

**AIA International Limited - New Zealand
Branch**

Trading as AIA New Zealand

Financial Statements

**For the year ended
31 December 2019**

AIA International Limited - New Zealand Branch

FOR THE YEAR ENDED 31 DECEMBER 2019

Table of Contents

STATEMENT OF COMPREHENSIVE INCOME	3
STATEMENT OF FINANCIAL POSITION.....	4
STATEMENT OF CHANGES IN EQUITY AND HEAD OFFICE ACCOUNT	5
STATEMENT OF CASH FLOWS.....	6
1.1 GENERAL INFORMATION	7
1.2 BUSINESS OPERATIONS.....	7
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	8
3. UNDERLYING LOSS AFTER TAX FOR THE YEAR.....	20
4. NET INVESTMENT INCOME.....	21
5. NET CLAIMS EXPENSE	21
6. MANAGEMENT AND SALES EXPENSES.....	21
7. TAXATION.....	23
8. LOANS AND RECEIVABLES.....	24
9. CASH AND CASH EQUIVALENTS	25
10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	26
11. PLANT AND EQUIPMENT	27
12. INTANGIBLE ASSETS.....	28
13. RIGHT OF USE ASSETS, LEASE LIABILITIES AND LEASE RECEIVABLES	29
14. EMPLOYEE BENEFIT OBLIGATIONS	30
15. TRADE AND OTHER PAYABLES.....	31
16. SHARE BASED COMPENSATION	31
17. OTHER INSURANCE LIABILITIES	32
18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS	33
19. OTHER FINANCIAL LIABILITIES.....	40
20. ACTUARIAL POLICIES AND METHODS	41
21. INSURANCE CONTRACT ASSETS	45
22. DISAGGREGATED INFORMATION AND STATUTORY FUND.....	46
23. OWNERSHIP AND TRANSACTIONS WITH RELATED PARTIES	47
24. CAPITAL COMMITMENTS.....	49
25. CONTINGENT LIABILITIES	49
26. EVENTS OCCURRING AFTER BALANCE DATE.....	49
Auditor's Report	50

AIA International Limited - New Zealand Branch

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	Year ended 31 December 2019	Thirteen months ended 31 December 2018
		\$	\$
Revenue			
Premium revenue from insurance contracts		171,595,235	171,601,642
Less: Outward reinsurance expenses		(83,091,687)	(83,297,023)
Net premium revenue		88,503,548	88,304,619
Reinsurance commission income		18,355,921	39,266,390
Net investment income	4	4,617,018	7,164,553
Other income		281,491	21,340
Total revenue		111,757,978	134,756,902
Expenses			
Claims expense		84,335,841	95,884,482
Less: Reinsurance recoveries		(38,022,372)	(55,155,587)
Net claims expenses	5	46,313,469	40,728,895
Management and sales expenses	6	69,080,318	85,071,103
Movement in insurance contract asset	21	22,193,920	10,907,903
		137,587,707	136,707,901
Loss before taxation		(25,829,729)	(1,950,999)
Income tax expense	7	9,080,617	1,376,768
Loss after taxation and total comprehensive loss for the year/period	3	(34,910,346)	(3,327,767)

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

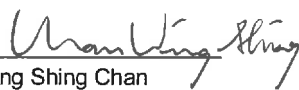
AIA International Limited - New Zealand Branch

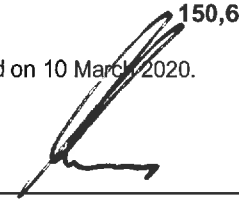
STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	31 December 2019 \$	31 December 2018 \$
Assets			
Cash and cash equivalents	9	6,359,356	7,907,486
Loans and receivables	8	30,883,961	31,471,886
Prepayments		975,620	865,637
Financial assets at fair value through profit or loss	10	179,592,890	160,534,320
Current tax asset		1,742,081	629,187
Property, plant and equipment	11	852,563	1,196,861
Intangible assets	12	4,178,934	5,471,395
Right-of-use assets	13	2,319,771	-
Finance lease receivables	13	671,919	-
Insurance contract assets	21	23,900,505	57,557,132
Total Assets		251,477,600	265,633,904
Liabilities			
Trade and other payables	15	13,779,266	15,476,860
Employee benefit obligations	14	3,140,186	4,024,618
Other insurance liabilities	17	10,931,918	10,654,132
Lease liabilities	13	3,151,208	-
Other financial liabilities	19	2,497,305	2,056,015
Liabilities arising from reinsurance contracts	21	2,856,217	14,318,924
Deferred tax liabilities	7	64,498,806	54,070,315
Total Liabilities		100,854,906	100,600,864
Net Assets		150,622,694	165,033,040
Equity and Head Office Account			
Head office account		150,622,694	165,033,040
Total Equity and Head Office Account		150,622,694	165,033,040

The Financial Statements were approved for issue by the Board on 10 March 2020.


Wing Shing Chan
Director


Garth Brian Jones
Director

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

AIA International Limited - New Zealand Branch

STATEMENT OF CHANGES IN EQUITY AND HEAD OFFICE ACCOUNT

For the year ended 31 December 2019

	Head office account	Total
Year ended 31 December 2019		
At the beginning of year	165,033,040	165,033,040
Loss after taxation and total comprehensive loss for the year	(34,910,346)	(34,910,346)
Capital injection	20,500,000	20,500,000
At the end of year	150,622,694	150,622,694
Period ended 31 December 2018		
At the beginning of period	168,360,807	168,360,807
Loss after taxation and total comprehensive income for the period	(3,327,767)	(3,327,767)
At the end of year	165,033,040	165,033,040

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	Year ended 31 December 2019	Thirteen months ended 31 December 2018
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		172,385,613	171,854,023
Interest received		6,901,469	8,633,080
Interest paid		(32,751)	-
Other income received		281,491	21,333
Reinsurance recoveries		36,445,304	44,537,186
Reinsurance paid		(67,153,661)	(44,105,101)
Policy loan advancements		(144,904)	(293,463)
Repayment of policy loans		259,707	147,405
Payments to suppliers and employees		(64,376,531)	(91,603,774)
Payments to policyholders		(84,309,939)	(94,615,322)
Income tax paid		103,409	-
Net cash provided by/(used in) operating activities	9(b)	359,207	(5,424,633)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales / maturity of financial assets		93,222,098	61,906,782
Acquisition of financial assets		(114,230,372)	(61,887,093)
Lease payments received from finance leases		157,997	-
Purchase of property, plant and equipment		(732,765)	(481,951)
Incurred development costs capitalised within intangible assets		(186,131)	(1,164,122)
Disposal of property, plant and equipment		93,080	300,022
Net cash used in investing activities		(21,676,093)	(1,326,362)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution received		20,500,000	-
Repayments of lease liabilities		(731,244)	-
Net cash provided by financing activities		19,768,756	-
Net (decrease) in cash and cash equivalents		(1,548,130)	(6,750,995)
Cash and cash equivalents at the beginning of the year/period		7,907,486	14,658,481
Cash and cash equivalents at the end of the period/year	9(a)	6,359,356	7,907,486

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

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

1.1 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 (AIAI). AIA International Limited is a wholly owned subsidiary of 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.

1.2 BUSINESS OPERATIONS

(a) Change in new business underwriting

On 2 July 2018 AIA International Limited, a subsidiary of AIA Group limited (AIAGL) completed the purchase of AIA Sovereign Limited and its subsidiaries ('Sovereign') from the Commonwealth Bank of Australia ('CBA'). Together with the AIA International Limited New Zealand Branch ('the Branch') and Financial Services Network Limited ('FSN'), they form the AIA International Limited - New Zealand Group ('the Group'). On 2 August 2019, the legal entity names of the Sovereign businesses were changed to reflect AIA branding, with Sovereign Assurance Company Limited being renamed AIA New Zealand Limited, and Sovereign Services Limited becoming AIA Services New Zealand Limited. On 5 August 2019, the Group launched a single market offering under the banner of AIA Living, integrating with the AIA Vitality product release. AIA Living products are underwritten by AIA New Zealand Limited and therefore from 5 August 2019 the Branch no longer underwrites any new retail business. Existing business continues within either the Branch, or the renamed AIA New Zealand Limited.

