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**THE REAL LIFE  
COMPANY**

**AIA Group Limited**

**友邦保險控股有限公司**

*(Incorporated in Hong Kong with limited liability)*

**Stock Code: 1299**

**ANNUAL RESULTS FOR THE YEAR ENDED 30 NOVEMBER 2016**

**AIA DELIVERS ANOTHER EXCELLENT SET OF RESULTS**  
**VONB UP 28 PER CENT ON CONSTANT EXCHANGE RATES**  
**OPERATING PROFIT UP 15 PER CENT – FINAL DIVIDEND UP 25 PER CENT**

The Board of Directors of AIA Group Limited (stock code: 1299) is pleased to announce that AIA has delivered excellent results for the year ended 30 November 2016. Highlights are shown on a constant exchange rate basis:

**Excellent growth in value of new business (VONB)**

- 28 per cent growth in VONB to US\$2,750 million
- 31 per cent increase in annualised new premiums (ANP) to US\$5,123 million
- VONB margin of 52.8 per cent

**Strong operating profit generation**

- IFRS operating profit after tax (OPAT) up 15 per cent to US\$3,981 million
- IFRS operating earnings per share up 15 per cent to 33.25 US cents
- Embedded value (EV) operating profit up 19 per cent to US\$5,887 million
- Operating return on EV (ROEV) increased to 15.4 per cent

**Robust cash flow and resilient capital position**

- Underlying free surplus generation of US\$4,024 million, up 11 per cent
- Free surplus of US\$9.8 billion
- EV Equity of US\$43.7 billion; EV of US\$42.1 billion, up 12 per cent
- Net remittances of US\$2.0 billion
- Solvency ratio for our principal operating company, AIA Co., of 404 per cent on the HKICO basis

**Significant increase in recommended final dividend**

- 25 per cent growth in final dividend to 63.75 Hong Kong cents per share
- Total dividend of 85.65 Hong Kong cents per share, an increase of 23 per cent

**Mark Tucker, AIA's Group Chief Executive and President, said:**

"AIA has delivered an excellent set of results in 2016. We have achieved record new business profits, significant earnings growth, strong free surplus generation and a step up in shareholder dividends. Today's headline figures, with VONB up by 28 per cent, and our consistent track record of year-on-year profitable growth are the direct result of the strong fundamental growth drivers in the Asia-Pacific region, our highly-diversified and resilient business model and our commitment to building a high-quality, sustainable business for the long term.

"The Board has recommended a further step up of 25 per cent in the 2016 final dividend from our higher base in 2015 to 63.75 Hong Kong cents per share. This dividend uplift reflects our excellent financial performance and our confidence in the future outlook for the Group.

"AIA has been in Asia for close to a century. The powerful structural economic, social and demographic changes taking place across the region present an unparalleled opportunity for the Asian life insurance industry and one which AIA, with our distribution reach, trusted brand, financial strength and people capabilities, is in an advantaged position to capture.

"We have made an excellent start to 2017 with strong value of new business growth in the first two months of our financial year. We have clear strategic priorities in place and are committed to building on our strong competitive advantages by helping our customers meet their long-term financial needs through our products and services. This provides us with a strong foundation to deliver profitable growth and long-term value for our shareholders, as we help our customers live longer, healthier, better lives and plan for a brighter future."

## About AIA

AIA Group Limited and its subsidiaries (collectively “AIA” or the “Group”) comprise the largest independent publicly listed pan-Asian life insurance group. It has a presence in 18 markets in Asia-Pacific – wholly-owned branches and subsidiaries in Hong Kong, Thailand, Singapore, Malaysia, China, Korea, the Philippines, Australia, Indonesia, Taiwan, Vietnam, New Zealand, Macau, Brunei, a 97 per cent subsidiary in Sri Lanka, a 49 per cent joint venture in India and representative offices in Myanmar and Cambodia.

The business that is now AIA was first established in Shanghai almost a century ago. It is a market leader in the Asia-Pacific region (ex-Japan) based on life insurance premiums and holds leading positions across the majority of its markets. It had total assets of US\$185 billion as of 30 November 2016.

AIA meets the long-term savings and protection needs of individuals by offering a range of products and services including life insurance, accident and health insurance and savings plans. The Group also provides employee benefits, credit life and pension services to corporate clients. Through an extensive network of agents, partners and employees across Asia-Pacific, AIA serves the holders of more than 30 million individual policies and over 16 million participating members of group insurance schemes.

