relates to:		
Life insurance and life investment contract liabilities	631	76
Losses available for offset against future taxable income	(28)	(21)
Other	2	-
Total deferred taxation liability	605	55
Deferred taxation recognised in the income statement:		
Life insurance and life investment contract liabilities	28	11
Losses available for offset against future taxable income	(8)	(6)
Other	2	-
Total deferred taxation recognised in the income statement	22	5

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 for the Group of $631 m (2017 $76m) included in the deferred tax liabilities balance represents taxable temporary differences which are implicitly embedded within policyholder liabilities.

The Group has recognised a deferred tax asset resulting from tax losses in the period. The Group 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.

26 Contributed Capital

$ millions	December 2018
Issued ordinary share capital	
Balance at beginning of year	-
Acquisition of Sovereign	1,080
Share buyback	(460)
Balance at end of year	620

Share capital consists of 30,000,100 ordinary shares paid to $1.00 and 105,000,000 ordinary shares paid to $10.00 and 10,000,000 unpaid ordinary shares. On 31 August 2018, the Company brought back 61,830,000 shares for $460,000,000; being $7.44 per share. Share capital at 31 December comprises 73,170,100 ordinary shares paid to $8.47 and 10,000,000 unpaid ordinary shares.

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

No dividend was paid during the year ended 31 December 2018 (30 November 2017 $Nil).

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.

27 Capital Management

Sovereign

The objectives of Sovereign with regard to the management of capital adequacy are

(i) maintain a level of target surplus for SACL which creates a buffer over minimum regulatory capital while still allowing for efficient use of capital;

(ii) maintain a strong capital base to cover the inherent risks of the business; and

(iii) support the future development and growth of the business to maximise shareholder value.

The SACL Board has ultimate responsibility for compliance with the solvency standard and managing capital. The SACL Board approves the capital policy and minimum capital levels and limits. Minimum capital levels are set based on maintaining a target surplus in excess of solvency margin requirements under the Solvency Standard for Life Insurance Business issued in accordance with IPSA. Under its licence, the RBNZ requires to hold a solvency margin of at least $0 (30 June 2017 $0) for each life fund. SACL operates two life funds; the Statutory Fund and the Other Fund.

If the SACL Board has reasonable grounds to believe that a failure to maintain a solvency margin in either life fund is likely to occur at any time within the next 3 years, the likely failure must be reported to the RBNZ as soon as is reasonably practicable. Compliance with these requirements is a continuous obligation. As a minimum, calculations must be undertaken twice a year, at six monthly intervals, and reported to the RBNZ.

Target surplus is a capital buffer held on top of regulatory requirements to ensure the likelihood of a breach of regulatory requirements is at a level consistent with SACL's risk appetite. The level of target surplus takes account of management assessments of actual risk and forecasts/stress testing of future capital requirements. The Board Audit and Risk Committee (BARC) approves the methodology and basis for determining target surplus.

The solvency position of Sovereign for the two life funds is as follows:

$ millions	Sovereign Statutory Fund	Sovereign Other Fund	Total
As at 31 December 2018			
Actual solvency capital	128	123	251
Minimum solvency capital	-	105	105
Solvency margin	128	18	146
Solvency ratio	N/A	117%	240%

Refer to note 34 for the Branch capital management and solvency position.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

28 Related Party Transactions and Balances

During the period ended 31 December 2018, the Group has entered into, or had in place, financial transactions with the following reporting entities:

a) Immediate and ultimate controlling party

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

b) Key management personel

Key management personnel have been identified as members of the New Zealand Group executive committee. More information for key management personel in note 24

c) Share based compensation

Information on share based compensation is outlined in note 23.

d) Transactions with related parties

The Group 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 reporting period with the related parties are as follows:

$ millions	31 December 2018	30 November 2017
AIA International (Parent)		
Share based compensation (refunds) / payments)	-	-
Other administrative fees	2	1
	2	1
Other related parties of AIA Group		
Data processing	1	1
Actuarial fees	1	1
Reinsurance premiums	29	10
Reinsurance commission income	(31)	(14)
Reinsurance claims recoveries	(7)	(1)
Other administrative fees	1	1
Paid to AIA Australia for recharge costs of group integration	8	-
	2	(2)

Refer to the Statement of Changes in Equity and note 26 for details of dividends paid and share buy back to the shareholder of Sovereign.

29 Leasing commitments and capital commitments

$ millions	31 December 2018	30 November 2017
The Branch		
The following non-cancellable operating lease commitments existed at the end of the year:		
Within one year	2	1
Between one and five years	1	4
Over five years	1	1
Total leasing commitments	4	6

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.

Sovereign		
The following non-cancellable operating lease commitments existed at the end of the year:		
Within one year	5	-
Between one and five years	18	-
Over five years	9	-
Total leasing commitments	32	-

All of the Sovereign's leases are classified as operating leases as a significant portion of the risks and rewards of ownership are retained by the lessor. Refer note 2 on how NZ IFRS 16 will impact leases when implemented on 1 January 2019.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

30 Fair Value of Financial Instruments

The Group's financial assets and financial liabilities are measured on an on-going basis either at fair value or amortised cost.

The fair value of a financial instrument is the price that would be received to sell a financial asset, or paid to transfer a financial liability, in an orderly transaction between market participants at the measurement date.

