

AIA International Limited - New Zealand Branch

Trading as AIA New Zealand

Financial Statements

**For the year ended
31 December 2020**

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. PORTFOLIO TRANSFER	19
4. UNDERLYING PROFIT/ (LOSS) AFTER TAX FOR THE YEAR	21
5. NET INVESTMENT INCOME	22
6. NET CLAIMS EXPENSE	22
7. MANAGEMENT AND SALES EXPENSES	22
8. TAXATION.....	24
9. LOANS AND RECEIVABLES	25
10. CASH AND CASH EQUIVALENTS.....	26
11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS.....	27
12. PLANT AND EQUIPMENT	28
13. INTANGIBLE ASSETS	29
14. RIGHT OF USE ASSETS, LEASE LIABILITIES AND LEASE RECEIVABLES ...	30
15. EMPLOYEE BENEFIT OBLIGATIONS.....	31
16. TRADE AND OTHER PAYABLES	32
17. SHARE BASED COMPENSATION.....	32
18. OTHER INSURANCE LIABILITIES.....	33
19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS	34
20. OTHER FINANCIAL LIABILITIES	41
21. ACTUARIAL POLICIES AND METHODS	41
22. INSURANCE CONTRACT LIABILITIES/(ASSETS)	46
23. DISAGGREGATED INFORMATION AND STATUTORY FUND	47
24. OWNERSHIP AND TRANSACTIONS WITH RELATED PARTIES	48
25. CAPITAL COMMITMENTS	49
26. CONTINGENT LIABILITIES.....	49
27. 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 2020

	Note	Year ended 31 December 2020	Year ended 31 December 2019
		\$	\$
Revenue			
Premium revenue from insurance contracts		-	171,595,235
Less: Outward reinsurance expenses		-	(83,091,687)
Net premium revenue		-	88,503,548
Reinsurance commission income		-	18,355,921
Net investment income	5	1,520	4,617,018
Other income		135,931	281,491
Total revenue		137,451	111,757,978
Expenses			
Claims expense		-	84,335,841
Less: Reinsurance recoveries		-	(38,022,372)
Net claims expenses	6	-	46,313,469
Management and sales expenses	7	(186)	69,080,318
Movement in insurance contract asset	22	-	22,193,920
Total expenses		(186)	137,587,707
Profit/ (loss) before taxation		137,637	(25,829,729)
Income tax (benefit)/ expense	8	(268,726)	9,080,617
Profit/ (loss) after taxation and total comprehensive profit/ (loss) for the year	4	406,363	(34,910,346)

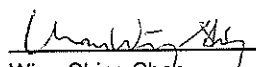
The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

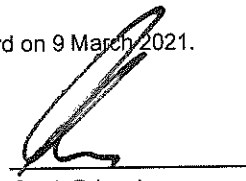
STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	31 December 2020 \$	31 December 2019 \$
Assets			
Cash and cash equivalents	10	4,195,416	6,359,356
Loans and receivables	9	-	30,883,961
Prepayments		-	975,620
Financial assets at fair value through profit or loss	11	-	179,592,890
Current tax asset		461,886	1,742,081
Assets arising from reinsurance contracts	22	-	-
Property, plant and equipment	12	-	852,563
Intangible assets	13	-	4,178,934
Right-of-use assets	14	-	2,319,771
Finance lease receivables	14	-	671,919
Insurance contract assets	22	-	23,900,505
Total assets		4,657,302	251,477,600
Liabilities			
Trade and other payables	16	262,522	13,779,266
Employee benefit obligations	15	-	3,140,186
Other insurance liabilities	18	-	10,931,918
Lease liabilities	14	-	3,151,208
Other financial liabilities	20	-	2,497,305
Liabilities arising from reinsurance contracts	22	-	2,856,217
Deferred tax liabilities	8	-	64,498,806
Total liabilities		262,522	100,854,906
Net assets		4,394,780	150,622,694
Equity and Head office account			
Head office account		4,394,780	150,622,694
Total Equity and Head office account		4,394,780	150,622,694

The Financial Statements were approved for issue by the Board on 9 March 2021.


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 2020

	Note	Head office account	Total
		\$	\$
Year ended 31 December 2020			
At the beginning of year		150,622,694	150,622,694
Profit after taxation and total comprehensive loss for the year		406,363	406,363
Portfolio transfer	3	(146,634,277)	(146,634,277)
At the end of year		4,394,780	4,394,780
Year ended 31 December 2019			
At the beginning of year		165,033,040	165,033,040
Loss after taxation and total comprehensive income 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

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 2020

	Note	Year ended 31 December 2020 \$	Year ended 31 December 2019 \$
Cash Flows From Operating Activities			
Premiums received		-	172,385,613
Interest received		1,520	6,901,469
Interest paid		-	(32,751)
Other income received		-	281,491
Reinsurance recoveries		-	36,445,304
Reinsurance paid		-	(67,153,661)
Policy loan advancements		-	(144,904)
Repayment of policy loans		-	259,707
Payments to suppliers and employees		-	(64,376,531)
Payments to policyholders		-	(84,309,939)
Income tax paid		611,016	103,409
Net cash provided by/(used in) operating activities	10(b)	612,536	359,207
Cash Flows From Investing Activities			
Proceeds from sales / maturity of financial assets		-	93,222,098
Acquisition of financial assets		-	(114,230,372)
Lease payments received from finance leases		-	157,997
Purchase of property, plant and equipment		-	(732,765)
Incurred development costs capitalised within intangible assets		-	(186,131)
Disposal of property, plant and equipment		-	93,080
Net cash used in investing activities		-	(21,676,093)
Cash Flows From Financing Activities			
Contribution received		-	20,500,000
Repayments of lease liabilities		-	(731,244)
<i>Portfolio transfer:</i>			
Settlement received from Westside Properties	3	852,563	-
Settlement received from AIA Services NZ	3	2,730,320	-
Cash transferred to AIANZ	3	(6,359,359)	-
Net cash provided (from)/ by financing activities		(2,776,476)	19,768,756
Net (decrease) in cash and cash equivalents		(2,163,940)	(1,548,130)
Cash and cash equivalents at the beginning of the year		6,359,356	7,907,486
Cash and cash equivalents at the end of the year	10(a)	4,195,416	6,359,356

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 2020

1.1 GENERAL INFORMATION

AIA International Limited - New Zealand Branch (the Branch) 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 was in the business of providing life and health insurance products within New Zealand. The financial statements are for the Branch.