AIA Group Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code “1299” with American Depositary Receipts (Level 1) traded on the over-the-counter market (ticker symbol: “AAGIY”).

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## FINANCIAL SUMMARY

### PERFORMANCE HIGHLIGHTS

US\$ millions, unless otherwise stated	2016	2015	YoY (CER)	YoY (AER)
<b>New Business Value</b>				
Value of new business (VONB)	<b>2,750</b>	2,198	<b>28%</b>	25%
VONB margin	<b>52.8%</b>	54.0%	<b>(1.3) pps</b>	(1.2) pps
Annualised new premiums (ANP)	<b>5,123</b>	3,991	<b>31%</b>	28%
<b>Embedded Value</b>				
Embedded value (EV) operating profit	<b>5,887</b>	5,068	<b>19%</b>	16%
EV Equity	<b>43,650</b>	39,818	<b>11%</b>	10%
Value of in-force business (VIF)	<b>25,570</b>	23,009	<b>12%</b>	11%
Adjusted net worth (ANW)	<b>16,544</b>	15,189	<b>11%</b>	9%
Embedded value	<b>42,114</b>	38,198	<b>12%</b>	10%
EV operating earnings per share (US cents)	<b>49.17</b>	42.34	<b>19%</b>	16%
EV Equity per share (US cents)	<b>362.06</b>	330.49	<b>11%</b>	10%
<b>IFRS</b>				
Operating profit after tax (OPAT)	<b>3,981</b>	3,556	<b>15%</b>	12%
Total weighted premium income (TWPI)	<b>22,133</b>	19,876	<b>14%</b>	11%
Operating earnings per share (US cents)				
– Basic	<b>33.25</b>	29.71	<b>15%</b>	12%
– Diluted	<b>33.16</b>	29.62	<b>15%</b>	12%
<b>Dividends and Capital</b>				
Dividend per share (HK cents)				
– Final	<b>63.75</b>	51.00	<b>n/a</b>	25%
– Total	<b>85.65</b>	69.72	<b>n/a</b>	23%
AIA Co. HKICO solvency ratio	<b>404%</b>	428%	<b>n/a</b>	(24) pps

### NEW BUSINESS PERFORMANCE BY SEGMENT

US\$ millions, unless otherwise stated	2016			2015			VONB Change	
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YoY (CER)	YoY (AER)
Hong Kong	<b>1,161</b>	<b>48.8%</b>	<b>2,294</b>	820	62.0%	1,263	<b>42%</b>	42%
Thailand	<b>384</b>	<b>81.5%</b>	<b>471</b>	395	75.8%	520	<b>1%</b>	(3)%
Singapore	<b>316</b>	<b>74.1%</b>	<b>427</b>	341	72.4%	471	<b>(7)%</b>	(7)%
Malaysia	<b>198</b>	<b>57.1%</b>	<b>341</b>	172	57.9%	292	<b>23%</b>	15%
China	<b>536</b>	<b>86.4%</b>	<b>621</b>	366	83.5%	438	<b>54%</b>	46%
Other Markets	<b>321</b>	<b>32.9%</b>	<b>969</b>	296	29.4%	1,007	<b>10%</b>	8%
<b>Subtotal</b>	<b>2,916</b>	<b>56.0%</b>	<b>5,123</b>	2,390	58.9%	3,991	<b>25%</b>	22%
Adjustment to reflect additional Hong Kong reserving and capital requirements	<b>(37)</b>	<b>n/m</b>	<b>n/m</b>	(72)	n/m	n/m	<b>n/m</b>	n/m
After-tax value of unallocated Group Office expenses	<b>(129)</b>	<b>n/m</b>	<b>n/m</b>	(120)	n/m	n/m	<b>n/m</b>	n/m
<b>Total</b>	<b>2,750</b>	<b>52.8%</b>	<b>5,123</b>	2,198	54.0%	3,991	<b>28%</b>	25%

Notes:

- (1) A presentation for analysts and investors, hosted by Mark Tucker, Group Chief Executive and President, is scheduled at 9:30 a.m. Hong Kong time today with attendance by pre-registration only.  
An audio cast of the presentation and presentation slides will be available on AIA's website:  
<http://www.aia.com/en/investor-relations/results-presentations.html>
- (2) All figures are presented in actual reporting currency (US dollar) and based on actual exchange rates (AER) unless otherwise stated. Change on constant exchange rates (CER) is calculated using constant average exchange rates for 2016 and for 2015 other than for balance sheet items that use constant exchange rates as at 30 November 2016 and as at 30 November 2015.
- (3) Change is shown on a year-on-year basis unless otherwise stated.
- (4) VONB is calculated based on assumptions applicable at the point of sale and before deducting the amount attributable to non-controlling interests. The amounts of VONB attributable to non-controlling interests in 2016 and in 2015 were US\$19 million and US\$21 million respectively.
- (5) VONB includes pension business. ANP and VONB margin exclude pension business.
- (6) IFRS operating profit after tax and operating earnings per share are shown after non-controlling interests unless otherwise stated.
- (7) Hong Kong refers to operations in Hong Kong and Macau; Singapore refers to operations in Singapore and Brunei; and Other Markets refers to operations in Australia, Indonesia, Korea, New Zealand, the Philippines, Sri Lanka, Taiwan, Vietnam and India. The results of our joint venture in India are accounted for using the equity method. For clarity, TWPI, ANP and VONB exclude any contribution from India.
- (8) 2015 financial information has been adjusted to reflect the changes in definition of operating profit and accounting policies for real estate with effect from 1 December 2015, as previously highlighted in notes 48 and 49 to the financial statements in our Annual Report 2015.
- (9) For 2016, Korea is no longer disclosed separately as a reportable segment and is now included as part of the Other Markets segment. Prior year comparatives have been adjusted accordingly to conform to current year presentation.
- (10) AIA's financial information in this document is based on the audited consolidated financial statements and supplementary embedded value information for the year.

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## GROUP CHIEF EXECUTIVE AND PRESIDENT'S REPORT

AIA has delivered another outstanding set of results with consistently strong performances across all our main financial metrics in 2016.

Value of new business (VONB) grew by 28 per cent to US\$2,750 million, IFRS operating profit after tax (OPAT) increased by 15 per cent and underlying free surplus generation was higher by 11 per cent, all on constant exchange rates. As in past years, this reflects the disciplined execution of our strategy to achieve superior profitable growth that supports strong free surplus and cash flow generation over time.

The Board has decided to recommend a significant step up of 25 per cent in the 2016 final dividend from the higher base in 2015. This reflects the Group's past success, the continued strength of these results and our confidence in the Group's future prospects.

Our significant progress has been achieved against the backdrop of an uncertain global macroeconomic and geopolitical environment. The strong fundamentals in the region, the resilience of our business model and our commitment to building a high-quality, sustainable business for the long term has enabled us to deliver a strong and consistent track record of year-on-year growth. I often describe AIA as being on an exciting and long-term journey, and this will always be my unwavering conviction.

AIA's core business is to offer Asian households products and services that enhance their financial security and provide them with peace of mind as their financial needs evolve over their lifetimes. There is a wide diversity of cultures and languages across our 18 markets and each market is at a different stage of economic development. However, they all share two fundamentally important characteristics: far-reaching economic expansion and rapid urbanisation are disrupting traditional family support networks and community welfare systems, and state intervention through the provision of medical, welfare or retirement benefits is likely to remain limited.

The term "protection gap" is used to indicate the shortfall in the levels of insurance cover needed to safeguard the population against the risks of early mortality, disability, out-of-pocket medical expenses and poverty in old age. This is the challenge that AIA seeks to meet, with an emphasis first and foremost on providing financial protection against mortality, as the most serious threat to family welfare and the most immediate customer need. It is an unparalleled opportunity for the life insurance industry and one that I believe AIA, with our distribution scale, trusted brand, financial resources and people capabilities, is in an advantaged position to meet.

The life insurance industry plays a fundamentally important role in the economic emergence of developing societies by channelling retail savings into productive investment and infrastructure. These are particularly important because they improve productivity and because they provide an economic lever to optimise growth across the region. The adoption of risk-based capital approaches to solvency testing across much of the region is proving a significant enabler in this process. AIA is playing an active role in collaboration and consultation with regulators globally in developing and testing new arrangements. For our part, AIA is proud to direct US\$120 billion of investments into local financial markets and through the scale and reach of our distribution we mobilise savings and pool premiums at the rate of around US\$20 billion a year – all exclusively in the Asia-Pacific region.