A significant number of financial instruments are carried on the statement of financial position at fair value. The best evidence of fair value is a quoted market price in an active market Therefore, where possible, fair value is based on quoted market prices. Where a quoted market price for a financial instrument is not available, its fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in limited instances, rely on inputs which are unobservable but are reasonable assumptions based on market conditions.

There are three levels in the hierarchy of fair value measurements which are based on the inputs used to measure fair values:

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities that the Group can access Level 1 assets comprise:
  Equity and property securities measured based on the bid market price quoted by the stock exchange
  External fund certificates measured based on the unadjusted unit price provided from the fund manager.
  Bank bonds and government bonds measured based on a quoted bid market price or third party pricing information.
- Level 2: where quoted market prices are not available, fair values have been estimated using present value or other valuation techniques using inputs that are observable for the financial asset or financial liability, either directly or indirectly. Level 2 assets comprise:
  External fund certificates measured based on the most recently available unit price from the fund manager at the time of valuation, adjusted appropriately using market observable benchmarks to accurately reflect the fair value.
  Corporate bonds measured based on third party pricing information.
  Held for trading foreign exchange contracts measured based on market observable foreign currency inputs sourced from third party pricing information.
- Level 3: Fair values are estimated using inputs that are unobservable for the financial asset or financial liability.

(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			
$ millions	Loans and Receivables	Designated at Fair Value through the Profit and Loss	Financial Liabilities at Amortised Cost	Total	Level 1	Level 2	Level 3	Total
31 December 2018								
Financial assets measured at fair value								
Medium term notes	-	161	-	161	-	161	-	161
Securities								
Equity securities and fund certificates	-	604		604	197	407	-	604
Fixed interest securities	-	1,153		1,153	1,139	14	-	1,153
Property securities	-	64		64	64	-	-	64
Derivative assets	-	4	-	4	-	4	-	4
	-	1,986	-	1,986	1,400	586	-	1,986
Financial Assets not measured at Fair Value								
Cash and cash equivalents	369	-	-	369				
Trade and other receivables	133	-	-	133				
	502	-	-	502				
Financial Liabilities measured at Fair Value								
Life investment contracts liabilities	-	646	-	646	-	646	-	646
Insurance contract liabilities - investment contracts	-	6	-	6	-	-	6	6
Derivative liabilities	-	2	-	2	-	2	-	2
	-	654	-	654	-	648	6	654
Financial Liabilities not measured at Fair Value								
Trade and other payables	-	-	131	131				
Outstanding claims provision	-	-	9	9				
Other financial liabilities	-	-	2	2				
	-	-	142	142				

Notes to the Financial Statements

For the 13 months ended 31 December 2018

30 Fair Value of Financial Instruments (continued)

$ millions	Loans and Receivables	Designated at Fair Value through the Profit and Loss	Financial Liabilities at Amortised Cost	Total	Level 1	Level 2	Level 3	Total
30 November 2017								
Financial Assets measured at Fair Value								
Annuity Bonds	-	3	-	3	-	3	-	3
Medium Term Notes	-	159	-	159	-	159	-	159
	-	162	-	162	-	162	-	162
Financial Assets not measured at Fair Value								
Cash and Cash equivalents	16	-	-	16				
Trade and other receivables	20	-	-	20				
	36	-	-	36				
Financial Liabilities measured at Fair Value								
Policyholders Liabilities -	-	6	-	6			6	6
	-	6	-	6	-	-	6	6
Financial Liabilities not measured at Fair Value								
Trade and other payables	-	-	19	19				
Outstanding claims provision	-	-	8	8				
Other financial liabilities	-	-	5	5				
	-	-	32	32				

Notes to the Financial Statements

For the 13 months ended 31 December 2018

31 Categories of Financial Instruments

The following tables summarise the carrying amounts and fair values of categories of financial assets and financial liabilities. Refer to note 2(f) for a description of the categories and how fair values are estimated.

$ millions	At Fair Value through Income Statement		At Amortised Cost			
	Held for Trading	Designated on Initial Recognition	Loans and Receivables	Financial Liabilities	Total	Fair Value
As at 31 December 2018						
Financial assets						
Cash and cash equivalents	-	-	369	-	369	369
Trade and other receivables	-	-	133	-	133	133
Securities	-	1,821	-	-	1,821	1,821
Medium term notes	-	161	-	-	161	161
Derivative assets	4	-	-	-	4	4
Total financial assets	4	1,982	502	-	2,488	2,488
Financial liabilities						
Trade and other payables	-	-	-	131	131	131
Outstanding claims provision	-	-	-	9	9	9
Other financial liabilities	-	-	-	2	2	2
Life investment contracts	-	646	-	-	646	646
Policyholders Liabilities - Investment Contracts	-	6	-	-	6	6
Derivative liabilities	2	-	-	-	2	2
Total financial liabilities	2	652	-	142	796	796
As at 30 November 2017						
Financial assets						
Cash and cash equivalents	-	-	16	-	16	16
Trade and other receivables	-	-	20	-	20	20
Annuity bonds	-	3	-	-	3	3
Medium term notes	-	159	-	-	159	159
Total financial assets	-	162	36	-	198	198
Financial liabilities						
Trade and other payables	-	-	-	19	19	19
Outstanding claims provision	-	-	-	8	8	8
Other financial liabilities	-	-	-	5	5	5
Policyholders Liabilities - Investment Contracts	-	6	-	-	6	6
Total financial liabilities	-	6	-	32	38	38

Notes to the Financial Statements

For the 13 months ended 31 December 2018

32 Asset Quality

The Group has no material impaired or past due assets Only current period data is reported

Credit Quality of Financial Assets that are not Past Due or Impaired

Cash and Cash Equivalents

The Standard and Poors (S&P) credit ratings for the Group's major cash holdings are.