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) 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 ('AIANZ') (formerly Sovereign Assurance Company Limited). Staff employment agreements, commercial contracts, intangible assets and related assets and liabilities moved to AIA Services New Zealand Limited ('AIASNZ') (formerly Sovereign Services Limited), a subsidiary of AIANZ, while all plant and equipment was transferred to Westside Properties Limited ('WPL'), a subsidiary of AIANZ. Post the transfer the Branch no longer holds any insurance business and the insurance license with the Reserve Bank of New Zealand ('RBNZ') was cancelled and statutory fund terminated on 8 July 2020.

Post the transfer the Branch no longer has continuing business operations. It retains only cash and certain tax asset and liability balances 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.

Note references in these financial statements to insurance operations refer to 2019 prior year activities.

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.

Note references in these financial statements refer to 2019 activities.

2.1 Basis of Preparation

Due to the portfolio transfer the Branch had no continuing business operations since 1 January 2020. As a result, these financial statements have not been prepared on the going concern basis. Because the assets and liabilities of the Branch transferred 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 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 to 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.

2.2 Principles Underlying the Conduct of Insurance Business

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

Insurance contracts

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

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

Investment contracts

Any products sold by the Branch that do not meet the definition of an investment contract are classified as 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Specific Accounting Policies

a) Premium revenue

Insurance contracts

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

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

Investment contracts

Premium receipts are of a deposit nature and are recognised as an increase in investment contract liabilities. Premiums for investment contracts are recognised on a cash basis.

b) Reinsurance expenses and recoveries

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

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

Reinsurance commissions are recognised in the Statement of Comprehensive Income as part of reinsurance commission income when they become due and receivable. Income is recognised in the period in which it is earned. Reinsurance commissions are recognised net of any commissions payable to the reinsurer as a result of policy discontinuances.

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

c) Investment income

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

Net realised and unrealised gains and losses are included in the Statement of Comprehensive Income under investment income (refer to Note 2.3.o).

d) Other revenue

Other revenue is recognised in the Statement of Comprehensive Income on an accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Claims expenses

Insurance contracts

Claims expenses comprise the expense component of claims payments to customers and relates to insurance contracts.

Claims are recognised when the liability to the policy owner under the policy contract has been established. Claims in respect of policies remaining in force at balance date are included in 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.

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 2.3.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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

Where modification or cancellation of an equity-settled share-based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met. Refer to note 17 for the details of share based compensation.

j) Other expenses

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Taxation

Current tax

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

Deferred tax

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

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

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

Income tax for life insurance contracts

Under New Zealand tax law, there is a specific regime for the taxation of life insurance business. For New Zealand tax purposes, a life insurer will be taxed under two bases of taxation, the 'Policyholder Base' and the 'Shareholder Base'. These two bases impose tax on the benefits received by policyholders and shareholders in the 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 2.3.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 21 "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.

Critical accounting estimates

The key areas where critical accounting estimates were applied in 2019 are noted below. There were no areas involving critical accounting estimates in 2020.

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)

The Branch 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. The Branch 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 21 "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 21 "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 at the end of 2019 wrote off all deferred tax assets relating to tax losses carried forward (refer Note 8.)

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

3. PORTFOLIO TRANSFER

(a) Portfolio transfer of assets and liabilities held by AIA International Limited - New Zealand Branch

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 AIANZ. All assets and liabilities associated with staff employment agreements, commercial contracts (for instance lease contracts and vendor agreements), as well as intangible assets were moved to AIASNZ, while all plant and equipment was transferred to WPL. AIASNZ and WPL are subsidiaries of AIANZ. Post the transfer the Branch no longer holds any insurance business and the insurance license with the Reserve Bank of New Zealand (RBNZ) was cancelled and Statutory Fund terminated on 8 July 2020.

As both AIANZ and the Branch were owned by AIA International Limited at the time of the portfolio transfer, this is considered to be a business combination under common control, which is not in scope of IFRS 3 or any other IFRS standard. NZ IFRS guidance states that in the absence of an IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in financial information that is relevant and reliable and best reflects the economic substance of the transactions. Management have adopted an accounting policy where the assets and liabilities are sold at their book value on 1 January 2020 valued under NZ IFRS.

Total consideration for the portfolio transfer was \$150.2m (\$146.6m shares and \$3.6m cash), in-line with the amount of the net assets included as part of the portfolio transfer. Cash was paid by AIASNZ and WPL for the amount of net assets transferred to the respective entities.