This is not just a matter of good sense and sound economic management but also important to us in matching our policyholder liabilities with assets that produce real rates of return. It is a "win-win" approach that will benefit ourselves, our customers and the wider economies in which we operate. Through aligning our strategy with the fundamental social and economic needs of the region and increasing our engagement with customers, we are embedding our activities deeply into the economic growth and prosperity of Asia.

## **2016 PERFORMANCE HIGHLIGHTS (ON A CONSTANT EXCHANGE RATE BASIS)**

**Hong Kong** had another very successful year with a 42 per cent increase in VONB driven by higher activity and productivity levels in our agency distribution, combined with excellent growth in our partnership distribution channel. Our Hong Kong business also benefited from increased volumes of business from Mainland Chinese customers. While we focus on sales across a number of different customer segments in Hong Kong, we continue to monitor closely any developments relating to customers visiting from Mainland China to ensure that we maintain robust compliance with ongoing measures.

We achieved outstanding results in **China** with a 54 per cent increase in VONB and 29 per cent growth in OPAT. We are increasingly seeing the benefit of our focus on combining the expansion of our professional agency distribution through quality recruitment and best-in-class training with a high-quality mix of regular premium protection and long-term savings products. The quality of our earnings underpins our strong growth and differentiates AIA in the Chinese market.

In **Singapore**, our agency business delivered double-digit VONB growth, although this was offset by lower single premium sales through the broker channel as previously reported in our Interim Report 2016.

We are committed to the ongoing professional development of our market-leading agency distribution in **Thailand**. Our new business generation held up well, despite a period of reduced activity at the end of our financial year during the mourning period following the passing of King Bhumibol Adulyadej in October.

**Malaysia** delivered excellent results with VONB growth of 23 per cent from our commitment to growing a professional and high-quality agency distribution and our focus on combining protection cover and long-term, regular premium unit-linked savings with the addition of health and wellness solutions.

Our **Other Markets** delivered VONB growth of 10 per cent compared with 2015. VONB growth was higher in the second half at 15 per cent compared with the second half of 2015. Highlights included excellent performances in Australia, Vietnam and Sri Lanka, partly offset by weaker market conditions in the Philippines, and Korea.

The strength of our overall performance in 2016, with each of our key financial metrics reaching new highs, demonstrates the benefit of AIA's broad reach and diversification. It also emphasises the enormous potential that AIA has for future profitable growth.

## **GROUP-WIDE OVERVIEW**

### **Distribution**

AIA pioneered the development of agency distribution in Asia in the first half of the twentieth century and it remains our core distribution channel accounting for approximately 70 per cent of the Group's total VONB. Agency VONB grew by 21 per cent in 2016 to US\$1,995 million. Our agents are the most effective way of serving the needs of the mass affluent market in Asia and I believe place us in an enormously-advantaged position by developing long-term relationships with our customers and their families.

Our agency franchise is fundamental to our continued success and sustained growth in Asia but we are in no sense complacent about its continuing effectiveness. The opportunities to harness training, people, management and technology in support of both our new and existing agents are constantly evolving. We are at the forefront of driving these changes and our attention to detail in managing every facet of the future of agency management and customer service is one of the main factors underlying AIA's success.



We have also invested in developing collaborative distribution partnerships to generate additional profitable growth by broadening our access to customers across the region, particularly through our intermediated partnership channels and our more than 60 active national and regional bancassurance relationships. VONB from partnership business grew by 35 per cent to US\$875 million and accounted for 30 per cent of the Group's overall VONB in 2016.

## **Marketing and Product Innovation**

At AIA, we are engaged in people's lives by providing the right financial solutions in a constantly changing world. As such, we are known as The Real Life Company; a well-established proposition across our markets. Our brand promise is to make a positive difference by helping people live longer, healthier, better lives, and by equipping them with the knowledge, expertise and opportunities to make the right choices to secure their financial future.

AIA Vitality is the first, and only, comprehensive wellness platform across the Asia-Pacific region. Life insurance is the foundation of financial protection for those we care most about, and AIA Vitality adds another level, using behavioural economics and incentivising customers to actively engage in health and wellness activities. Attractive discounts and enhancements on AIA insurance policies are available as well as valuable benefits from a wide range of third-party providers.

There are enormous opportunities in evolving life and health insurance, moving from the traditional transactional model to one where we work with our customers, helping prevent the onset of illness by encouraging long-term beneficial lifestyle changes. Being healthier is good for customers, good for business and good for the communities AIA operates in. In turn, this is fully aligned with our corporate purpose of playing a leadership role in driving economic and social development across the region, demonstrating a truly shared value business model.