	31 December 2018
ASB Bank Limited	AA-
Westpac New Zealand Limited	AA-
ANZ Bank New Zealand Limited	AA-
Citibank NA	A+

Securities

The Group holds fixed interest securities issued by counterparties with the following S&P credit ratings:

$ millions	31 December 2018 Investment-linked*	31 December 2018 Non-Linked	31 December 2018 Total	30 November 2017 Total
Ratings				
AAA	-	4	4	-
AA+	28	1,079	1,107	2
AA	2	39	41	9
AA-	15	72	87	87
A+	2	5	7	13
A	1	9	10	-
A-	2	33	35	27
BBB+	-	7	7	5
BBB	-	12	12	13
Non-rated	-	4	4	6
Total fixed interest securities	50	1,264	1,314	162

* For Investment-linked assets, the liability to policyholders is linked to the performance of and value of the assets that back these liabilities. The shareholder has no direct exposure to any risk in the assets which back these liabilities.

Credit ratings are not provided for equity and property securities because they are not subject to credit risk.

Derivative Financial Instruments

The counterparty for Sovereign's derivative financial instruments at balance date is ASB Bank Limited.

Investment Receivables

This balance comprises outstanding sales, accrued interest, and outstanding dividends. All outstanding sales have subsequently been settled. The credit ratings of counterparties for which accrued interest arises are disclosed in the table above. Credit risk associated with outstanding dividends is deemed to be negligible.

Outstanding Premiums

Outstanding premiums are primarily aged less than 90 days, and in the case of participating policies, have surrender values that are equal to or greater than the premium amount outstanding.

Amounts Due from Reinsurers

The credit ratings for the Group's major reinsurers are

As at 31 December 2018	Rating Agency	31 December 2018
General Reinsurance Life Australia Limited	S&P	AA+
RGA Reinsurance Company of Australia Limited	S&P	AA-
Swiss Re Life and Health (Australia) Limited	S&P	AA-
Munich Reinsurance Company of Australasia Limited	S&P	AA-
Lloyd's	S&P	A+
Assicurazioni Generali S.P.A.	AM Best	A
AIA Reinsurance Limited	S&P	AA-

Notes to the Financial Statements

For the 13 months ended 31 December 2018

33 Disaggregated Information

The Branch

NZ IFRS 4 requires a life insurer to disclose disaggregated information for each life fund, as defined in the solvency standards under IPSA. Disaggregated information for major components of the Branch's life funds are presented below.

Both the Branch and Sovereign maintain separate and distinct life funds. In order to provide the users of these financial statements relevant information, this note has been prepared to report both the Branch and Sovereign dissaggregated information separately.

From 1 July 2013 under the Insurance (Prudential Supervision) Act 2010 ("IPSA") the Branch 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 the Branch.

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 NZ Branch Statutory Fund			Other Fund
$ millions	Insurance contracts	Investment contracts	Total	
As at 31 December 2018				
Cash and cash equivalents	4	-	4	4
Investment assets	141	6	147	14
Insurance contract (liabilities) / assets	34	(6)	28	29
Other assets	60	-	60	4
	239	-	239	51
Liabilities other than insurance contract liabilities	114	-	114	11
Retained profits attributable to head office	125	-	125	40
	239	-	239	51
Premium revenue from insurance contracts	149	-	149	23
Outward reinsurance expense (net of commission)	(44)	-	(44)	-
Investment income	6	-	6	-
Claims expense	(81)	-	(81)	(14)
Reinsurance recovery revenue	55	-	55	-
Management and sales expenses	(80)	-	(80)	(5)
Investment income paid or allocated to policyholders	(17)	-	(17)	6
Profit before taxation	(12)	-	(12)	10
Income tax expense	-	-	-	2
Profit after taxation for the period	(12)	-	(12)	8
Net distributions made from funds	-	-	-	-
As at 30 November 2017				
Cash and cash equivalents	7	-	7	8
Investment assets	150	6	156	6
Policyholder assets	39	(6)	33	23
Other assets	46	-	46	4
	242	-	242	41
Life insurance contract liabilities	105	-	105	-
Life investment contract liabilities	-	-	-	9
Retained profits/(losses) directly attributable to shareholders	137	-	137	32
	242	-	242	41

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Notes to the Financial Statements

33 Disaggregated Information (continued)

$ millions	AIA NZ Branch Statutory Fund Life Insurance contracts	Life Investment contracts	Total	Other Fund
As at 30 November 2017				
Premium revenue from insurance contracts	125	-	125	18
Outward reinsurance expense (net of commission)	(36)	-	(36)	-
Investment income	8	-	8	-
Claims expense	(59)	-	(59)	(11)
Reinsurance recovery revenue	28	-	28	-
Management and sales expenses	(70)	-	(70)	(4)
Movement in policyholder liabilities	8	-	8	1
Profit before taxation	4	-	4	4
Income tax expense	4	-	4	-
Profit after taxation for the period	-	-	-	4
Net distributions made from funds	-	-	-	-

IPSA requires a life insurer to allocate the operating profit or loss of a statutory fund or a category of business of a statutory fund. The regulations define two categories of business: participating business and non-participating business. AIA NZ classifies all its life insurance business as participating business or non-participating business in order to ensure the appropriate allocation of profit, as shown below:

Sovereign

NZ IFRS 4 requires a life insurer to disclose disaggregated information for each life fund, as defined in the solvency standards under IPSA. Disaggregated information for major components of SACL's life funds are presented in the tables below.