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

3. PORTFOLIO TRANSFER (CONTINUED)

Below is an analysis of the assets and liabilities acquired by AIANZ:

	As at 1 January 2020
	\$
Assets	
Cash and cash equivalents	6,359,359
Trade and other receivables	31,859,583
Investments	179,592,890
Plant and equipment	852,563
Right-of-use assets	2,319,771
Finance lease receivables	671,919
Intangible assets	4,178,934
Insurance contract assets	23,900,505
Total assets	249,735,524
Liabilities	
Trade and other payables	15,208,754
Liabilities arising from reinsurance contracts	2,856,217
Lease liabilities	3,151,209
Other insurance liabilities	10,931,918
Deferred taxation liability	64,230,080
Employee benefit obligations	3,140,186
Total liabilities	99,518,364
Net assets transferred in portfolio transfer	150,217,160
The consideration for the portfolio transfer was made up of the following:	
Share issues by AIANZ to AIA Sovereign	146,634,277
Cash payment by AIA Services to AIAI	2,730,320
Cash payment by Westside Properties to AIAI	852,563
Total consideration	150,217,160

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

4. UNDERLYING PROFIT/ (LOSS) AFTER TAX FOR THE YEAR

Underlying profit/(loss) after tax is a non-GAAP measure presented to facilitate comparison of the Branch's profit/(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/(loss) 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 2020	Year ended 31 December 2019
	\$	\$
Components of underlying Profit/ (loss)		
Insurance contracts		
Planned margins of revenues over expenses	-	1,303,254
Difference between actual and assumed experience	-	(33,200,697)
	-	(31,897,443)
Investment contracts		
Difference between actual and assumed experience	-	(1,096,489)
	-	(1,096,489)
Investment earnings on assets in excess of insurance contract assets	-	3,871,245
Total underlying Profit/ (loss) after tax	-	(29,122,687)
Adjusted for:		
Unrealised (gain)/loss from financial assets	-	(1,991,546)
Discount rate change effect on insurance contract assets	-	(15,422,188)
Fair value and discount rate change effect after tax	-	(17,413,734)
Reduction in deferred tax on insurance contract assets - latest period	-	11,626,075
	-	(5,787,659)
Other non-insurance components	406,363	-
Profit/ (loss) after taxation	406,363	(34,910,346)

The difference between insurance contract actual and assumed experience disclosed above in 2019 includes the impact of \$24,869,431 related to the write-off of tax losses in prior year (refer to note 8).

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 2020

5. NET INVESTMENT INCOME

	Year ended 31 December 2020	Year ended 31 December 2019
	\$	\$
Fixed interest securities:		
- Debt securities interest and other income	-	6,033,128
- Debt securities realised gain	-	415,047
- Debt securities unrealised loss	-	(1,945,553)
Cash and cash equivalents interest	1,520	111,136
Loan interest	-	3,260
Total net investment income	1,520	4,617,018

6. NET CLAIMS EXPENSE

	Year ended 31 December 2020	Year ended 31 December 2019
	\$	\$
Claims	-	75,460,397
Surrenders	-	8,875,444
Claims expense	-	84,335,841
Less: Reinsurance recoveries	-	(38,022,372)
Net claims expense	-	46,313,469

7. 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 2020	Year ended 31 December 2019
	\$	\$
Insurance contract acquisition costs		
- Commission	-	19,935,337
- Other	-	13,167,280
Insurance contract maintenance costs		
- Commission	(186)	10,640,991
- Other	-	24,920,171
Finance costs	-	108,250
Investment management expenses	-	308,289
Total administration expenses	(186)	69,080,318

AIA International Limited - New Zealand Branch

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

7. 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 2020	Year ended 31 December 2019
		\$	\$
Share-based compensation	17	-	265,740
Salaries and other short term benefits		-	14,909,949
Post-employment benefits		-	484,296
Amortisation of intangible assets		-	1,453,576
Amortisation of leasehold assets		-	564,741
Depreciation of property, plant and equipment		-	311,262
Impairment of intangible assets		-	-
Lease expenses		-	172,439
Donations		-	10,000
Group service fees		-	1,439,758
Sales and marketing related		-	2,485,040
Data processing		-	4,564,616
Audit fees		-	273,059
Fees for other assurance services paid to the auditor		-	18,911
Fees for other services paid to the auditor		-	72,420
Professional fees (excluding paid to auditors)		-	1,773,711
Medical administrative expenses		-	1,090,714
Other administrative expenses		-	8,197,219
Lease interest expense	14	-	75,498
Other interest cost		-	32,752
		-	38,195,701

Other administrative expenses in prior year was largely comprised of non-operating expenses associated with business integration activities: \$3,955,448.

Auditor Remuneration

The audit fee of \$7,000 for the 2020 financial statement audit for the Branch has been settled by AIANZ on behalf of the Branch with no cross-charge made.

Other assurance services in prior year and for AIANZ relate to reasonable assurance engagements over the solvency return. Other services in prior year relate to a readiness assessment of internal controls over financial reporting.

Apart from the annual audit of the financial statements no other services were performed by PwC in the year ended 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

8. TAXATION

	Year ended 31 December 2020	Year ended 31 December 2019
Note	\$	\$
(a) Income tax expense		
Current tax expense	-	(1,347,874)
Deferred tax expense	(268,726)	10,428,491
Total income tax (benefit)/ expense	(268,726)	9,080,617

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

Profit/ (loss) before tax	137,637	(25,829,729)
Income tax at the current rate of 28%	38,538	(7,232,324)
Movement in insurance contract liabilities	-	293,745
Deductible expenditure not included in profit/(loss) before tax	(55,817)	-
Non-deductible expenditure	-	986,965
Impact arising from resolution of the historic PSR tax matter	-	(5,583,801)
Provision for uncertain tax position	-	(2,000,000)
Other prior period adjustments	-	(2,253,399)
Tax losses (recognised)/written off	(251,447)	24,869,431
Total income tax (benefit)/ expense	(268,726)	9,080,617

(b) Deferred tax liability

Balance at beginning of year	64,498,806	54,070,315
Balance transferred on sale of insurance business	(64,230,080)	-
Movement recognised in Comprehensive Income	(268,726)	10,428,491
Total deferred tax liability	-	64,498,806

Deferred tax relates to:

Insurance contract assets and liabilities	-	64,905,848
Other	-	(407,042)
Total deferred tax liability	-	64,498,806

Deferred tax recognised in Comprehensive Income:

Insurance contract assets and liabilities	-	(13,596,445)
Losses available for offset against future taxable income	-	22,339,591
Other	(268,726)	1,685,344
Total deferred tax recognised in Comprehensive Income	(268,726)	10,428,491

Deferred tax on insurance contract liabilities

As a result of the portfolio transfer that occurred on 1 January 2020, the Branch no longer has an insurance contract liability or associated deferred tax balance.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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

The Premium Smoothing Reserve (PSR) was used to spread the recognition of premium income across the expected life of certain products. The valuation methodology adopted for the PSR had 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 was revised in 2019, and the Branch took a deduction for surrenders/paybacks that have previously been treated as non-deductible.