AIA has the scale, ambition, financial resources, distribution and quality of leadership to make "longer, healthier, better lives" a reality for millions of people across Asia-Pacific.

## **Investment Management**

The Group's investment managers have delivered strong results year on year. Building on these achievements, we have established an internal asset management company based in Singapore. This will provide both functional leadership and investment services to local investment teams within our operating units across the region. This will help reinforce our investment governance through sharing best practices and to gain greater traction from opportunities for centres of excellence, particularly with infrastructure investment and equities management.

## **Technology and Operations**

We continue to invest in the modernisation of our technology infrastructure and applications across the Group and have made substantial progress during the year. We have completed major projects to replace the policy administration systems in Singapore, Malaysia and Hong Kong. In January 2016, we moved our data centre operations to a long-term outsourcing arrangement and installed modern data warehouses across all of our major businesses. Our online and mobile capabilities were enhanced with the roll-out of new iPoS modules for agents and our bancassurance partners, and a new online portal for customers across all of our markets.

In innovation, our primary research and development focus in 2016 was on digital health, artificial intelligence and blockchain. We completed three AIA Accelerator programmes for start-up companies in Hong Kong and Singapore and made progress with lab-based test-and-learn initiatives in both markets.

Our business continuity and disaster recovery capabilities were strengthened across the Group. We are committed to protecting the interests of our customers, partners, employees and stakeholders by providing a world-class information security environment. Our Chief Information Security Officer has continued to oversee further improvements in the quality and consistency of technology risk management and cyber security across the Group.

## **ENGAGEMENT WITH PEOPLE**

AIA's commercial success is a direct result of the quality, commitment and enthusiasm of our employees and agents at all levels of the organisation. We believe that our approach, based on the empowerment of local businesses to perform within the structure of a soundly-based group corporate strategy and risk management framework, is one that promotes strong engagement between employees and their markets.

We are dedicated to leadership and operational excellence in our current and next generation of leaders. The opening of the AIA Leadership Centre in Bangkok in 2016 demonstrates our ongoing commitment to reinforcing the capabilities of our senior leaders as well as developing the strength of our leadership pipeline. The Centre's comprehensive curriculum focuses on executive development, distribution capabilities and technical expertise, and complements the comprehensive learning programmes that our functional and local businesses currently provide. This investment means that we will continue to raise the bar in terms of regional leadership and our recruiting and development initiatives across Asia will ensure that we drive material increases in the depth, professionalism and productivity of our people.

During the year, we refined and enhanced the way in which we empower and engage every level of the workforce. Our annual employee engagement survey serves as a key indicator of the success of the collective efforts across our markets to better understand our people. Ninety-nine per cent of our workforce responded to the survey in 2016, and the percentage of engaged employees has improved significantly in the past six years to levels well above global financial services and insurance industry benchmarks.

The rigour with which we approach our workforce planning and development in the areas of employee engagement, learning and talent development, and performance management earned AIA the "Regional Best Employer 2016, Asia Pacific" award from Aon Hewitt. This award is an affirmation of our continuous efforts to build an environment where high-quality people are excited to work and motivated to be the best that they can be in doing the best for our customers.

My very special thanks are due to all the people of AIA. These excellent results are down to their hard work, dedication and commitment.

## **OUTLOOK**

Asian macroeconomic fundamentals remain resilient and continue to deliver strong growth supported by domestic drivers of demand. Emerging Asia remains one of the most well-positioned regions in the global economy and has demonstrated proven abilities over the past eight years to withstand continued volatility arising from political uncertainty in the US and Europe. Current accounts in Asia are robust and foreign currency debt levels have remained generally low ahead of rising US interest rates and the potential for expansive fiscal policy in the US. Asia also has the ability to augment domestic drivers of growth through continued increases in productivity as well as fiscal and monetary stimulus. Asian policymakers have the ability, capacity and resolve to respond proactively and effectively over time.

I have said many times that AIA is wonderfully well positioned to benefit from the significant long-term economic and demographic growth drivers in Asia. The substantial and ongoing need for healthcare, protection and savings products provides resilience to cyclical economic forces.

We have a clear strategy in place and our dedicated teams remain focused on the right priorities to help our customers meet their long-term protection needs and wealth aspirations.