$ millions	Sovereign Statutory Fund Life Insurance contracts	Life Investment contracts	Total	Other Fund
For the 6 months ended 31 December 2018				
Premium income	318	1	319	46
Investment income	25	(23)	2	2
Claims expense	193	-	193	31
Other operating expenses	128	4	132	15
Investment income paid or allocated to policyholders	9	(23)	(14)	-
Net profit before tax	38	4	42	11
Net profit after tax	14	3	17	8
Net distributions made from funds	(462)	-	(462)	2

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

33 Disaggregated Information (continued)

$ millions	Sovereign Statutory Fund			Other Fund
	Life insurance contracts	Life investment contracts	Total	
As at 31 December 2018				
Life insurance contract liabilities/(assets)	145	-	145	(119)
Life investment contract liabilities	-	646	646	-
Other liabilities	646	(9)	637	743
Retained profits/(losses) directly attributable to shareholders	(250)	5	(245)	(7)
Investment assets	1,279	542	1,821	-
Other assets	(358)	803	445	74

IPSA requires a life insurer to allocate the operating profit or loss of a statutory fund or a category of business of a statutory fund. The regulations define two categories of business: participating business and non-participating business. Sovereign classifies all its life insurance business as participating business or non-participating business in order to ensure the appropriate allocation of profit, as shown below:

For the 6 months ended 31 December 2018				
Participating net profit after tax	1	-	1	-
Non-participating net profit after tax	13	3	16	8
Net profit allocated to shareholders	14	3	17	8

34 Risk Management Policies - The Branch

The Branch operates risk management policies in accordance with AIAGL policies and procedures.

The financial condition and operating results of the Branch is 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 depending on the nature of the risk. The Branch'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 does not enter into or trade financial instruments including derivative financial instruments for speculative purposes.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

34 Risk Management Policies - The Branch (continued)

(i) *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.

The fair value of a financial asset is normally the transaction price i.e. the amount of consideration given or received. A clean price is used as the fair value for a bond or a fixed income security. The accrued interest between coupon dates is subtracted from the fair value and accounted for as accrued interest (refer to note 8) separately. The fair value included above therefore excludes an interest accrued component.

Investments classified as level 1 comprise shares in listed companies Fair value of these investments is based on quoted prices in active markets. The Branch did not have any level 1 investment assets at reporting date. (2017: nil).

Investments classified as level 2 comprise debt securities (bonds) and represents 100% of total assets at fair value. The fair values 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 (i.e. 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	31 December 2018	30 November 2017
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%
Assumed credit rating	6.00%	6.00%
Discount rate, net of investment related expenses	2.84%	3.50%
Discount rate, net of investment related expenses (net	2.04%	2.52%

Future policy cash flows are projected with client account balances augmented each period 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 Investment management expense is also deducted from the discount rate by 0.17% 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:

	Policy Liabilities - Investment Contracts	
$ thousands	31 December 2018	30 November 2017
Opening Balance	5,759	5,472
Fair Value movements recognised in the statement of Comprehensive Income	328	29
Investment income net of taxes and expenses	260	243
Contributions received	126	67
Withdrawals	(215)	(52)
Closing Balance	6,257	5,759

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 31 December 2018.

	Profit after tax and equity Increase/(decrease)	
$ thousands **Variations**	31 December 2018	30 November 2017
Interest rates + 1%	570	480
Interest rates - 1%	(640)	(550)
Surrenders + 10%	190	150
Surrenders - 10%	(230)	[illegible]

Notes to the Financial Statements

For the 13 months ended 31 December 2018

34 Risk Management Policies - The Branch (Continued)

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 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 exposure to foreign exchange risk arises primarily with respect to the Australian dollar (AUD).

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

$ in millions	**31 December 2018**		30 November 2017	
	$AU	**$**	$AU	$
Annuity Bonds	-	-	2	3

Foreign currency sensitivity

Based on the financial instruments held at 31 December 2018, had the New Zealand dollar strengthened / weakened by 5% against the AUD with all other variables held constant, the Branch's profit after tax and equity would have been $130,755 lower / $130,755 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's exposure to other foreign exchange movements is not material.

(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 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 31 December 2018, if interest had changed by -/+ 1% from the year end rates with all other variables held constant, profit/loss after tax and equity for the period would have been $56,934 lower/higher (2017: $102,266 lower/higher) for the Branch.

Sensitivity of fixed interest rate investments

At 31 December 2018, if interest rate had changed by -/+ 1% from the year end rates with all other variables held constant, the profit and loss and equity would have been $3,577,914 higher / $3,367,217 lower (2017: $4,138,741 higher / $4,138,741 lower) for the Branch.

(iii) Price risk

The Branch'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 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 AIA 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 financial liabilities of the Branch into relevant maturity groups based on the remaining period of reporting date to contractual maturity date is reported under note 36.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

34 Risk Management Policies - The Branch (Continued)

(v) Credit risk

Credit risk which the Branch has 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 is exposed to credit risk are:

- Cash and cash equivalents;
- Counterparty risk with respect to debt securities;
- Reinsurers' share of insurance liabilities;
- Loans and receivables.