Tax losses (recognised) / written off

The Branch had previously recognised a deferred tax asset resulting from tax losses. As a result of the portfolio transfer that occurred on 1 January 2020, the deferred tax asset of \$24,869,431 was written off on the basis that the Branch would not likely derive any future taxable income against which the tax losses could be utilised. In the current year, the Branch has taxable income, so an adjustment of \$251,447 has been made to recognise tax losses available.

9. LOANS AND RECEIVABLES

	31 December 2020	31 December 2019
	\$	\$
Receivables from policyholders, net of provision	-	3,388,297
Loans receivable	-	1,065,257
Loans and receivables from policyholders	-	4,453,554
Due from brokers and intermediaries	-	996,886
Impairment provision	-	(996,886)
Receivables from brokers and intermediaries	-	-
Reinsurance recoveries	-	24,205,065
Receivables from reinsurers	-	24,205,065
AIA Services NZ Limited	-	-
Financial Services Network Limited	-	440,525
AIA Reinsurance Limited	-	213,521
Receivables from related parties	-	654,046
Accrued interest	-	1,495,414
Sundry debtors	-	75,882
Other receivables	-	1,571,296
Total loans and receivables	-	30,883,961
Analysed as:		
Current	-	29,818,704
Non current	-	1,065,257
	-	30,883,961

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

9. LOANS AND RECEIVABLES (CONTINUED)

Included in loans and receivables balance are debtors with a net carrying amount of nil (2019: \$3,812,466) which are past due at the reporting date for which the Branch has not provided as the amounts are still considered recoverable.

	31 December 2020	31 December 2019
Ageing past due receivables	\$	\$
1-30 days	-	3,104,109
31-90 days	-	364,783
91-365 days	-	244,824
Over 1 year	-	98,750
Total	-	3,812,466

	Note	31 December 2020	31 December 2019
		\$	\$
Provision for impairment of receivables from brokers and intermediaries			
At beginning of the year		(996,886)	(2,359,336)
Additional provisions		-	(1,094,428)
Portfolio transfer	3	996,886	-
Used during the year		-	2,456,878
At the end of the year		-	(996,886)
Analysed as:			
Current		-	(996,886)

The provision is calculated on a collective basis. There are no individually assessed provisions at 31 December 2020 (2019: nil).

10. CASH AND CASH EQUIVALENTS

(a) Components of cash and cash equivalents

	31 December 2020	31 December 2019
	\$	\$
Cash at bank and in hand	4,195,416	6,237,309
Deposits at call	-	122,047
Total cash and cash equivalents	4,195,416	6,359,356

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

10. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Year ended 31 December 2020	Year ended 31 December 2019
	\$	\$
Profit/ (loss) after taxation for the year	406,363	(34,910,346)
Add/(less) non cash items		
Depreciation	-	876,003
Amortisation of intangibles	-	1,453,576
Fair value losses from financial assets	-	2,018,581
Movement in insurance contract assets	-	22,193,920
Deferred tax	(268,726)	10,428,491
Other expenses	91,803	241,759
	(176,923)	37,212,330
Add/(less) movements in working capital relating to operating activities		
(Increase)/decrease in loans and receivables	-	587,925
(Increase)/decrease in prepayments	-	(109,983)
(Increase)/decrease in income tax assets	-	(1,112,894)
Increase/(decrease) in trade and other payables	383,096	(1,142,469)
Increase/(decrease) in employee benefit obligations	-	(884,432)
Increase/(decrease) in other insurance liabilities	-	277,787
Increase/(decrease) in other financial liabilities	-	441,289
	383,096	(1,942,777)
Net cash provided by/(used in) operating activities	612,536	359,207

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2020	31 December 2019
	\$	\$
Debt securities		
Medium term notes	-	179,592,890
Total financial assets through profit or loss	-	179,592,890
Analysed as:		
Current	-	11,064,766
Non current	-	168,528,124
	-	179,592,890

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

12. PLANT AND EQUIPMENT

	Note	31 December 2020	31 December 2019
		\$	\$
Furniture, fittings and office equipment			
Cost			
At beginning of the year		1,190,996	1,471,055
Additions		-	459,983
Disposals		-	(740,042)
Portfolio transfer	3	(1,190,996)	-
At end of the year		-	1,190,996
Accumulated depreciation			
At beginning of the year		(759,068)	(817,702)
Depreciation charge		-	(128,502)
Disposals		-	187,136
Portfolio transfer	3	759,068	-
At end of the year		-	(759,068)
Closing net book value		-	431,928
Computer equipment			
Cost			
At beginning of the year		2,314,572	2,255,984
Additions		-	63,102
Disposals		-	(4,514)
Portfolio transfer	3	(2,314,572)	-
At end of the year		-	2,314,572
Accumulated depreciation			
At beginning of the year		(1,893,937)	(1,712,476)
Depreciation charge		-	(182,760)
Disposals		-	1,299
Portfolio transfer	3	1,893,937	-
At end of the year		-	(1,893,937)
Closing net book value		-	420,635
Total net book value of plant and equipment		-	852,563