We have a strong track record of delivery as demonstrated once again by our financial performance in 2016 and our consistent execution since our IPO. I believe the opportunities available to us are truly exceptional and I am confident of AIA's continued success in delivering long-term sustainable value creation for our shareholders.

## FINANCIAL AND OPERATING REVIEW

AIA is the largest publicly listed pan-Asian life insurance group, with a presence across 18 markets in the Asia-Pacific region. We receive the vast majority of our premiums in local currencies and we closely match our local assets and liabilities to minimise the economic effects of foreign exchange movements. When reporting the Group's consolidated figures, there is a currency translation effect as we report in US dollars. We have provided growth rates and commentaries on our operating performance on constant exchange rates unless otherwise stated, since this provides a clearer picture of the year-on-year performance of the underlying businesses during the recent periods of foreign exchange volatility.

### FINANCIAL REVIEW

#### Summary and Key Financial Highlights

AIA has delivered another year of excellent results. We achieved double-digit growth in new business profitability, operating profit and free surplus generation. This continues the strong growth across each of our main operating financial metrics that we have maintained since our IPO in October 2010. Our financial performance in 2016 once again demonstrates our ability to deliver resilient results through market cycles by focusing on the quality of new business we write and the sources of earnings and cash flow it generates. This is fundamental to AIA's ability to produce sustainable growth and increasing returns to our shareholders.

#### VALUE GROWTH

Value of new business (VONB) increased by 28 per cent to US\$2,750 million compared with 2015. We have generated substantial growth in profitable new business by following our financial principles of investing capital at attractive returns to optimise value. Hong Kong, Malaysia, China and our Other Markets continued their strong performances from the first half to deliver double-digit VONB growth for the full year.

Annualised new premiums (ANP) grew by 31 per cent to US\$5,123 million and VONB margin remained strong at 52.8 per cent. These results were underpinned by the quality of our new business with over 90 per cent of our ANP from regular premium sales, which increased by 37 per cent compared with 2015.

EV operating profit increased by 19 per cent to US\$5,887 million, reflecting excellent new business growth and very strong overall positive operating variances from the proactive management of our in-force portfolio. This excellent performance led to an increase in operating return on EV (ROEV) to 15.4 per cent in 2016.

EV Equity grew by US\$3,832 million to a new high of US\$43,650 million. The increase was driven by strong EV operating profit growth of 19 per cent partly offset by the effect of economic assumption changes and the depreciation of local currencies against our US dollar reporting currency. The increase is reported after the payment of shareholder dividends totalling US\$1,124 million.

#### IFRS EARNINGS

IFRS operating profit after tax (OPAT) increased by 15 per cent to US\$3,981 million compared with 2015. Each of our operating market segments delivered positive OPAT growth and contributed materially to our overall Group results. This performance reflects our high-quality sources of earnings combined with our scale and diversification across the region. Operating margin after tax continued to trend positively from a combination of changes to product mix, increased scale, active management of our in-force portfolio and our disciplined expense management.

The strong growth in OPAT increased operating return on shareholders' allocated equity (ROE) to 14.1 per cent in 2016. Shareholders' allocated equity grew by 11 per cent to US\$29,632 million at 30 November 2016.

## CAPITAL AND DIVIDENDS

In 2016, we generated increased capital and free surplus from the management of our in-force portfolio, maintained our resilient solvency position, financed our profitable growth and progressively increased our dividends.

Underlying free surplus generation grew by 11 per cent to US\$4,024 million. The amount invested in new business was US\$1,374 million, which reduced by 5 per cent. This decrease was mainly from a positive shift in product and country mix as well as writing more capital-efficient products. AIA has significant opportunities to invest capital in organic growth at attractive returns for shareholders. While new business strain reduction is not a targeted objective, we are disciplined in how we deploy capital.

Free surplus increased to US\$9,782 million at 30 November 2016, including positive investment return variances and other items and after the payment of shareholder dividends.

The solvency ratio of AIA Co., our principal operating company, was 404 per cent at 30 November 2016 compared with 428 per cent at 30 November 2015. Our solvency position has remained very strong with growth in retained earnings offset by the net effect of short-term capital market movements on our investment portfolio and statutory reserves, the payment for our increased shareholding in Tata AIA, as previously reported in our Interim Report 2016, and dividends to AIA Group Limited.