(b) Portfolio transfer

Effective 1 January 2020, a portfolio transfer occurred which moved all the insurance business of the Branch, including the statutory fund assets and any related assets and liabilities to AIA New Zealand Limited (formerly Sovereign Assurance Company Limited ('SACL')). Staff employment agreements, commercial contracts, intangible assets and related assets and liabilities moved to AIA Services New Zealand Limited (formerly Sovereign Services Limited ('SSL')), while all plant and equipment were transferred to Westside Properties Limited, a subsidiary of AIA New Zealand Limited. Post the transfer the Branch no longer holds any insurance business and the insurance license with the Reserve Bank of New Zealand (RBNZ) will be terminated.

Post the transfer the Branch no longer has continuing business operations. It retains only certain tax asset and liability balances in total valued at \$406,110 related to before 1 January 2020. It is expected that these will be settled with the Inland Revenue Department as part of an orderly wind-up process that will result in the Branch formally ceasing to exist as a legal entity.

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

Due to the portfolio transfer the Branch will have no continuing business operations from 1 January 2020. As a result, these financial statements have not been prepared on the going concern basis. As the assets and liabilities of the Branch will transfer to AIA New Zealand Limited at book value on 1 January 2020, the realisation basis of preparation has been used. Using the realisation basis to prepare the financial statements is not materially different than it would have been, had the going concern basis been used instead. The realisation basis for the Branch assets and liabilities as at 31 December 2019 is deemed to be the same as book value, due to the portfolio transfer.

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.

The functional and presentation currency is New Zealand dollars (NZD) rounded to the nearest dollar.

In 2018 the Branch changed its financial year end from 30 November to 31 December to align with AIA Group Limited. As a result, these audited financial statements are for a twelve-month period ended 31 December 2019 ('the year'), whereas the comparative period presented is for a thirteen (13) month period ended 31 December 2018 ('the period'). Therefore, the current and prior period presented are not directly comparable.

2.2 Accounting Standards Adopted in the Current Year

From 1 January 2019, the Branch has adopted three new standards: NZ IFRS 16 *Leases*, NZ IFRS 9 *Financial Instruments* and NZ IFRS 15 *Revenue from Contracts with Customers*.

a) NZ IFRS 16 *Leases*

NZ IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Branch's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Branch is 1 January 2019. The Branch has applied IFRS 16 using the cumulative catch-up approach. For more information on impact on transition, refer to the Lease note 13.

Impact on Lessee Accounting

Former operating leases

NZ IFRS 16 changes how the Branch accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying NZ IFRS 16, for all leases (except as noted below), the Branch:

- a) Recognises right-of-use assets and lease liabilities in the Statement of Financial Position, initially measured at the present value of future lease payments;
- b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the Statement of Comprehensive Income; and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Statement of Comprehensive Income.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under NZ IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under NZ IFRS 16, right-of-use assets are tested for impairment in accordance with NZ IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

On adoption of NZ IFRS 16, the Branch recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of NZ IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rates as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.18%.

On transition and in accordance with NZ IFRS 16 guidance, the Branch has applied the practical expedient to use a single discount rate for a portfolio of leases with similar characteristics, which in the Branch's case is based on the remaining term of each lease.

Former finance leases

The main difference between NZ IFRS 16 and NZ IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. As the Branch did not have any finance leases, this change did not have any effect on the consolidated financial statements.

Impact on Lessor Accounting

NZ IFRS 16 does not change substantially how a lessor accounts for leases. Under NZ IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, NZ IFRS 16 has changed and expanded the disclosures required, regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under NZ IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under NZ IAS 17). Because of this change, the Branch has reclassified all its sublease agreements as finance leases. Under NZ IFRS 9 an allowance for expected credit losses is required to be recognised on the finance lease receivables, however, as any loss would be considered immaterial the Branch has not recorded any allowance for expected credit losses relating to the lease receivables.

b) NZ IFRS 9 Financial Instruments

NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014, replacing NZ IAS 39.

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 loss model that replaces the incurred loss impairment model for financial assets used in NZ IAS 39.

For financial liabilities, the standard retains most of the NZ 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 New Zealand Accounting Standards Board (NZASB) made further changes to two areas of NZ 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 principle 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NZ IFRS 9 became mandatorily effective for financial periods beginning on or after 1 January 2018. The Branch has adopted NZ IFRS 9 for the current period starting 1 January 2019. Adoption of NZ IFRS 9 has not had a material impact to the Branch, only requiring changes in disclosures and presentation.

c) NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 addresses recognition of revenue from contracts with customers. NZ IFRS 15 replaces the current revenue recognition guidance in NZ IAS *Revenue* and NZ IAS *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. NZ IFRS 15 became mandatorily effective for financial periods beginning on or after 1 January 2018. The Branch has adopted NZ IFRS 15 for the current period starting 1 January 2019. Adoption of NZ IFRS 15 has had minimal impact on the financial position on the Branch as only a small portion of the Branch's revenue is within the scope of the new standard given most of the Branch's revenue recognition is determined by NZ IFRS 4 *Insurance Contracts*.

2.3 Principles Underlying the Conduct of Insurance Business

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

Insurance contracts

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

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

Investment contracts

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

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

2.4 Specific Accounting Policies

a) Premium revenue

Insurance contracts

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

Premiums are recognised as income when due from policyholders. Unpaid premiums are only recognised during the days of grace (a period 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2.4.o).

d) Other revenue

Other revenue 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.

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.

Provisions are 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.

Reclassification of sales and management expenses to claims

The Branch previously presented a specific item relating to claims experience refunds within sales and management expenses in error. In the current year this has been correctly presented under claims expense. Prior year comparatives as at 31 December 2018 have been restated by reclassifying \$309,204 from sales and management expenses to claims expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 assets (refer to note 2.4.v). These are then amortised over the period in which they will be recoverable.

DAC is amortised for insurance products over the expected life of the contracts. DAC recoverability test is performed implicitly within the insurance contract assets 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).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 AIAL, implied volatility, risk free interest rate, expected dividend rate and the expected life of the option.

Where modification or cancellation of an equity-settled share-based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met. Refer to note 16 for the details of share based compensation.

j) Other expenses

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

k) Taxation

Current tax

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

Deferred tax

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

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

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

Income tax for life insurance contracts

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 has been prepared on a GST exclusive basis.

l) Leases

As a lessee

The Branch assesses whether a contract is or contains a lease, at inception of the contract. The Branch recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Branch uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

As a lessor

When the Branch is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Branch's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Branch's net investment outstanding in respect of the leases.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Financial instruments

Basis of recognition and measurement

The Branch classifies financial instruments into one of the following categories at initial recognition: financial assets at Fair Value through Profit or Loss (FVPL), Amortised Cost, Fair Value through Other Comprehensive Income, financial liabilities at FVPL 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. NZ IFRS 9 requires entities to estimate and account for expected credit losses for all relevant financial assets that are not at fair value through profit and loss. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Given the nature of the Branch's financial assets not at FVPL, being primarily trade and other receivables, the Branch applies the Simplified Approach permitted by NZ IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. 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 right to receive cash flows from the financial assets have expired. Derecognition also occurs when the right to receive cash flows from financial assets have been transferred together with substantially all 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 Profit or Loss

Assets in this category are measured at fair value at inception and on an on-going basis.