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

13. INTANGIBLE ASSETS

	Note	31 December 2020	31 December 2019
		\$	\$
Purchased computer software			
Cost			
At beginning of the year		467,512	298,113
Additions		-	169,399
Portfolio transfer	3	(467,512)	-
At end of the year		-	467,512
Accumulated amortisation			
At beginning of the year		(307,940)	(270,070)
Amortisation charge		-	(37,870)
Portfolio transfer	3	307,940	-
At end of the year		-	(307,940)
Closing net book value		-	159,572
Internally developed software			
Cost			
At beginning of the year		11,290,941	10,639,432
Additions		-	16,733
Transfers from work in progress		-	634,776
Portfolio transfer	3	(11,290,941)	-
At end of the year		-	11,290,941
Accumulated amortisation			
At beginning of the year		(7,274,467)	(5,858,761)
Amortisation charge		-	(1,415,706)
Portfolio transfer	3	7,274,467	-
At end of the year		-	(7,274,467)
Closing net book value		-	4,016,474
Work in progress			
At beginning of the year		2,888	662,681
Disposals		-	(25,017)
Transfers to internally developed software		-	(634,776)
Portfolio transfer	3	(2,888)	-
Closing net book value		-	2,888
Total intangible assets		-	4,178,934

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

14. RIGHT OF USE ASSETS, LEASE LIABILITIES AND LEASE RECEIVABLES**a) 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	Note	Property	Equipment	Total
At 1 January 2020		2,070,193	249,578	2,319,771
Portfolio transfer	3	(2,070,193)	(249,578)	(2,319,771)
Carrying value at 31 December 2020		-	-	-
		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

(ii) Lease liabilities

	Note	Property	Equipment	Total
At 1 January 2020		(2,898,550)	(252,658)	(3,151,208)
Portfolio transfer	3	2,898,550	252,658	3,151,208
Carrying value at 31 December 2020		-	-	-
		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 19(iv).

The Branch does not have any short-term or low-value leases at 31 December 2020.

b) As Lessor

In 2019 the Branch was a lessor under two property subleases classified as finance leases. One existed at adoption of NZ IFRS 16 at 1 January 2019, and the other was entered into during 2019. No leases remain in the Branch after the portfolio transfer on 1 January 2020.

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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

(i) Finance lease receivables

Finance lease receivables

	Note	Property
At 1 January 2020		671,919
Portfolio transfer	3	(671,919)
At 31 December 2020		-
		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 of lease receivable

	Under 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
At 31 December 2020	-	-	-	-	-	-	-
At 31 December 2019	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:

	As at 31 December 2020	As at 31 December 2019
	\$	\$
Lease payments receivable	-	691,174
Unearned finance income	-	(19,255)
Net investment	-	671,919

15. EMPLOYEE BENEFIT OBLIGATIONS

	31 December 2020	31 December 2019
	\$	\$
Employee entitlements	-	3,140,186
Total employee benefit obligations	-	3,140,186
Analysed as:		
Current	-	2,987,319
Non current	-	152,867
	-	3,140,186

No employees remain in the Branch after the portfolio transfer on 1 January 2020.

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

16. TRADE AND OTHER PAYABLES

	31 December 2020	31 December 2019
Amounts due to reinsurers	-	8,208,049
Other payables and accruals	262,522	5,502,342
Investment settlement	-	68,875
Total trade and other payables	262,522	13,779,266
Analysed as:		
Current	262,522	13,779,266
	262,522	13,779,266

17. SHARE BASED COMPENSATION

No employees remain in the Branch after the portfolio transfer on 1 January 2020. Below references to share based compensation refers to 2019 prior year activities.

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 (2019: 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 2020.

	Note	Number of shares	
		31 December 2020	31 December 2019
		\$	\$
Restricted share units			
Outstanding at beginning of financial year		92,981	31,155
Granted		-	19,480
Exercised		-	(8,132)
Transfer in		-	50,606
Forfeited		-	(128)
Portfolio transfer	3	(92,981)	-
Outstanding at end of financial year		-	92,981

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).

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

17. SHARE BASED COMPENSATION (CONTINUED)

Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the AIA Group. The level of qualified employee contribution is limited to not more than 8% of the annual basic salary subject to a maximum of HK\$117,000 per annum.

The awarded matching restricted stock purchase units are expected to be settled in equity. For the year ended 31 December 2020, eligible employees of the Branch paid nil (2019: \$126,393) to purchase nil ordinary shares (2019: 8,315 ordinary shares) of AIAGL.

Valuation methodology

The AIA Group utilises a binomial lattice model to calculate the fair value of the share options grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU and ESPP awards, taking into account the terms and conditions upon which the awards were granted. The price volatility is estimated on the basis of implied volatility of the AIAGL's shares which is based on an analysis of historical data since they are traded in the Stock Exchange of Hong Kong and takes into consideration the historical volatility of peer companies. The expected life of the options is derived from the output of the valuation model and is calculated based on an analysis of expected exercise 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 2020			Thirteen months ended 31 December 2019		
	Share options	Restricted share units	ESPP Restricted stock purchase units	Share options	Restricted share units	ESPP Restricted stock purchase units
Risk-free interest rate	N/A	N/A	N/A	1.44% - 1.59%	1.36% - 1.67%	1.44% - 1.76%
Volatility	N/A	N/A	N/A	20.00%	20.00%	20.00% - 24.00%
Dividend yield	N/A	N/A	N/A	1.50%	1.50% - 1.61%	1.50% - 1.61%
Exercise price (HK\$)	N/A	N/A	N/A	N/A	N/A	N/A
Option life (in years)	N/A	N/A	N/A	N/A	N/A	N/A
Expected life (in years)	N/A	N/A	N/A	N/A	N/A	N/A
Weighted average fair value per option / unit at measurement date (HK\$)	N/A	N/A	N/A	N/A	53.90	72.35

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 2020 is nil (2019: \$265,740). No compensation cost was recognised in 2020 or 2019 for the SO Scheme.

18. OTHER INSURANCE LIABILITIES

	31 December 2020	31 December 2019
	\$	\$
Outstanding claims	-	8,696,088
Premiums received in advance	-	2,235,831
Total other insurance liabilities	-	10,931,918
Analysed as:		
Current	-	10,931,918

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Branch operated risk management policies in accordance with AIA Group policies and procedures. All references below refer to prior year operations as the Branch has no continuing operations after the portfolio transfer on 1 January 2020.