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 Group in Hong Kong, who performs this function for all companies within the AIA Group. Every new treaty and amendment requires sign-off by the AIA Group Enterprise Risk Management, except for treaties with pre-approved reinsurers and with a volume within stated limits set by AIA Group Enterprise Risk Management. The AIA 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 AIA Group in case of deterioration of an existing reinsurer's status.

Capital management

The Branch manages its capital to ensure that the Branch 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 The capital structure of the Branch 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 reporting period the Branch 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 that solely relate to the life insurance business were allocated to the Statutory Fund upon inception. Further discussion in regard to the Statutory Fund is included in note 27.

The solvency capital of the Branch are presented below.

As at 31 December 2018

(Calculated in accordance with RBNZ requirements)	Branch	Statutory Fund	Non-Statutory Fund
$ in millions			
Actual solvency capital	97	60	37
Minimum solvency capital	66	40	27
Solvency Margin	31	20	10
Solvency Ratio	146%	152%	138%

As at 30 November 2017

(Calculated in accordance with RBNZ requirements)	Branch	Statutory Fund	Non-Statutory Fund
$ in millions			
Actual solvency capital	120	92	29
Minimum solvency capital	102	82	21
Solvency Margin	18	10	8
Solvency Ratio	117%	112%	138%

The basis of calculation of the solvency reserves for 2018 and comparative follows the requirements set out in the Reserve Bank of New Zealand "Solvency Standard for Life Insurance Business"

Notes to the Financial Statements

For the 13 months ended 31 December 2018

34 Risk Management Policies - The Branch (Continued)

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 (external and AIA Reinsurance Limited, a subsidiary of AIA Group) 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, a subsidiary of AIA Group 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 companies within the AIA Group 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 amounts of the related cash flows are dependent. Refer to Note 20 for the details of methodology and assumptions in relation to insurance contract liabilities.

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

Operational and regulatory compliance risk

Operational risk is the potential loss resulting from inadequate or failed internal processes, people, and systems or from external 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 Executive Committee, AIA Australia and AIA Group in Hong Kong.

34 Risk Management Policies - Sovereign

Introduction

Sovereign is exposed to risk through its financial assets, financial liabilities, reinsurance assets and life insurance contract liabilities. Risk management policies focus on ensuring cash flows from assets are sufficient to fund obligations arising from life insurance and life investment contracts. The primary risks are those of insurance, credit, market, liquidity, operational and strategic business risk.

For Sovereign, the risk function is the responsibility of the Chief Risk Officer (CRO), who reports to the Chief Executive Officer. The risk management strategy is set by Sovereign' Board through the BARC. This committee comprises members of the Board and is chaired by an independent member of the Board. The CRO is responsible for implementation of risk management strategy and all executives have responsibility for the day to day management of risk across Sovereign.

Sovereign has management structures and information systems to manage individual risks, has separated risk initiation and monitoring tasks where feasible, and subjects all material systems to regular review. Periodic assessments of all risk management systems, key business processes and applications are undertaken by the internal audit function.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

34 Risk Management Policies - Sovereign (continued)

Sovereign conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables such as interest rate, currency rate, mortality, morbidity and inflation. The valuations included in the reported results and Sovereign's best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of Sovereign and as such represents a risk.

The sensitivity analysis in the risk categories that follow, is based on changes in economic conditions that are considered reasonably possible at the reporting date. The correlation of assumptions will have a significant effect in determining the ultimate profit impact, but to demonstrate the impact of a specific assumption change, modelling had to be done on the basis that all other assumptions were held constant.

The following sections describe the risk management framework components:

Operational and Strategic Business Risk

Operational risk is defined as the risk of economic gain or loss resulting from inadequate or failed internal processes and methodologies, people, systems or external events.

Strategic business risk is defined as the risk of economic gain or loss resulting from changes in the business environment caused by economic, competitive, social trend or regulatory factors.

Each business manager is responsible for the identification and assessment of these risks and for maintaining appropriate internal controls, and is supported by Sovereign's governance structures, operational risk management framework and operational risk policy.

Sovereign's operational risk measurement methodology combines expert assessment of individual risk exposures with internal loss data to determine potential losses and calculate operational risk economic capital.

Business Continuity Management

Business Continuity Management (BCM) within Sovereign involves the development, maintenance and testing of action plans to manage business disruption risk. This ensures that business processes continue with minimal adverse impact on customers, staff, products, services and brands.

BCM constitutes an essential component of Sovereign's risk management process by providing a controlled response to potential operational risks that could have a significant impact on Sovereign's critical processes and revenue streams. It includes both cost effective responses to mitigate the impact of risk events or disasters and crisis management plans to respond to crisis events.

A BCM programme including plan development, testing and education is in place across all divisions and includes technology disaster recovery planning.

Internal Audit

Sovereign was serviced by ASB's Audit & Assurance function up to completion of the Sale Transaction on 2 July. Following completion, the Audit & Assurance function will report to AIA's Head of Internal Audit for Australia and New Zealand.

Internal audit provides an independent assurance service designed to assist Sovereign in achieving its objectives by bringing a systematic and disciplined approach to improving the effectiveness of risk management systems, the framework of controls, and governance processes. Operational, compliance, financial and systems reviews of Sovereign's operations are performed based on an assessment of risk. The independent internal audit function is ultimately accountable to the Board through the BARC.