The Board of Directors has recommended a step up in the final dividend of 25 per cent to 63.75 Hong Kong cents per share, subject to shareholders' approval at the Company's forthcoming AGM. This brings the total dividend for 2016 to 85.65 Hong Kong cents per share, an increase of 23 per cent compared with 2015. The Board's decision to recommend a further uplift from the new higher base established last year reflects the strength of our results and the confidence in AIA's future prospects. The Board intends to follow AIA's established prudent, sustainable and progressive dividend policy from this higher base allowing for future growth opportunities and the financial flexibility of the Group.

## New Business Growth

### Value of New Business (VONB), Annualised New Premiums (ANP) and Margin by Segment

US\$ millions, unless otherwise stated	2016 <sup>(1)</sup>			2015 <sup>(1)</sup>			VONB Change	
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YoY CER	YoY AER
Hong Kong	<b>1,161</b>	<b>48.8%</b>	<b>2,294</b>	820	62.0%	1,263	<b>42%</b>	42%
Thailand	<b>384</b>	<b>81.5%</b>	<b>471</b>	395	75.8%	520	<b>1%</b>	(3)%
Singapore	<b>316</b>	<b>74.1%</b>	<b>427</b>	341	72.4%	471	<b>(7)%</b>	(7)%
Malaysia	<b>198</b>	<b>57.1%</b>	<b>341</b>	172	57.9%	292	<b>23%</b>	15%
China	<b>536</b>	<b>86.4%</b>	<b>621</b>	366	83.5%	438	<b>54%</b>	46%
Other Markets <sup>(2)</sup>	<b>321</b>	<b>32.9%</b>	<b>969</b>	296	29.4%	1,007	<b>10%</b>	8%
<b>Subtotal</b>	<b>2,916</b>	<b>56.0%</b>	<b>5,123</b>	2,390	58.9%	3,991	<b>25%</b>	22%
Adjustment to reflect additional Hong Kong reserving and capital requirements	<b>(37)</b>	<b>n/m</b>	<b>n/m</b>	(72)	n/m	n/m	<b>n/m</b>	n/m
After-tax value of unallocated Group Office expenses	<b>(129)</b>	<b>n/m</b>	<b>n/m</b>	(120)	n/m	n/m	<b>n/m</b>	n/m
<b>Total</b>	<b>2,750</b>	<b>52.8%</b>	<b>5,123</b>	2,198	54.0%	3,991	<b>28%</b>	25%

Notes:

(1) VONB includes pension business. ANP and VONB margin exclude pension business.

(2) For 2016, Korea is no longer disclosed separately as a reportable segment and is now included as part of the Other Markets segment. Prior year comparatives have been adjusted accordingly to conform to current year presentation.

VONB grew by 28 per cent to US\$2,750 million compared with 2015.

ANP was higher by 31 per cent to US\$5,123 million. Annualised new business regular premiums increased by 37 per cent and accounted for more than 90 per cent of total ANP in 2016. VONB margin remained strong at 52.8 per cent reflecting positive shifts in country mix, channel mix and others, offset by sales of participating business that balance lower reported VONB margins with greater capital efficiency at inception. Margin on a PVNBP basis remained stable at 9 per cent compared with 2015.

We continued to achieve strong results across both agency and partnership distribution channels. Agency delivered 21 per cent VONB growth to US\$1,995 million and partnership distribution VONB grew by 35 per cent to US\$875 million compared with 2015.

Hong Kong again delivered excellent growth with VONB up by 42 per cent to US\$1,161 million. This outstanding performance was the result of a significant increase in agent productivity and higher active agent numbers, as well as excellent growth in our partnership distribution channel including Citibank. While we focus on sales across a number of different customer segments in Hong Kong, we continue to monitor closely any developments relating to customers visiting from Mainland China to ensure that we maintain robust compliance with ongoing measures.

AIA's wholly-owned business in China delivered excellent VONB growth of 54 per cent to US\$536 million. The professionalism of our agents and the quality of our earnings differentiate AIA in the Chinese life insurance market and have underpinned our strong track record of growth.

VONB in Thailand was US\$384 million with higher VONB margin offset by lower new business volumes including reduced activity at the end of our financial year during the mourning period following the passing of the Thai king in October. We are committed to the ongoing professional development of our market-leading agency distribution in Thailand and the proactive management of the quality of new business we write. AIA continues to be well positioned to capture the significant long-term growth opportunities from the low levels of life insurance penetration in the Thai market.