The financial condition and operating results of the Branch were affected by a variety of key financial and non-financial risks. Financial risks included market risk (interest rate risk, foreign currency risk and price risk), liquidity risk and credit risk. The non-financial risks were operational risk, life insurance risk and compliance risk.

Risk management objectives and approach

Various procedures were 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 involved 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 did 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 2020						
Financial assets measured at fair value						
Medium term notes	-	-	-	-	-	-
Financial assets not measured at fair value						
Cash and cash equivalents	-	4,195,416	-			4,195,416
Loans and receivables	-	-	-			-
Lease receivables	-	-	-			-
	-	4,195,416	-			4,195,416
Financial liabilities measured at fair value						
Insurance contract liabilities - investment contracts	-	-	-	-	-	-
Financial liabilities not measured at fair value						
Trade and other payables	-	-	262,522			262,522
Outstanding claims provision	-	-	-			-
Lease liabilities	-	-	-			-
Other financial liabilities	-	-	-			-
	-	-	262,522			262,522

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

19. 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			
	\$	\$	\$	\$	\$	\$
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

(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 5) separately. The fair value included above therefore excludes an interest accrued component.

The Branch holds no investments following the portfolio transfer on 1 January 2020. Below references to fair value of investments refer to prior year.

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 in prior year.

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 2020

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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

	31 December 2020	31 December 2019
Surrender rate		
Year 1-5	N/A	7.00%
Year 6-10	N/A	10.00%
Year 11-15	N/A	12.50%
Year 16-20	N/A	15.00%
Year 21-25	N/A	17.50%
Assumed crediting rate	N/A	6.00%
Discount rate, net of investment related expenses (gross of tax)	N/A	2.26%
Discount rate, net of investment related expenses (net of tax)	N/A	1.63%

Future policy cash flows were 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 were 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% in prior year. 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 for prior year:

Variation	Insurance contract liabilities - Investment contracts		
	Note	31 December 2020	31 December 2019
		\$	\$
Opening balance:		6,925,866	6,257,100
Fair value movements recognised in the Statement of Comprehensive Income		-	332,482
Investment income net of tax and expenses		-	284,752
Contributions received		-	107,169
Withdrawals		-	(55,637)
Portfolio transfer	3	(6,925,866)	-
Closing balance:		-	6,925,866

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the sensitivity of level 3 measurement in prior year 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)
	<u>31 December 2019</u>
	\$
Interest rates + 1%	620,000
Interest rates - 1%	(710,000)
Surrenders + 10%	230,000
Surrenders - 10%	(270,000)

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 was managed by the members of the AIA Australia Limited (AIA Australia) investment team who currently handle the investment function of the Branch. There was 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 in prior year, 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 in prior year could have had 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 were considered reasonably possible at the end of the prior period.

Sensitivity of floating interest rate investments

At 31 December 2020, 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 \$0 lower/higher respectively (2019: loss would have been \$45,787 lower/higher respectively) for the Branch.

Sensitivity of fixed interest rate investments

At 31 December 2020, 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 \$ 0 higher/lower respectively (2019: loss would have been 11,690,651 higher / \$ 13,255,258 lower respectively) for the Branch.

Interest rate risk sensitivity on the fair value of insurance contract liabilities is disclosed in note 21 and for investment contract assets is disclosed in Note 19 under Financial Risks (ii).

19. 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 was responsible for ensuring any assets purchased or held could be turned to cash within normal market settlement times. The Chief Investment Officer monitored this risk primarily by future cash forecast requirements. Liquidity risk was managed by holding a pool of readily tradable investment assets and deposits at call. This policy recognised 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 2020					
Trade and other payables	N/A	262,522	-	262,522	262,522
Outstanding claims provision	N/A	-	-	-	-
Lease Liabilities	-	-	-	-	-
Other financial liabilities					
- Amounts due to related parties	N/A	-	-	-	-
Insurance contract liabilities - Investment contracts	N/A	-	-	-	-
Total financial liabilities		262,522	-	262,522	262,522
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

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 was exposed to credit risk were:

- 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Exposure to credit risk was managed by placing cash and cash equivalents with high credit quality financial institutions only. Investments are also placed with high quality institutions. Counterparties were assessed for credit worthiness before credit is granted. Reinsurance was used to manage insurance risk. This did not, however, discharge the Branch's liability as primary insurer. If a reinsurer failed to pay a claim for any reason, the Branch remained liable for the payment to the policyholder.

The monitoring of the credit worthiness of reinsurers was centralised with the Group Enterprise Risk Management of AIA Group in Hong Kong, who performed this function for all companies within the AIA Group. Every new treaty and amendment required 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 would ask for additional security in case they were not satisfied with the status of a reinsurer and would 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 2020	31 December 2019
	\$	\$
AA	4,195,416	152,817,279
A	-	41,001,175
BBB	-	14,757,456
Non- Rated	-	8,932,216
Total Financial Assets	4,195,416	217,508,126

Capital management

Post the transfer the Branch no longer holds any insurance business and the insurance license with the Reserve Bank of New Zealand (RBNZ) was cancelled and statutory fund terminated on 8 July 2020. Below references to capital management refers to the prior year.

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

- (i) maintain a level of target surplus which created a buffer over minimum regulatory capital while still allowing for efficient use of capital;
- (ii) maintaining a strong capital base to cover the inherent risks of the business; and
- (iii) supporting 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 had ultimate responsibility for compliance with the solvency standard and managing capital. If NZ Management had reasonable grounds to believe that a failure to maintain a solvency margin in either life fund was likely to occur at any time within the next three years, the likely failure had to be reported to the RBNZ as soon as was reasonably practicable. Compliance with these requirements was a continuous obligation. As a minimum, calculations had to be undertaken twice a year, at six monthly intervals, and reported to the RBNZ.