Financial assets held by life insurance companies

These are recognised at fair value through the Statement of Comprehensive Income 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 income in the Statement of Comprehensive Income.

Amortised Cost

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 which include:

Cash and cash equivalents: includes bank current accounts and cash on deposit. Assets in this category are recognised at face value and interest is taken to the Statement of Comprehensive Income when earned.

Trade and Other Receivables: includes investment receivables, amounts due from related parties, amounts due from brokers, amounts due from reinsurers, finance lease receivables 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. NZ IFRS 9 introduces a change in the model to account for impairment to a forward-looking expected credit loss model (ECL) that results in losses recognised before an actual default event has taken place.

NZ IFRS 9 requires entities to estimate and account for expected credit losses (ECL) for all relevant financial assets not at fair value through the profit and loss (FVPL) as they are outside of scope of NZ IFRS 9. The Branch has adopted and applied the simplified model for ECL for all material financial assets not measured at FVPL, except premiums and reinsurance receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Liabilities at Amortised Cost

This category includes all financial liabilities other than those designated by the Branch as at FVPL. Liabilities in this category include:

Trade and Other Payables: includes amounts due to agents, outstanding claims, investment creditors, trade creditors and accruals, amounts due to related parties, reinsurance payable, remediation provision 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.

p) Plant and equipment

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

In line with AIA Group policy 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 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.

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.

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 considered to be the useful life of the software.

r) Impairment of assets

Impairment of financial assets

Impairment policy of financial assets are disclosed in note 2.4.o.

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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 comprise outstanding claims and premiums received in advance which are initially measured at fair value plus transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method.

v) Insurance contract assets

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. An actuarial software model (Prophet) is used as a tool and detailed checks are performed to ensure correctness of the Prophet model. The model utilises recognised actuarial methods, with due regard to relevant actuarial principles, and the methodology takes into account the risks and uncertainties of the particular classes of insurance business written.

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 assets and amortised through the Statement of Comprehensive Income over the expected duration of the relevant insurance contracts.

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

For actuarial methods and assumptions refer to note 20 "Actuarial policies and methods".

Investment contracts

Insurance contract assets 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 is recognised in the Statement of Comprehensive Income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 three months. 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 and capital injections received from the parent company (AIA International Limited). 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AIA NZ calculates the insurance contract assets 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, which are initially capitalised to the insurance contract asset and subsequently amortised over the life of the contracts, are equally sensitive to the factors that are considered in the insurance contract asset measurement.

The following are the key factors that impact estimation of the insurance contract assets:

- 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.

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

Liabilities arising from reinsurance contracts

Liabilities arising from reinsurance contracts can be subject to similar factors to the insurance contract assets. Refer to above for key factors that impact estimation of the assets and note 20 "Actuarial policies and methods" for details of specific actuarial policies and methods.

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.

Deferred tax assets

Estimating the amount of deferred tax assets arising from tax losses requires a process that involves determining appropriate provisions for income tax expense, forecasting future year's taxable income and assessing the Branch's ability to utilise the tax benefits through future earnings. Due to the portfolio transfer that occurred on 1 January 2020, the Branch has at the end of 2019 written off all deferred tax assets relating to tax losses carried forward (refer Note 7.)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

3. UNDERLYING LOSS AFTER TAX FOR THE YEAR

Underlying loss after tax is a non-GAAP measure presented to facilitate comparison of the Branch's loss 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 assets.

	Year ended 31 December 2019	Thirteen months ended 31 December 2018
	\$	\$
Components of underlying loss		
Insurance contracts		
Planned margins of revenues over expenses	1,303,254	6,081,907
Difference between actual and assumed experience	(33,200,697)	(14,948,006)
	(31,897,443)	(8,866,099)
Investment contracts		
Difference between actual and assumed experience	(1,096,489)	13,577
	(1,096,489)	13,577
Investment earnings on assets in excess of insurance contract assets	3,871,245	5,928,994
Total underlying loss after tax	(29,122,687)	(2,923,528)
Adjusted for:		
Unrealised (gain)/loss from financial assets	(1,991,546)	(1,145,110)
Discount rate change effect on insurance contract assets	(15,422,188)	(15,916,841)
Fair value and discount rate change effect after tax	(17,413,734)	(17,061,951)
Reduction in deferred tax on insurance contract assets - latest period	11,626,075	16,657,712
	(5,787,659)	(404,239)
Loss after taxation	(34,910,346)	(3,327,767)

The difference between insurance contract actual and assumed experience disclosed above includes the impact of \$24,869,431 (2018: nil) related to the write-off of tax losses (refer to note 7).

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.

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

4. NET INVESTMENT INCOME

	Year ended 31 December 2019	Thirteen months ended 31 December 2018
	\$	\$
Fixed interest securities:		
- Debt securities interest and other income	6,033,128	7,731,601
- Debt securities realised gain	415,047	292,644
- Debt securities unrealised loss	(1,945,553)	(1,145,110)
Cash and cash equivalents interest	111,136	162,394
Loan interest	3,260	123,024
Total net investment income	4,617,018	7,164,553

5. NET CLAIMS EXPENSE

	Year ended 31 December 2019	Thirteen months ended 31 December 2018
	\$	\$
Claims	75,460,397	88,216,401
Surrenders	8,875,444	7,668,081
Claims expense	84,335,841	95,884,482
Less: Reinsurance recoveries	(38,022,372)	(55,155,587)
Net claims expense	46,313,469	40,728,895

6. MANAGEMENT AND SALES EXPENSES

Investment management expense is recognised on an accrual basis.

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

	Year ended 31 December 2019	Thirteen months ended 31 December 2018
	\$	\$
Insurance contract acquisition costs		
- Commission	19,935,337	32,874,720
- Other	13,167,280	15,729,256
Insurance contract maintenance costs		
- Commission	10,640,991	10,252,682
- Other	24,920,171	25,815,405
Finance costs	108,250	-
Investment management expenses	308,289	399,040
Total administration expenses	69,080,318	85,071,103

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

6. MANAGEMENT AND SALES EXPENSES (CONTINUED)

Specific expense disclosure

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

	Note	Year ended 31 December 2019	Thirteen months ended 31 December 2018
		\$	\$
Share-based compensation	16	265,740	136,521
Salaries and other short term benefits		14,909,948	16,543,887
Post-employment benefits		484,296	530,423
Amortisation of intangible assets		1,453,576	1,400,373
Amortisation of leasehold assets		564,741	-
Depreciation of property, plant and equipment		311,262	358,917
Lease expenses		172,439	1,092,330
Donations		10,000	-
Group service fees		1,439,758	1,338,054
Sales and marketing related		2,485,040	4,491,414
Data processing		4,564,616	3,419,834
Audit fees		273,059	215,205
Fees for other assurance services paid to the auditor		18,911	18,000
Fees for other services paid to the auditor		72,420	-
Professional fees (excluding paid to auditors)		1,773,711	1,753,387
Medical administrative expenses		1,090,714	1,806,551
Other administrative expenses		8,197,219	8,439,765
Lease interest expense	13	75,498	-
Other interest cost		32,752	-
		<u>38,195,701</u>	<u>41,544,661</u>

Other administrative expenses are largely comprised of non-operating expense (2019: \$3,955,448; 2018: \$5,319,114) associated with business integration activities.

Auditor Remuneration

The audit fees include fees for the annual audit of financial statements of the Branch.

Other assurance services relate to reasonable assurance engagements over the solvency return. Other services relate to a readiness assessment of internal controls over financial reporting.

Apart from the annual audit of the financial statements, the other assurance services and the other services performed and referred to above, no other services were performed by PwC in the year ended 31 December 2019.