The BARC meets on a regular basis to consider financial reporting, internal control, and corporate governance issues. It reviews the interim and annual financial statements, the activities of the internal and external auditors and monitors the relationship between management and the external auditors.

Insurance Risk

Insurance risk is risk, other than financial risk, that is transferred from the holder of a contract to the issuer.

Sovereign's objectives in managing risks arising from insurance business are:

(i) To ensure insurance risk is managed in accordance with the principles set out in the Risk Appetite Statement. The Risk Appetite Statement describes Sovereign's tolerance and intolerance to key risks via a set of statements and principles.
(ii) To ensure that an appropriate return on capital is made in return for accepting insurance risk.
(iii) To ensure that strong internal controls are embedded within the business to mitigate underwriting risk.
(iv) To ensure that internal and external solvency and capital requirements are met.
(v) To use reinsurance as a component of insurance risk management strategy.

Variations in claim levels will affect reported profit and shareholders' equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

34 Risk Management Policies - Sovereign (continued)

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed. Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, retaining the right to amend premiums on risk policies where appropriate and through the use of reinsurance. The experience of the Sovereign's life insurance business is reviewed regularly

Concentrations of insurance risk arise due to:

- Large sums assured on certain individuals. The largest exposures all relate to mortality.
- Geographic concentrations due to employee group schemes. During the period ended 31 December 2018, Sovereign participated in the Colonial Mutual Life Assurance Society Limited (CMLA) catastrophe cover reinsurance programme which provides cover of AUD$90 million for single event claims in excess of AUD$20 million.
- Geographic concentrations due to a pandemic affecting lives in a certain country or region. During the period Sovereign cancelled its pandemic cover as a new reinsurance arrangement reduced the retained sum at risk significantly, making it extremely unlikely that the pandemic cover could ever be claimed upon.

Terms and conditions of life insurance contracts

The nature of terms of life insurance contracts written 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 these:

Type of contract	Detail of contract terms and conditions	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability, major medical)	Benefits paid on death, ill health or maturity that are fixed and guaranteed and not at the discretion of the issuer. Premiums may be guaranteed through the life of the contract, guaranteed for a specified term or	Benefits, defined by the life insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	- Mortality - Morbidity - Discontinuance rates
Life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed. Regular	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	- Mortality - Morbidity - Market risk - Discontinuance rates - Market returns on underlying assets
Life annuity contracts	These policies provide guaranteed regular payments to the life	The amount of the payment is set at inception of the policy.	- Longevity - Market returns on underlying assets

Sensitivity to insurance risk

Insurance risk is measured by using sensitivity analysis to show the effects on equity and profit. The below sensitivities are calculated based on all other assumptions remaining unchanged.

Mortality rates

For life insurance contracts, greater mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder's equity. This is offset by increased annuitant mortality which would reduce expected future annuity payments and therefore reduce life insurance contract liabilities.

Morbidity rates

The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration with which they remain ill. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders' equity.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

34 Risk Management Policies - Sovereign (continued)

Discontinuance

The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome to profits from an increase in discontinuance rates.

The table below illustrates the sensitivity of reported net profit and loss after tax and equity to changes in insurance risk assumptions:

$ millions		Change in following financial year's net profit after tax and shareholders' equity 31 December 2018	
Insurance Risk		**Before reinsurance**	**After reinsurance**
Mortality	Improvement by 10%	17	7
	Deteriotion by 10%	(22)	(13)
Morbidity	Improvement by 10%	9	4
	Deteriotion by 10%	(38)	(33)
Discontinuance	Improvement by 10%	9	1
	Deteriotion by 10%	(12)	(18)
Expenses	Increase by 10%	(3)	(3)
	Decrease by 10%	3	3

Credit Risk

Credit risk is the potential risk for loss arising from failure of a counterparty to meet their contractual obligations

Credit risk principally arises within Sovereign from investments of shareholder funds or funds where the shareholder participates in investment returns in cash and fixed interest securities, and reinsurer payment obligations Credit risk also arises from loans to agents, foreign currency contracts and trade receivables. No collateral exists for any of the securities held by Sovereign The maximum credit risk associated with each class of recognised financial asset held by Sovereign is the carrying value. Sovereign has a credit policy that covers the approval and management of all credit risk.

Investment concentrations for shareholder funds are managed within established guidelines and limits set by the Asset and Liability Committee (ALCO). Some criteria are referred to the BARC for approval. Guidelines and limits are set for security credit ratings and aggregate exposure to any single geographic region or counterparty as documented within the investment management agreement.

Reinsurance is entered into for the purpose of risk transfer. The credit risk inherent in reinsurance arrangements is managed by establishing minimum credit standards for reinsurers.

For investment linked contracts the investments credit risk is appropriate for each particular product and the risk is borne by the policyholder. There is no significant credit risk assumed by AIA NZ. The impact on the fair value of life investment contract liabilities due to changes in credit risk is nil (30 November 2017 nil), except to the extent that the market value of securities backing life investment contract liabilities is affected by changes in credit risk. Any such credit risk impact is reflected in the movement of securities balances during the year.

The credit ratings of counterparties are disclosed in note 32.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk is designed to ensure that Sovereign has the ability to meet its financial obligations as they

Sovereign manages this risk by holding a pool of readily tradable investment assets and deposits on call.