The capital structure of the Branch consisted of equity attributable to equity holders, comprising the Head Office account as disclosed in the Statement of Changes in Equity.

NZ Management approved the capital management policy and minimum capital levels and limits. Minimum capital levels were 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 was a capital buffer held on top of regulatory requirements to ensure the likelihood of a breach of regulatory requirements was at a level consistent with the Branch's risk appetite. The level of target surplus took account of management assessments of actual risk and forecasts/stress testing of future capital requirements. NZ Management had 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 23.

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

19. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

The solvency capital of the Branch is presented below.

	Branch	Statutory Fund	Non- Statutory Fund
As at 31 December 2020	\$	\$	\$
Actual solvency capital	-	-	-
Minimum solvency capital	-	-	-
Solvency Margin	-	-	-
Solvency ratio	0%	0%	0%

	Branch	Statutory Fund	Non- Statutory Fund
As at 31 December 2019	\$	\$	\$
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%

The basis of calculation of the solvency reserves for 2019 follows the requirements set out in the Reserve Bank of New Zealand "Solvency Standard for Life Insurance Business". Post the transfer the Branch no longer holds any insurance business and the insurance license with the Reserve Bank of New Zealand (RBNZ) was cancelled and statutory fund terminated on 8 July 2020.

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.

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

19. 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 21 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.

20. OTHER FINANCIAL LIABILITIES

	31 December 2020	31 December 2019
	\$	\$
Amounts due (from)/to related parties:		
AIA Reinsurance Limited	-	2,234,409
AIA Services New Zealand Limited	-	262,896
	-	2,497,305
Analysed as:		
Current	-	2,497,305

21. ACTUARIAL POLICIES AND METHODS

Post the transfer the Branch no longer holds any insurance business and the insurance license with the RBNZ was cancelled and statutory fund terminated on 8 July 2020. Based on this the Branch received an exemption from RBNZ for s.78 reporting for 2020. The actuarial report on insurance contract assets and solvency reserves for the prior reporting period was prepared as at 31 December 2019.

Caroline Bennet, Fellow of the Institute of Actuaries of Australia, was the Appointed Actuary of the Branch in 2019. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

21. ACTUARIAL POLICIES AND METHODS (CONTINUED)

The valuation methodology and assumptions for insurance applied for the reporting period are as follows:
(Refer to Note 19 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.</p> <p>2019: AIA NZ Ltd calculated yield curve (treasury short term rates with interpolation for long term)</p>
Investment expenses (before tax)	2019: 0.19%

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

21. ACTUARIAL POLICIES AND METHODS (CONTINUED)

Other assumptions

	Permanent Term, Express Life, Permanent Life and Golden Life	Lump Sum Renewable Risk Products	Income Protection Products	Medical Insurance Products
Mortality	2019: 54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits.	2019: 54% NZ04 Mortality Table for non-smokers, 108% smokers, with initial selection benefits. Real Easy Life and Real Family Protection has additional 30% loading.	2019: 54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits.	2019: 54% of NZ04 Mortality Table for non-smokers, 108% for smokers, with initial selection benefits.
Mortality improvement	2019: Nil	2019: Nil	2019: Nil	2019: Nil
Morbidity	2019: Nil	2019: Percentage of reinsurer risk premium rates, strengthening of crisis assumptions, strengthening of TPD assumptions.	2019: Incidence and termination rates as a percentage of IAD89-93.	2019: 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%.
Initial expense allowance (before tax)	2019: Nil	2019: 49.95% to 82.83% of New Annualised Premium Income (API); and \$260.87 to \$495.95 per cover.	2019: 85.32% of New Annualised Premium Income (API); and \$414.88 per cover.	2019: 30.25% of New Annualised Premium Income (API); and \$210.68 per cover.
Renewal expenses (before tax)	2019: 5.24% of Annualised Premium Income (API); and \$112.78 p.a., escalating at 2.0% p.a.	2019: 5.17% to 6.84% of Annualised Premium Income (API); and \$52.84 to \$61.29 p.a., escalating at 2.0% p.a.	2019: 5.63% of Annualised Premium Income (API); and \$84.01 p.a., escalating at 2.0% p.a.	2019: 5.78% to 6.44% of Annualised Premium Income (API); and \$96.45 to \$112.96 per cover, escalating at 2.0% p.a.
Cover escalation	2019: 2.0% p.a.	2019: 2.0% p.a.	2019: 2.0% p.a.	2019: 4.5% p.a. graded down to 2.5% p.a. in 3 years.
Lapses / surrenders	2019: Based on experience analysis, varying between 1% to 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).	2019: Based on experience analysis, varying between 2% and 25% depending on duration and product.	2019: Based on experience analysis, varying between 7.5% and 25% depending on duration and product.	2019: Based on experience analysis, varying between 5.8% and 16% depending on duration and product.
Tax rate	2019: 28%	2019: 28%	2019: 28%	2019: 28%
Inflation rate	2019: 2.0%	2019: 2.0%	2019: 2.0%	2019: 2.0%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

21. 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			
	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)
Operating assumptions change:			
Investment management expenses	1,650,868	-	-
Mortality	-	-	-
Morbidity	(19,799,528)	-	-
Lapse	22,049,233	-	-
Expense	19,557,648	-	-
Morbidity (medical insurance)	(17,609,116)	-	-
Inflation	1,978,088	-	-
Total	12,193,990	9,339,150	(9,339,150)

Assumption changes in the previous period included improvements in lapse assumptions and strengthening of trauma claims rates.