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

7. TAXATION

	Year ended 31 December 2019	Thirteen months ended 31 December 2018
	\$	\$
(a) Income tax expense		
Current tax expense	(1,347,874)	1,878,427
Deferred tax expense	10,428,491	(501,659)
Total income tax expense	9,080,617	1,376,768

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

Loss before tax	(25,829,729)	(1,950,999)
Income tax at the current rate of 28%	(7,232,324)	(546,280)
Movement in insurance contract liabilities	293,745	119,998
Non-deductible expenditure	986,965	690,651
Impact arising from resolution of the historic PSR tax matter	(5,583,801)	-
Provision for uncertain tax position	(2,000,000)	2,000,000
Other prior period adjustments	(2,253,399)	(887,601)
Tax losses written off	24,869,431	-
Total income tax expense	9,080,617	1,376,768

(b) Deferred tax liability		
Balance at beginning of year	54,070,315	54,571,974
Movement recognised in Comprehensive Income	10,428,491	(501,659)
Total deferred tax liability	64,498,806	54,070,315

Deferred tax relates to:

Insurance contract assets and liabilities	64,905,848	78,502,293
Losses available for offset against future taxable income	-	(22,339,591)
Other	(407,042)	(2,092,387)
Total deferred tax liability	64,498,805	54,070,315

Deferred tax recognised in Comprehensive Income:

Insurance contract assets and liabilities	(13,596,445)	2,908,452
Losses available for offset against future taxable income	22,339,591	(3,761,944)
Other	1,685,344	351,833
Total deferred tax recognised in Comprehensive Income	10,428,491	(501,659)

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 \$64,905,848 (2018 \$78,502,293) has been separately disclosed and included in the deferred tax liabilities balance representing taxable temporary differences which are implicitly embedded within insurance contract liabilities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

7. TAXATION (CONTINUED)**Resolution of historic PSR tax matter**

The Premium Smoothing Reserve (PSR) is used to spread the recognition of premium income across the expected life of certain products. The valuation methodology adopted for the PSR has been under review by Inland Revenue Department. This historic tax matter has now been resolved in principle and the provision for an uncertain tax position has been released.

The valuation methodology adopted for the PSR for certain products has been revised. The Branch has now also taken a deduction for surrenders/paybacks that have previously been treated as non-deductible.

Losses available for offset against future taxable income

The Branch has previously recognised a deferred tax asset resulting from tax losses. As a result of the portfolio transfer that occurred on 1 January 2020, the Branch is unlikely to derive any future taxable income against which the tax losses could be utilised. As such, the deferred tax asset resulting from tax losses has been written off and no deferred tax asset is recognised in the Statement of Financial Position for the \$24,869,431 (2018: nil) of unused tax losses.

8. LOANS AND RECEIVABLES

	31 December 2019	31 December 2018
	\$	\$
Receivables from policyholders, net of provision	3,388,297	3,926,790
Loans receivable	1,065,257	1,268,474
Loans and receivables from policyholders	4,453,554	5,195,264
Due from brokers and intermediaries	996,886	2,930,564
Impairment provision	(996,886)	(2,359,336)
Receivables from brokers and intermediaries	-	571,228
Reinsurance recoveries	24,205,065	22,266,522
Receivables from reinsurers	24,205,065	22,266,522
AIA Services NZ Limited	-	1,319,340
Financial Services Network Limited	440,525	-
AIA Reinsurance Limited	213,521	361,475
Receivables from related parties	654,046	1,680,815
Accrued interest	1,495,414	1,685,683
Sundry debtors	75,882	72,374
Other receivables	1,571,296	1,758,057
Total loans and receivables	30,883,961	31,471,886
Analysed as:		
Current	29,818,704	30,203,412
Non current	1,065,257	1,268,474
	30,883,961	31,471,886

AIA International Limited - New Zealand Branch

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

8. LOANS AND RECEIVABLES (CONTINUED)

Included in loans and receivables balance are debtors with a net carrying amount of \$3,812,466 (2018: \$2,851,498) which are past due at the reporting date for which the Branch has not provided as the amounts are still considered recoverable.

	31 December 2019	31 December 2018
Ageing past due receivables	\$	\$
1-30 days	3,104,109	1,556,651
31-90 days	364,783	839,909
91-365 days	244,824	298,566
Over 1 year	98,750	156,372
Total	3,812,466	2,851,498
	\$	\$
Provision for impairment of receivables from brokers and intermediaries		
At beginning of the year/period	(2,359,336)	(2,175,521)
Additional provisions	(1,094,428)	(183,815)
Used during the year	2,456,878	-
At the end of the year/period	(996,886)	(2,359,336)
Analysed as:		
Current	(996,886)	(2,359,336)

The provision is calculated on a collective basis. There are no individually assessed provisions at 31 December 2019 (2018: nil).

9. CASH AND CASH EQUIVALENTS

(a) Components of cash and cash equivalents

	31 December 2019	31 December 2018
	\$	\$
Cash at bank and in hand	6,237,309	7,553,188
Deposits at call	122,047	354,298
Total cash and cash equivalents	6,359,356	7,907,486

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

9. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Year ended 31 December 2019	Thirteen months ended 31 December 2018
	\$	\$
Loss after taxation for the year/period	(34,910,346)	(3,327,767)
Add/(less) non cash items		
Depreciation	876,003	358,917
Amortisation of intangibles	1,453,576	1,400,373
Fair value losses from financial assets	2,018,581	1,145,110
Movement in insurance contract assets	22,193,920	10,907,903
Deferred tax	10,428,491	1,376,768
Losses from investment assets	241,761	-
	37,212,331	15,189,071
Add/(less) movements in working capital relating to operating activities		
(Increase)/decrease in loans and receivables	587,925	(11,501,716)
(Increase)/decrease in prepayments	(109,983)	(199,724)
(Increase)/decrease in income tax assets	(1,112,894)	-
Increase/(decrease) in trade and other payables	(1,142,469)	(3,266,470)
Increase/(decrease) in employee benefit obligations	(884,432)	(614,502)
Increase/(decrease) in other insurance liabilities	277,787	2,114,241
Increase/(decrease) in other financial liabilities	441,289	(3,817,766)
	(1,942,778)	(17,285,937)
Net cash provided by/(used in) operating activities	359,207	(5,424,633)

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
	\$	\$
Debt securities		
Medium term notes	179,592,890	160,534,320
Total financial assets through profit or loss	179,592,890	160,534,320
Analysed as:		
Current	11,064,766	37,424,401
Non current	168,528,124	123,109,919
	179,592,890	160,534,320

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

11. PLANT AND EQUIPMENT

	31 December 2019	31 December 2018
	\$	\$
Furniture, fittings and office equipment		
Cost		
At beginning of the year/period	1,471,055	2,716,709
Additions	459,983	508,806
Disposals	(740,042)	(1,754,460)
At end of the year/period	1,190,996	1,471,055
Accumulated depreciation		
At beginning of the year/period	(817,702)	(2,007,929)
Depreciation charge	(128,502)	(264,513)
Disposals	187,136	1,454,740
At end of the year/period	(759,068)	(817,702)
Closing net book value	431,928	653,353
Computer equipment		
Cost		
At beginning of the year/period	2,255,984	1,824,424
Additions	63,103	527,930
Disposals	(4,514)	(96,370)
At end of the year/period	2,314,572	2,255,984
Accumulated depreciation		
At beginning of the year/period	(1,712,476)	(1,714,140)
Depreciation charge	(182,760)	(94,404)
Disposals	1,299	96,068
At end of the year/period	(1,893,937)	(1,712,476)
Closing net book value	420,635	543,508
Total net book value of plant and equipment	852,563	1,196,861