The maturity of life insurance and life investment contract liabilities are disclosed in notes 17 and 31 respectively.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk arises from the mismatch between assets and liabilities. Sovereign is exposed to market risk on diverse financial instruments including interest bearing assets, foreign currency investments, equities, and derivative instruments. For each distinct category of liabilities, a separate portfolio of assets is maintained and investment mandates are set that are appropriate for each.

A significant proportion of assets are held for investment linked policies where market risk is transferred to the policyholder. Sovereign earns fees on investment linked policies that are based on the amount of assets invested and it may receive lower fees should markets fall. Asset allocation for investment linked policies is decided in accordance with the policyholders' fund selections.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

34 Risk Management Policies - Sovereign (continued)

Market Risk (continued)

Market risk arises on discretionary participation business as these contracts have investment guarantees. Risk is mitigated by using an appropriate bonus / credit rate policy and a suitable growth / income investment allocation.

Market risk arises from returns obtained from investing the shareholders' funds held in Sovereign. Appropriate investment mandates are set by ALCO for the investment of shareholders' funds. As at 30 June 2018, shareholders' funds in Sovereign were invested 1% (30 June 2017 1%) in growth assets (equity and property) and 99% (30 June 2017 99%) in income assets (cash and fixed interest).

Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

(i) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates.

Sovereign does not fully hedge foreign currency denominated equity instruments. Adverse movements in currency rates relating to the New Zealand dollar will subsequently reduce the value of policyholder assets and liabilities.

Sovereign uses foreign currency forward contracts to mitigate its exposure to currency risk from foreign currency denominated investments. Global equity is hedged within the Collective Investment Vehicle (CIV). The hedge ratio benchmark for Global Equities in the CIV is 100%. All other equity and property investments denominated in foreign currency have a weighted average hedging ratio of 67% and fixed interest investments denominated in a foreign currency have a hedging ratio of 100%. All investments denominated in emerging market currencies are unhedged.

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fair value interest rate risk arises from the potential for a change in interest rates to cause a fluctuation in the fair value of financial instruments and the value of life insurance contract liabilities. Interest rate risk arises from the structure and characteristics of Sovereign's assets, liabilities and equity, and the mismatch in cash flows of its assets and liabilities. The objective is to manage the interest rate risk to achieve stable and sustainable net profit.

For fixed interest investments held to match fixed interest style products selected by policyholders, the interest rate risk is borne by the policyholder.

Interest rate risk also arises on risk contracts where negative policy liabilities (arising from the deferral of acquisition costs) are valued at current risk-free interest rates.

Cash flow interest rate risk is the potential for a change in interest rates to change interest expense and interest income in the current year and in future years.

Sovereign reduces interest rate risk by seeking to match the cash flows of assets and liabilities.

Depending on the profile of the investment portfolio, the investment income of AIA NZ will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder's equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.

(iii) Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

This risk is managed by ensuring a diverse range of investments, limits on counterparty exposure and restrictions on types of instruments.

Equity Prices

For life investment contracts and life insurance contracts with discretionary participation features, liabilities depend on the value of underlying assets. Equity price risk may be entirely borne by policyholders. However, Sovereign derives fee income based on the value of the underlying funds; hence revenues are always sensitive to changes in market value. For assets which are not contractually linked to policy liabilities, Sovereign is exposed to equity price risk.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

34 Risk Management Policies - Sovereign (continued)

Market Risk (continued)

Sensitivity to market risk

Market risk is measured by using sensitivity analysis to model changes in interest rates, equity values and foreign currency rates.

The table below illustrates the sensitivity of reported profit and loss after tax and equity to changes in market risk assumptions:

$ millions		Change in following financial year's profit after tax and shareholders' equity 13 months to 2018
Market risks		
Equity prices	Favourable by 10%	2
	Adverse by 10%	(2)
Interest rates	Increase of 100 bps	(3)
	Decrease of 100 bps	(9)

35 Derivative Financial Instruments

The Branch via Sovereign enters into derivative transactions which provide economic hedges for risk exposures but do not meet the accounting requirements for hedge accounting treatment. The Group enters into foreign currency forward contracts as economic hedges to manage currency risk (refer note 2(f)). Gains or losses on the forward contracts have been recorded in investment income with the gains or losses on the investments they have hedged

The forward currency contracts taken out do not exceed three months. At balance date these contracts have varying maturity dates.

Face and Fair Values

The face value is the contractual amount of the derivatives and provides a basis for comparison with instruments recognised on the statement of financial position. This amount is not exchanged and does not indicate the Group's exposure to credit risk. The amount predominantly acts as a reference value upon which the net settlements can be calculated and on which revaluation is based. The face value of derivative financial instruments on hand, the favourable or unfavourable market values of these instruments, and the consequent aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative financial instruments held by Sovereign are set out in the following table:

$ millions	31 December 2018	30 November 2017
Financial instruments subject to enforceable master netting agreements		
Forward contract assets	4	-
Total derivative financial assets	4	-
Forward contract liabilities	2	-
Total derivative financial liabilities	2	-
Total net derivative financial instruments *	2	-
Currency contracts face value		
Forward contract assets	129	-
Forward contract liabilities	141	-

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

36 Maturity Analysis of Financial Liabilities

The maturity analysis for the Group has been split out for the Branch and Sovereign as follows:

The Branch

$ millions	Weighted average interest rate %	Under 1 year	Over 1 year	Total	Carrying Value
As at 31 December 2018					
Trade and other payables	-	15	-	15	15
Outstanding Claims Provision	-	9	-	9	9
Other Financial Liabilities					
- Amounts due to related parties	-	2	-	2	2
Policy Holder liabilities - Investment Contracts	3.03%	-	9	9	6
		26	9	35	32
As at 30 November 2017					
Trade and other payables	-	19	-	19	19
Outstanding Claims Provision	-	8	-	8	8
Other Financial Liabilities					
- Amounts due to related parties	-	5	-	5	5
Policy Holder liabilities - Investment Contracts	3.53%	-	7	7	6
	0	32	7	39	38

The above analysis is summaries the financial liabilities of the Branch into relevant maturity groups based on the remaining period of reporting date to contractual maturity date. All amount disclosed are contracted undiscounted cash flows that include interest

Sovereign

$ millions	On Demand	Within 6 Months	Between 6 - 12 Months	Between 1 - 2 Years	Between 2 - 5 Years	Over 5 Years	Total	Carrying Value
As at 31 December 2018								
Non derivative financial liabilities								
Trade and other payables	16	95	-	-	-	5	116	116
Life investment contracts	644	-	-	-	-	-	644	646
	660	95	-	-	-	5	760	762
Derivative financial liabilities								
Inflows from derivatives	-	141	-	-	-	-	141	-
Outflows from derivatives	-	143	-	-	-	-	143	-
	-	284	-	-	-	-	284	-

37 Funds Under Management and Administration

The Group (under Sovereign) manages and administers investment products that are closed to new business. As at 31 December 2018 the Group had $644million funds under management and administration (30 November 2017 $Nil). The Branch utilises external fund managers and investment consultants in the management of these funds.

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Notes to the Financial Statements

For the 13 months ended 31 December 2018

38 Commitments and Contingencies

Commitments under operating leases

Total future aggregate minimum lease payments under non-cancellable are disclosed under note 29.

Refer to note 2 in relation to impact of NZ IFRS16 will have on leasing commitments that takes affect from 1 January 2019.

There are no material capital commitments at reporting date (2017: nil).

Contingent Liabilities

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

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

As part of the purchase agreement of Sovereign from CBA on 2 July 2018, Sovereign Assurance Company Limited entered into a Transitional Service Agreement (TSA) with CBA, whereby CBA would provide certain services to the Group until June 2019.

As at 31 December 2018 the Group believe that they may execute the option to extend the TSA agreement. As at the financial statement signing date it is believed that the extension of the TSA agreement would not have a material financial impact to the Group.

There is no other know material capital commitments or contingent liabilities at reporting date (30 November 2017: Nil).

39 Events after the Reporting Period

SACL executed a new reinsurance agreement on 7 January 2019 with an effective date of 31 December 2018. The impact of this new reinsurance agreement on the profit of the Group is forecasted to be immaterial.

There were no other events subsequent to the reporting period which would materially affect the financial statements. (2017: Nil).

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Independent auditor's report

To the Directors of AIA International Limited

We have audited the financial statements which comprise:

- the statement of financial position as at 31 December 2018;
- the income statement for the 13 month period then ended;
- the statement of comprehensive income for the 13 month period then ended;
- the statement of changes in equity and head office account for the 13 month period then ended;
- the statement of cash flows for the 13 month period then ended; and
- the notes to the financial statements, which include a statement of significant accounting policies.

Our opinion

In our opinion, the financial statements of AIA International Limited - New Zealand (the Group) present fairly, in all material respects, the financial position of the Group as at 31 December 2018, its financial performance and its cash flows for the 13 month period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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.

Our firm carries out other services for the Group in the areas of assurance and agreed upon procedures over the solvency return, other assurance services related to the acquisition of the Group on behalf of the parent company auditor and agreed upon procedures related to reinsurance. The provision of these other services has not impaired our independence as auditor of the Group. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Group, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and 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 Group'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 Group 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://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/

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 Group and the Directors of AIA International Lmiited, 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 Karl Deutschle.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
9 April 2019

Auckland

To the Directors of AIA International Limited

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 this capacity, I am providing a Section 78 report to accompany the New Zealand Group accounts (comprising AIA New Zealand, AIA Financial Services Network Limited and AIA Sovereign Limited including its subsidiary Sovereign Assurance Company Limited ("SACL"))

I have reviewed the actuarial information used in the Financial Statements and the calculation of the Solvency Margin for AIA New Zealand. I have completed this review for AIA New Zealand only. I note that Marco Welgemoed is the Appointed Actuary for SACL and is responsible for conducting any investigations into the actuarial information reflected in relation to SACL.

AIA New Zealand relies on an actuarial model that is managed by AIA Australia Limited. 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 RBNZ solvency returns for AIA New Zealand. My opinion on the financial position of AIA New Zealand is formed on the basis of the Audited Financial Statements of AIA New Zealand.

I have no other relationship with AIA New Zealand other than that of Appointed Actuary.

No limitations have been placed on me during the review of actuarial information and all information and explanations have been provided as required for my investigation, having appropriate regard for the size and nature of the business of AIA New Zealand.

In my opinion and from an actuarial perspective, 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 and from an actuarial perspective, at 31 December 2018 AIA New Zealand is maintaining the required solvency margin under the Insurance (Prudential Supervision) Act 2010.

Caroline Bennet
Appointed Actuary
Fellow of the Institute of Actuaries of Australia

30 April 2019