Sensitivity analysis

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

21. 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)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

22. INSURANCE CONTRACT LIABILITIES/(ASSETS)

	Note	31 December 2020 \$	31 December 2019 \$
Opening insurance contract liabilities		43,861,562	35,264,085
Movement in insurance contract liabilities - Insurance contracts		-	21,525,154
Movement in insurance contract liabilities - Investment contracts		-	617,234
Universal life premiums received - Investment contracts		-	107,169
Universal life payments to policyholders - Investment contracts		-	(55,637)
Movement through Statement of Comprehensive Income		-	22,193,920
Portfolio transfer adjustment	3	21,044,288	-
Movement in deferred tax	8	(64,905,848)	(13,596,443)
Closing insurance contract liabilities		2	43,861,562
<i>Closing insurance contract liabilities contain the following components:</i>			
Insurance contracts			
Future premiums		-	(1,222,503,453)
Future policy benefits		-	859,476,402
Future expenses		-	337,518,821
Planned margin		-	62,443,926
Insurance contract liabilities		-	36,935,696
Investment contracts			
Future insurance contract benefits		-	6,925,866
Investment contract liabilities		-	6,925,866
Net insurance contract liabilities including deferred tax and reinsurance		-	43,861,562
Liabilities arising from reinsurance contracts			
Balance at beginning of year		(2,856,217)	(14,318,924)
Movement through Statement of Comprehensive Income		-	11,462,707
Portfolio adjustment	3	2,856,217	-
Balance at 31 December		-	(2,856,217)
Deferred tax	8	-	(64,905,850)
Total insurance contract assets excluding deferred tax and reinsurance		-	(23,900,505)
Analysed as:			
Current liabilities		-	8,546,419
Non current assets		-	(32,446,924)
		-	(23,900,505)

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

23. 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.

Post the transfer the Branch no longer holds any insurance business and the insurance license with the Reserve Bank of New Zealand (RBNZ) was cancelled and statutory fund terminated on 8 July 2020.

Disaggregated information of the statutory fund for 2019 is presented in the table below. Post the transfer the Branch no longer holds any insurance business and the insurance license with the RBNZ was cancelled and statutory fund terminated on 8 July 2020.

	AIA 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 2020

24. 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:

	31 December 2020	31 December 2019
	\$	\$
Parent		
<i>AIA International Limited</i>		
Share based compensation payments	-	265,740
Data processing costs	-	27,267
Other administrative fees	-	1,582,250
	-	1,875,257
Fellow subsidiaries of the ultimate holding company		
(i) New Zealand		
<i>Financial Services Network Limited (FSN)</i>		
Commission expenses	-	763,566
Rent and other usage charges oncharged to FSN	-	233,363
Reimbursement of various expenses and other payables from FSN	-	1,047,698
	-	2,044,627
<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
(ii) Overseas		
Data processing costs	-	1,415,693
Investment service and administration fees	-	281,717
Actuarial fees	-	1,054,255
Reinsurance premiums paid	-	28,571,704
Reinsurance commission income received	-	(9,772,616)
Reinsurance claims recoveries received	-	(6,669,981)
Other administrative fees	-	1,620,470

The audit fee of \$7,000 for the 2020 financial statement audit for the Branch has been settled by AIANZ on behalf of the Branch with no cross-charge made. For more information on the audit fee, refer to note 7.

For balances with related parties refer to note 20 "Other Financial Liabilities" and note 9 "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.

AIA International Limited - New Zealand Branch

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

24. OWNERSHIP AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

c) Key management personnel compensation

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Branch 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 24 (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.

	31 December 2020	31 December 2019
	\$	\$
The compensation for key management personnel during the year was as follows:		
Salaries and other short term benefits	-	1,130,720
Terminations	-	111,887
Share based compensation payment	-	265,740
	-	1,508,347

25. CAPITAL COMMITMENTS

There are no material capital commitments at reporting date (2019: nil).

26. CONTINGENT LIABILITIES

There are no material contingent liabilities at reporting date (2019: nil).

27. EVENTS OCCURRING AFTER BALANCE DATE

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



Independent auditor's report

To the Directors of AIA International Limited - New Zealand Branch

Our opinion

In our opinion, the accompanying financial statements of AIA International Limited - New Zealand Branch (the Branch), present fairly, in all material respects, the financial position of the Branch as at 31 December 2020, 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).

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2020;
- 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 significant accounting policies and other explanatory information.

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.

Independence

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Description of the key audit matter	How our audit addressed the key audit matter
Portfolio transfer of assets and liabilities held by the Branch	
<p>Effective 1 January 2020, a portfolio transfer occurred which transferred all the insurance business of the Branch, including the statutory fund assets and any related assets and liabilities to AIA New Zealand Limited.</p> <p>As the Branch no longer conducts any insurance business, its insurance license with the Reserve Bank of New Zealand was subsequently cancelled on 8 July 2020.</p> <p>We considered this a key audit matter as the assets and liabilities subject to the portfolio transfer represent the majority of the Branch's net assets as at 1 January 2020 and is the key transaction the Branch entered into during the year.</p> <p>Refer to the following notes in the financial statements: Note 1.2(a) for background information and Note 3.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> Inspecting the portfolio transfer agreement to develop an understanding of the terms and conditions associated with the transaction; Assessing the appropriateness, completeness and accuracy of the derecognition of balances on the financial statements to determine whether they were in accordance with the agreement; and Assessing the disclosure in the financial statements in relation to the portfolio transfer against the requirements of NZ IFRS and IFRS.

Emphasis of Matter – Basis of Preparation

We draw attention to Note 1.2 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

Materiality	<p>Overall materiality: \$44,600 which represents 1% of total assets.</p> <p>We chose total assets as the benchmark because the Branch is no longer trading. The 1% is based on our professional judgement, noting that it is also within the range of commonly accepted total asset related thresholds.</p>
Key audit matter	<p>As reported above, we have one key audit matter, being:</p> <ul style="list-style-type: none"> Portfolio transfer of assets and liabilities held by the Branch

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.



Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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.

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/assurance-standards/auditors-responsibilities/audit-report-2/>

This description forms part of our auditor's report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Karl Deutsche. For and on behalf of:

Chartered Accountants
9 March 2021

Auckland