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

12. INTANGIBLE ASSETS

	31 December 2019	31 December 2018
	\$	\$
Purchased computer software		
Cost		
At beginning of the year/period	298,113	1,804,268
Additions	169,399	-
Disposals	-	(1,506,155)
At end of the year/period	467,512	298,113
Accumulated amortisation		
At beginning of the year/period	(270,070)	(1,751,543)
Amortisation charge	(37,870)	(24,682)
Disposals	-	1,506,155
At end of the year/period	(307,940)	(270,070)
Closing net book value	159,572	28,043
Internally developed software		
Cost		
At beginning of the year/period	10,639,432	10,177,529
Additions	16,733	501,443
Transfers from work in progress	634,776	1,196,219
Disposals	-	(1,235,759)
At end of the year/period	11,290,941	10,639,432
Accumulated amortisation		
At beginning of the year/period	(5,858,761)	(5,718,828)
Amortisation charge	(1,415,706)	(1,375,691)
Impairment	-	-
Disposals	-	1,235,758
At end of the year/period	(7,274,467)	(5,858,761)
Closing net book value	4,016,474	4,780,671
Work in progress		
At beginning of the year/period	662,681	1,196,218
Additions	-	662,682
Disposals	(25,017)	-
Transfers to internally developed software	(634,776)	(1,196,219)
Closing net book value	2,888	662,681
Total intangible assets	4,178,934	5,471,395

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

13. RIGHT OF USE ASSETS, LEASE LIABILITIES AND LEASE RECEIVABLES**a) First time adoption of NZ IFRS 16 Leases**

On 1 January 2019, the Branch adopted NZ IFRS 16. The aggregate lease liability recognised in the Statement of Financial Position at 1 January 2019 and the Branch's operating lease commitment at 31 December 2018 can be reconciled as follows:

Operating lease commitment at 31 December 2018	4,015,090
Effect of discounting those lease commitments at a weighted average annual rate of 2.18%	(271,970)
Other	21,461
Lease Liability at 1 January 2019	3,764,581

The table below shows the assets and liabilities recognised on the Statement of Financial Position on 1 January 2019 of adoption of NZ IFRS 16, as well as a loss recognised on the subleases:

Assets

Right-of-use asset: Property	2,664,441
Right-of-use asset: Equipment	393,106
Sublease receivable	643,368

Liabilities

Lease liabilities: Property	(3,371,475)
Lease liabilities: Equipment	(393,106)

Equity

Loss on sublease	106,037
------------------	---------

b) As Lessee

The Branch is a lessee under three finance leases: two property leases and one equipment lease. The periodic rent for all leases is fixed over the lease term.

(i) Right of use assets

Right of use assets	Property	Equipment	Total
As lessee	3,413,846	393,106	3,806,952
Derecognition due to sublease	(749,405)	-	(749,405)
At 1 January 2019	2,664,441	393,106	3,057,547
Depreciation	(421,213)	(143,528)	(564,741)
Derecognition due to sublease	(173,035)	-	(173,035)
Carrying value at 31 December 2019	2,070,193	249,578	2,319,771

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

13. RIGHT OF USE ASSETS, LEASE LIABILITIES AND LEASE RECEIVABLES (CONTINUED)

(ii) Lease liabilities

	Property	Equipment	Total
At 1 January 2019	(3,371,475)	(393,106)	(3,764,581)
Interest expense	(69,159)	(6,339)	(75,498)
Lease payments	542,084	146,787	688,871
Carrying value at 31 December 2019	(2,898,550)	(252,658)	(3,151,208)

The maturity analysis of lease liabilities is included in Note 18(iv).

The branch does not have any short-term or low-value leases at 31 December 2019.

c) As Lessor

The Branch is a lessor under two property subleases classified as finance leases, one of which existed at adoption of NZ IFRS 16 at 1 January 2019, and there was a new one entered during 2019.

(i) Finance lease receivables

	Property
At 1 January 2019	643,368
Additions	173,737
Interest Income	12,811
Finance lease receipts	(157,997)
At 31 December 2019	671,919

Maturity Analysis

	Under 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Lease payments receivable	224,985	230,199	235,570	420	-	-	691,174

The undiscounted lease payments to be received from the subleases can be reconciled to the net investment in the lease as follows:

Lease payments receivable	691,174
Unearned finance income	(19,255)
Net investment	671,919

14. EMPLOYEE BENEFIT OBLIGATIONS

	31 December 2019	31 December 2018
	\$	\$
Employee entitlements	3,140,186	4,024,618
Total employee benefit obligations	3,140,186	4,024,618

Analysed as:

Current	2,987,319	3,904,483
Non current	152,867	120,135
	3,140,186	4,024,618

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

15. TRADE AND OTHER PAYABLES

	31 December 2019	31 December 2018
Amounts due to reinsurers	8,208,049	10,625,944
Other payables and accruals	5,502,342	4,850,916
Investment settlement	68,875	-
Total trade and other payables	13,779,266	15,476,860
Analysed as:		
Current	13,779,266	15,476,860
	13,779,266	15,476,860

16. 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 (2018: nil).

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 2019.

	Number of shares	
	31 December 2019	31 December 2018
Restricted share units		
Outstanding at beginning of financial year/period	31,155	46,592
Granted	19,480	30,918
Exercised	(8,132)	(19,966)
Transfer in	50,606	-
Forfeited	(128)	(26,389)
Outstanding at end of financial year/period	92,981	31,155

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 2019, eligible employees of the Branch paid NZD\$126,393 (2018: \$108,088) to purchase 8,315 ordinary shares (2018: 8,749 ordinary shares) of AIAGL.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

16. 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 behaviour of the AIA Group's employees. The estimate of market condition for performance based RSUs is based on one-year historical data preceding the grant date.

	Year ended 31 December 2019			Thirteen months ended 31 December 2018		
	Share options	Restricted share units	ESPP Restricted stock purchase units	Share options	Restricted share units	ESPP Restricted stock purchase units
Risk-free interest rate	1.44% - 1.59%	1.36% - 1.67%	1.44% - 1.76%	2.33%	2.11%	1.35% - 2.27%
Volatility	20.00%	20.00%	20.00% - 24.00%	20.00%	20.00%	20.00%
Dividend yield	1.50%	1.50% - 1.61%	1.50% - 1.61%	1.50%	1.50%	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	53.90	72.35	N/A	N/A	61.97

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 year ended 31 December 2019 is \$265,740 (2018: \$136,521). No compensation cost was recognised in 2019 or 2018 for the SO Scheme.

17. OTHER INSURANCE LIABILITIES

	31 December 2019	31 December 2018
	\$	\$
Outstanding claims	8,696,088	8,670,186
Premiums received in advance	2,235,831	1,983,946
Total other insurance liabilities	10,931,918	10,654,132
Analysed as:		
Current	10,931,918	10,654,132

AIA International Limited - New Zealand Branch

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

18. 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		
	Designated at fair value through profit or loss	Amortised cost		Level 2	Level 3	Total
		Financial assets	Financial liabilities			
	\$	\$	\$	\$	\$	\$
31 December 2019						
Financial assets measured at fair value						
Medium term notes	179,592,890	-	-	179,592,890		179,592,890
Financial assets not measured at fair value						
Cash and cash equivalents	-	6,359,356	-			6,359,356
Loans and receivables	-	30,883,961	-			30,883,961
Lease receivables	-	671,919	-			671,919
	179,592,890	37,915,236	-			217,508,126
Financial liabilities measured at fair value						
Insurance contract liabilities - investment contracts	6,925,866	-	-	-	6,925,866	6,925,866
Financial liabilities not measured at fair value						
Trade and other payables	-	-	13,779,266			13,779,266
Outstanding claims provision	-	-	8,696,088			8,696,088
Lease liabilities	-	-	3,151,208			3,151,208
Other financial liabilities	-	-	2,497,305			2,497,305
	6,925,866	-	28,123,867			35,049,733

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

	Carrying amount				Fair value		
	Designated at fair value through profit or loss	Amortised cost			Level 2	Level 3	Total
		Financial assets	Financial liabilities	Total			
	\$	\$	\$	\$	\$	\$	\$
31 December 2018							
Financial assets measured at fair value							
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			
	160,534,320	39,379,372	-	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			

(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. (2018: 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 is 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.

AIA International Limited - New Zealand Branch

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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:

Surrender rate	31 December 2019	31 December 2018
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)	2.26%	2.84%
Discount rate, net of investment related expenses (net of tax)	1.63%	2.04%

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 0.19% (2018: 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 2019	31 December 2018
	\$	\$
Opening balance:	6,257,100	5,758,777
Fair value movements recognised in the Statement of Comprehensive Income	332,482	328,041
Investment income net of tax and expenses	284,752	259,543
Contributions received	107,169	125,817
Withdrawals	(55,637)	(215,078)
Closing balance:	6,925,866	6,257,100

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the sensitivity of level 3 measurement to reasonably possible favourable or unfavourable changes in the assumptions used to determine the fair value of insurance contract liabilities – investment contracts as at 31 December 2019.

Variation	Profit and equity increase/ (decrease)	Profit and equity increase/ (decrease)
	31 December 2019	31 December 2018
	\$	\$
Interest rates + 1%	620,000	570,000
Interest rates - 1%	(710,000)	(640,000)
Surrenders + 10%	230,000	190,000
Surrenders - 10%	(270,000)	(230,000)

Market risk

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

Market risk is managed by the members of the AIA Australia Limited (AIA Australia) investment team who currently handle the investment function of the Branch. 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.

As there were no foreign currency denominated financial instruments as at 31 December 2019 (2018: nil), the Branch's exposure to foreign exchange movements are 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 2019, 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 \$45,787 lower/higher respectively (2018: loss would have been \$56,934 lower/higher respectively) for the Branch.

Sensitivity of fixed interest rate investments

At 31 December 2019, 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 \$ 11,690,651 higher / \$ 13,255,258 lower respectively (2018: loss would have been \$3,577,914 higher / \$3,367,217 lower respectively) for the Branch. Interest rate risk sensitivity on the fair value of insurance contract liabilities is disclosed in note 20 and for investment contract assets is disclosed in Note 18 under Financial Risks (ii).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

18. 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 2019					
Trade and other payables	N/A	13,779,266	-	13,779,266	13,779,266
Outstanding claims provision	N/A	8,696,088	-	8,696,088	8,696,088
Lease Liabilities	2.18%	669,296	2,481,912	3,151,208	3,151,208
Other financial liabilities					
- Amounts due to related parties	N/A	2,497,305	-	2,497,305	2,497,305
Insurance contract liabilities - Investment contracts	2.45%	186,325	8,251,513	8,437,838	6,925,866
Total financial liabilities		25,828,280	10,733,425	36,561,705	35,049,733
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

Trade and other payables, outstanding claims provision and other financial liabilities are not 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;
- Lease receivables.

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

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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 require 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 2019	31 December 2018
	\$	\$
AA	152,817,279	121,017,218
A	41,001,175	50,452,711
BBB	14,757,456	18,972,795
Non- Rated	8,932,216	9,470,968
Total Financial Assets	217,508,126	199,913,692

Capital management

The objectives of the Branch with regard to the management of capital adequacy are:

- (i) maintain a level of target surplus 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 the return to Head office.

The AIA Board (the Board) and New Zealand Management (NZ Management) under a power of attorney has ultimate responsibility for compliance with the solvency standard and managing capital. If NZ Management 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.

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.

NZ Management approves the capital management 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 Insurance (Prudential Supervision) Act 2010. 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 the Branch's risk appetite. The level of target surplus takes account of management assessments of actual risk and forecasts/stress testing of future capital requirements. NZ Management has approved the methodology and basis for determining target surplus.

The Branch established a statutory fund ("the Statutory Fund") in accordance with the requirements of the Insurance (Prudential Supervision) Act 2010 on 31 August 2013. The assets and liabilities that solely relate to the life insurance business were allocated to the Statutory Fund upon inception. Further discussion regarding the Statutory Fund is included in note 22.

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

The solvency capital of the Branch is presented below.

As at 31 December 2019	Branch	Statutory Fund	Non- Statutory Fund
	\$	\$	\$
Actual solvency capital	146,036,722	112,126,764	33,909,958
Minimum solvency capital	117,020,222	90,210,300	26,809,922
Solvency Margin	29,016,500	21,916,464	7,100,036
Solvency ratio	125%	124%	126%

As at 31 December 2018	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%

The basis of calculation of the solvency reserves for 2019 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. Controls are also maintained over claims management practices to ensure 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 Reinsurance 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.

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)**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 is 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 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, Risk and Legal functions and are regularly reported to the New Zealand Executive Committee, AIA Australia and AIA Group in Hong Kong.

19. OTHER FINANCIAL LIABILITIES

	31 December 2019	31 December 2018
	\$	\$
Amounts due (from)/to related parties:		
AIA Company Limited	-	405,472
AIA Shared Services (Hong Kong) Limited	-	40,955
AIA Australia Limited	-	241,451
AIA Information Technology (Guangzhou) Co. Limited	-	61,081
AIA Information Technology (Beijing) Company, Limited	-	14,536
AIA Shared Services Sdn Bhd	-	106,027
AIA Group Limited	-	(15,522)
AIA Reinsurance Limited	2,234,409	1,192,681
Financial Services Network Limited	-	9,334
AIA Services NZ Limited	262,896	-
	2,497,305	2,056,015
Analysed as:		
Current	2,497,305	2,056,015

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

20. ACTUARIAL POLICIES AND METHODS

The actuarial report on insurance contract assets and solvency reserves for the current reporting period was prepared as at 31 December 2019.

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

The valuation methodology and assumptions for insurance applied for the reporting period are as follows: (Refer to Note 18 for valuation methodology and assumptions of investment contracts).

Valuation methods and profit carriers

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

Major Product Groups	Carrier	Valuation method
Lump sum products - Permanent Term, Express Life, Permanent Life, Term, Total and Permanent Disablement, Vital Care (Trauma), Golden Life, Ex-Alico products	Claims net of reinsurance	Model office projection
Income protection products - Disability Income, Business Continuation Cover, New to Business Cover, Key Person Benefit, Disability Income Claims in Payment	Claims net of reinsurance	Model office projection
Medical insurance products	Claims net of reinsurance	Model office projection
Group	Not applicable	Unearned premiums, profit share and claims reserves
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	<p>Sample of forward rate at duration of 10 years: 2019: 2.26% p.a. (2018: 2.84% p.a.)</p> <p>2019: AIA NZ Ltd calculated yield curve (treasury short term rates with interpolation for long term) (2018: NZ Treasury short term rates with interpolation for long term rates)</p>
Investment expenses (before tax)	<p>2019: 0.19% (2018: 0.22%)</p>

AIA International Limited - New Zealand Branch

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

20. ACTUARIAL POLICIES AND METHODS (CONTINUED)

Other assumptions

	Permanent Term, Express Life, Permanent Life and Golden Life	Lump Sum Renewable Risk Products	Income Protection Products	Medical Insurance Products
Mortality	54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits (2018: 54%, 108%)	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. (2018: 54%, 108%)	54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits (2018: 54%, 108%)	54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits (2018: 54%, 108%)
Mortality improvement	Nil (2018: Yes)	Nil (2018: Yes)	Nil (2018: Yes)	Nil (2018: Yes)
Morbidity	Nil (2018: Nil)	Percentage of reinsurer risk premium rates, strengthening of crisis assumptions, strengthening of TPD assumptions (2018: Percentage of reinsurer risk premium rates, strengthening of crisis assumptions)	Incidence and termination rates as a percentage of IAD89-93 (2018: Incidence and termination rates as a percentage of IAD89-93)	Superior Health is based on loss ratio, varying between 18.7% to 74.1% depending on duration. Real Health is based on 2015 medical claim assumption table with duration factors varying between 51.70% to 129.24% (2018: 20% to 67.5% for Superior Health, 48.31% to 102.79% for Real Health)
Initial expense allowance (before tax)	Nil (2018: Nil)	49.95% to 82.83% of New Annualised Premium Income (API); and \$260.87 to \$395.95 per cover (2018: 14.4% to 46.7% of API; and \$44.1 to \$205.1 per cover)	85.32% of New Annualised Premium Income (API); and \$414.88 per cover (2018: 51.9% of API; and \$224.4 per cover)	30.25% of New Annualised Premium Income (API); and \$210.68 per cover (2018: 59.1% of API; and \$250.2 to \$463.0 per cover)
Renewal expenses (before tax)	5.24% of Annualised Premium Income (API); and \$112.78 p.a., escalating at 2.0% p.a. (2018: 4.33% of API; and \$83.1 p.a., escalating at 2.0% p.a.)	5.17% to 6.84% of Annualised Premium Income (API); and \$52.84 to \$61.29 p.a., escalating at 2.0% p.a. (2018: 5.4% to 11.8% of API; and \$46.1 to \$111.5 p.a., escalating at 2.0% p.a.)	5.63% of Annualised Premium Income (API); and \$84.01 p.a., escalating at 2.0% p.a. (2018: 6.2% of API; and \$79.8 p.a., escalating at 2.0% p.a.)	5.78% to 6.44% of Annualised Premium Income (API); and \$96.45 to \$112.96 per cover, escalating at 2.0% p.a. (2018: 8.3% of API; and \$78.0 to \$144.4 per cover, escalating at 2.0% p.a.)
Cover escalation	2.0% p.a. (2018: 2.5% p.a.)	2.0% p.a. (2018: 2.5% p.a.)	2.0% p.a. (2018: 2.5% p.a.)	4.5% p.a. graded down to 2.5% p.a. in 3 years (2018: 4.5% to 2.5% p.a.)
Lapses / surrenders	Based on experience analysis, varying between 1% and 12% depending on duration and product, with shock lapses of 50% at full payback, then 30%, 20% and 10% in the next 3 years respectively (Permanent Term) (2018: 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 (2018: 2% and 25%)	Based on experience analysis, varying between 7.5% and 25% depending on duration and product (2018: 10% and 25%)	Based on experience analysis, varying between 5.8% and 16% depending on duration and product (2018: 5.8% and 16%)
Tax rate	28% (2018: 28%)	28% (2018: 28%)	28% (2018: 28%)	28% (2018: 28%)
Inflation rate	2.0% (2018: 2.5%)	2.0% (2018: 2.5%)	2.0% (2018: 2.5%)	2.0% (2018: 2.5%)

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

20. 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

	Year ended 31 December 2019			Thirteen months ended 31 December 2018		
	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	4,366,797	9,339,150	(9,339,150)	9,283,905	4,864,278	(4,864,278)
Operating assumptions change:						
Investment management expenses	1,650,868	-	-	(2,101,681)	-	-
Mortality	-	-	-	17,094,438	-	-
Morbidity	(19,799,528)	-	-	(6,391,676)	-	-
Lapse	22,049,233	-	-	(89,872,605)	-	-
Expense	19,557,648	-	-	-	-	-
Morbidity (medical insurance)	(17,609,116)	-	-	-	-	-
Inflation	1,978,088	-	-	2,548,751	-	-
Total	12,193,990	9,339,150	(9,339,150)	(69,438,868)	4,864,278	(4,864,278)

Assumption changes in the current period included improvements in lapse assumptions and strengthening of trauma claims rates. In prior year there were few recommended assumption changes.

Sensitivity analysis

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

	Year ended 31 December 2019		Thirteen months ended 31 December 2018	
	Insurance contract liability increase/ (decrease)	Profit increase/ (decrease)	Insurance contract liability increase/ (decrease)	Profit increase/ (decrease)
	\$	\$	\$	\$
Base				
Interest rates + 1% per annum	(14,700,000)	14,700,000	(14,000,000)	14,000,000
Interest rates - 1% per annum	16,200,000	(16,200,000)	16,600,000	(16,600,000)
Inflation + 1% per annum	6,100,000	(6,100,000)	2,100,000	(2,100,000)
Inflation - 1% per annum	(1,300,000)	1,300,000	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.

AIA International Limited - New Zealand Branch

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

20. 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 December 2019 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	166.5	165.2	158.2	152.1	146.4	2,483.3
Cash outflows	(154.4)	(145.2)	(139.6)	(134.7)	(130.7)	(2,595.3)

**From December 2018 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	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)

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

21. INSURANCE CONTRACT LIABILITIES/(ASSETS)

	31 December 2019	31 December 2018
	\$	\$
Opening insurance contract liabilities	35,264,085	21,447,739
Movement in insurance contract liabilities - Insurance contracts	21,525,154	10,409,580
Movement in insurance contract liabilities - Investment contracts	617,234	587,583
Universal life premiums received - Investment contracts	107,169	125,817
Universal life payments to policyholders - Investment contracts	(55,637)	(215,077)
Movement through Statement of Comprehensive Income	22,193,920	10,907,903
Movement in deferred tax	(13,596,443)	2,908,443
Closing insurance contract liabilities	43,861,562	35,264,085
<i>Closing insurance contract liabilities contain the following components:</i>		
Insurance contracts		
Future premiums	(1,222,503,453)	(1,093,572,970)
Future policy benefits	859,476,402	705,377,109
Future expenses	337,518,821	361,974,947
Planned margin	62,443,926	55,227,899
Insurance contract liabilities	36,935,696	29,006,985
Investment contracts		
Future insurance contract benefits	6,925,866	6,257,100
Investment contract liabilities	6,925,866	6,257,100
Net insurance contract liabilities including deferred tax and reinsurance	43,861,562	35,264,085
Liabilities arising from reinsurance contracts		
Balance at beginning of year	(14,318,924)	(1,954,160)
Movement through Statement of Comprehensive Income	11,462,707	(12,364,764)
Balance at 31 December	(2,856,217)	(14,318,924)
Deferred tax	(64,905,850)	(78,502,293)
Total insurance contract assets excluding deferred tax and reinsurance	(23,900,505)	(57,557,132)
Analysed as:		
Current liabilities	8,546,419	4,024,143
Non current assets	(32,446,924)	(61,581,275)
	(23,900,505)	(57,557,132)

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

22. 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 2019	\$	\$	\$	\$
Cash and cash equivalents	-	983,593	5,375,763	6,359,356
Investment assets	6,925,866	163,122,401	9,544,623	179,592,890
Insurance contract (liabilities) / assets	(6,925,866)	2,027,894	28,798,477	23,900,505
Other assets	-	40,173,754	1,858,137	42,031,891
	-	206,307,642	45,577,000	251,884,642
Liabilities other than insurance contract liabilities	-	90,115,761	11,146,187	101,261,948
Retained profits attributable to head office	-	116,191,880	34,430,814	150,622,694
	-	206,307,641	45,577,001	251,884,642
Premium revenue from insurance contracts	-	147,476,958	24,118,277	171,595,235
Outwards reinsurance expense (net of commission)	-	(64,735,367)	(399)	(64,735,766)
Investment income	395,489	3,870,836	350,693	4,617,018
Fee and other income	-	251,621	29,870	281,491
Claims expense	(55,637)	(70,936,677)	(13,343,527)	(84,335,841)
Reinsurance recovery revenue	-	38,022,372	-	38,022,372
Management and sales expenses	-	(64,655,448)	(4,424,870)	(69,080,318)
Movement in insurance contract liabilities	(668,766)	(20,972,410)	(552,744)	(22,193,920)
Loss before taxation	(328,914)	(31,678,115)	6,177,300	(25,829,729)
Income tax expense	110,737	4,891,168	4,078,712	9,080,617
Loss after taxation for the year	(439,651)	(36,569,283)	2,098,588	(34,910,346)

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.

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

22. DISAGGREGATED INFORMATION (CONTINUED)

	AIA 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	6,396,689	417,388	7,164,553
Fee and other income	-	21,340	-	21,340
Claims expense	(200,616)	(81,435,407)	(14,248,460)	(95,884,483)
Reinsurance recovery revenue	-	55,155,587	-	55,155,587
Management and sales expenses	-	(80,029,839)	(5,041,264)	(85,071,103)
Movement in insurance contract liabilities	(498,323)	(16,859,475)	6,449,895	(10,907,903)
Loss 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
Loss after taxation for the period	(439,396)	(11,472,687)	8,584,314	(3,327,767)

23. 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, with the ultimate holding company being 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:

AIA International Limited - New Zealand Branch

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

23. OWNERSHIP AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	31 December 2019	31 December 2018
	\$	\$
Parent		
<i>AIA International Limited</i>		
Share based compensation payments	265,740	136,521
Data processing costs	27,267	28,197
Other administrative fees	1,582,250	1,499,941
	1,875,257	1,664,659
Fellow subsidiaries of the ultimate holding company		
(i) New Zealand		
<i>Financial Services Network Limited (FSN)</i>		
Commission expenses	763,566	801,457
Rent and other usage charges oncharged to FSN	233,363	-
Reimbursement of various expenses and other payables from FSN	1,047,698	749,411
	2,044,627	1,550,868
<i>AIA Services New Zealand Limited (formerly Sovereign Services Limited) (AIASNZL)</i>		
Reimbursement of acquisition cost incurred on behalf of AIASNZL	(2,726,512)	-
Reimbursement of various expenses and other payables from AIASNZL	3,119,156	(1,319,340)
(ii) Overseas		
Data processing costs	1,415,693	1,041,125
Investment service and administration fees	281,717	272,182
Actuarial fees	1,054,255	1,232,986
Reinsurance premiums paid	28,571,704	29,131,878
Reinsurance commission income received	(9,772,616)	(30,887,106)
Reinsurance claims recoveries received	(6,669,981)	(7,229,567)
Other administrative fees	1,620,470	1,153,582

For balances with related parties refer to note 19 "Other Financial Liabilities" and note 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 year ended 31 December 2019, executives in AIA Australia performed certain functions for the Branch. The compensation to these executives is paid by AIA Australia, which makes a recharge to the Branch. From 1 July 2018, executives in AIA New Zealand Limited and the Branch performed certain functions for both AIA New Zealand entities. Cross charges were done for the net cost between AIA New Zealand Limited and the Branch and are included above under Reimbursements of various expenses and other payables in note 23 (b)(i). The compensation for key management personnel disclosed below excludes executives from AIA New Zealand Limited as they are not on the payroll of the Branch.

AIA International Limited - New Zealand Branch

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

23. OWNERSHIP AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	31 December 2019	31 December 2018
	\$	\$
The compensation for key management personnel during the year/period was as follows:		
Salaries and other short term benefits	1,130,720	1,993,645
Terminations	111,887	682,661
Share based compensation payment	265,740	136,521
	1,508,347	2,812,827

24. CAPITAL COMMITMENTS

There are no material capital commitments at reporting date (2018: nil).

25. CONTINGENT LIABILITIES

There are no material contingent liabilities at reporting date (2018: nil).

26. EVENTS OCCURRING AFTER BALANCE DATE

Effective 1 January 2020, a portfolio transfer occurred which moved all the insurance business of the Branch, including the statutory fund assets and any related assets and liabilities to AIA New Zealand Limited (formerly Sovereign Assurance Company Limited ('SACL')). Refer to note 1.2(b).

Following consideration of the Branch's related product groups ("RPG") management will change RPGs used for financial reporting and solvency during 2020. Changes made to RPGs may have an impact on the solvency position of AIA New Zealand Limited, following the portfolio transfer.

There were no other events occurring after balance date that required adjustment to or disclosure in the financial statements (2018: nil).



Independent auditor's report

To the directors of AIA International Limited

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

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity and head office account for the year then ended;
- the statement of cash flows for the year 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 2019, its financial performance and its cash flows for the year 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 in the areas of a reasonable assurance engagement over the solvency return and a readiness assessment of internal controls over financial reporting. The provision of these other services has not impaired our independence as auditor of the Branch.

Emphasis of Matter – Basis of Preparation

We draw attention to Note 1.2(b) and Note 2.1 of the financial statements, which sets out that effective 1 January 2020, a portfolio transfer occurred which moved all insurance business of the Branch and related assets and liabilities to AIA New Zealand Limited and that through an orderly wind-up process the Branch will cease to exist. The Branch has no continuing business post the transfer and as a result the financial statements have been prepared on a realisation basis. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



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

Overall materiality: \$1.7 million, which represents approximately 1% of premium revenue from insurance contracts for year ended 31 December 2019.

We chose 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 or 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 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 of the current year. 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.



Key audit matter	How our audit addressed the key audit matter
<p data-bbox="277 456 774 524">• <i>Measurement of insurance contract assets and associated liabilities arising from reinsurance contracts</i></p> <p data-bbox="293 539 758 763">As at 31 December 2019 the Branch has insurance contract assets of \$23,900,505 (31 December 2018: \$57,557,132) and insurance contract liabilities arising from reinsurance contracts of \$2,856,217 (31 December 2018: \$14,318,924).</p> <p data-bbox="293 792 774 1050">The Directors' valuation of these life insurance contract assets 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 valuation of these liabilities.</p> <p data-bbox="293 1079 758 1274">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 valuation of the liabilities. This includes:</p> <ul data-bbox="293 1303 758 1644" style="list-style-type: none"> • Expected amount, timing and duration of claims and / or policy payments, 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. <p data-bbox="293 1688 774 1879">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 judgments and estimates, Note 20 and Note 21.</p>	<p data-bbox="828 539 1310 568">Together with PwC actuarial experts, we:</p> <ul data-bbox="828 591 1453 1487" style="list-style-type: none"> • Assessed the reasonableness of the key assumptions including those for the cost of providing benefits and administering 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: <ul data-bbox="876 860 1453 1240" style="list-style-type: none"> – Obtaining an understanding of the processes and 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 – Comparing the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice. • Assessed the reasonableness of the analysis of profit to consider whether assumption changes are consistent with experience and whether the movement in the insurance contract assets and associated liabilities arising from reinsurance contracts from the prior reporting period have been adequately explained. <p data-bbox="828 1503 1445 1688">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.</p> <ul data-bbox="828 1711 1445 1942" style="list-style-type: none"> • Evaluated the design effectiveness and tested the operating effectiveness of controls over underwriting and policy administration processes; • Tested the completeness and accuracy of data between source and actuarial valuation systems; and



Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none">Assessed a sample of premiums received during the year then ended to confirm that they were supported by appropriate documentation and approved within delegated authority limits. <p>We have no matters to report from the procedures performed.</p>
<ul style="list-style-type: none"><i>Operation of financial reporting Information Technology (IT) systems and controls</i> <p>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.</p> <p>The Branch's controls over IT systems include:</p> <ul style="list-style-type: none">The framework of governance over IT systems;Program development and changes;Access to process, data and IT operations; andGovernance over generic and privileged user accounts.	<p>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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none">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 year under audit; andIncreasing sample sizes for our substantive test of details or 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 Branch's directors, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an 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 Branch's directors, as a body, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants
10 March 2020

Auckland