VONB in Singapore was lower than 2015 as growth in new regular premium business was offset by lower single premium sales from the broker channel, as previously reported in our Interim Report 2016. Malaysia delivered an excellent full year VONB increase of 23 per cent to US\$198 million, driven by growth in our agency distribution and innovative new products combining protection cover and regular premium unit-linked savings with the addition of health and wellness solutions including AIA Vitality.

VONB growth from Other Markets (including Korea) was higher in the second half of 2016 at 15 per cent compared with the second half of 2015 and delivered full year VONB growth of 10 per cent to US\$321 million. ANP was US\$969 million while VONB margin increased by 3.3 pps to 32.9 per cent. Highlights included excellent performances in Australia, Vietnam and Sri Lanka, partly offset by weaker market conditions in the Philippines and Korea.

VONB is reported after a US\$166 million deduction for additional Hong Kong reserving and capital requirements over and above local statutory requirements and the present value of unallocated Group Office expenses.

## Embedded Value (EV) Equity

### EV OPERATING PROFIT

EV operating profit increased by 19 per cent to US\$5,887 million compared with 2015. This excellent performance was the result of 28 per cent growth in VONB to US\$2,750 million, a higher expected return of US\$2,854 million and overall positive operating variances of US\$394 million. Overall operating variances have totalled more than US\$1.1 billion since our IPO in 2010.

The strength of our new business growth and operating performance delivered an increase in ROEV to 15.4 per cent in 2016.

### EV Operating Profit Per Share – Basic

	2016	2015	YoY CER	YoY AER
<b>EV operating profit (US\$ millions)</b>	<b>5,887</b>	5,068	<b>19%</b>	16%
Weighted average number of ordinary shares (millions)	<b>11,972</b>	11,970	<b>n/a</b>	n/a
<b>Basic EV earnings per share (US cents)</b>	<b>49.17</b>	42.34	<b>19%</b>	16%

### EV Operating Profit Per Share – Diluted

	2016	2015	YoY CER	YoY AER
<b>EV operating profit (US\$ millions)</b>	<b>5,887</b>	5,068	<b>19%</b>	16%
Weighted average number of ordinary shares <sup>(1)</sup> (millions)	<b>12,006</b>	12,007	<b>n/a</b>	n/a
<b>Diluted EV earnings per share<sup>(1)</sup> (US cents)</b>	<b>49.03</b>	42.21	<b>19%</b>	16%

Note:

(1) Diluted EV earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 38 to the financial statements.

### EV MOVEMENT

EV grew by US\$3,916 million to US\$42,114 million in 2016. The increase was mainly driven by strong EV operating profit growth of 19 per cent partly offset by the effect of economic assumption changes and the effect of foreign exchange translation movements from the depreciation of local currencies against our US dollar reporting currency.

Investment return variances, reflecting the net effect of short-term capital market movements compared with expected investment returns, were small at US\$(37) million. The effect of economic assumption changes was US\$(236) million.

Other non-operating variances from the net effect of modelling enhancements and changes in regulatory capital requirements and taxation were small at US\$(22) million. This included the revised undertaking provided to the Hong Kong Office of the Commissioner of Insurance (HKOCI) and the replacement of business tax with VAT in China, as previously reported in our Interim Report 2016. The effect of foreign exchange translation movements was US\$(547) million.

The overall increase in EV is shown after the payment of shareholder dividends totalling US\$1,124 million.

An analysis of the movement in EV is shown as follows:

US\$ millions, unless otherwise stated	2016		
	ANW	VIF	EV
<b>Opening EV</b>	<b>15,189</b>	<b>23,009</b>	<b>38,198</b>
Value of new business	(695)	3,445	2,750
Expected return on EV	3,440	(586)	2,854
Operating experience variances	303	62	365
Operating assumption changes	26	3	29
Finance costs	(111)	–	(111)
<b>EV operating profit</b>	<b>2,963</b>	<b>2,924</b>	<b>5,887</b>
Investment return variances	(67)	30	(37)
Effect of changes in economic assumptions	6	(242)	(236)
Other non-operating variances	(142)	120	(22)
<b>Total EV profit</b>	<b>2,760</b>	<b>2,832</b>	<b>5,592</b>
Dividends	(1,124)	–	(1,124)
Other capital movements	(5)	–	(5)
Effect of changes in exchange rates	(276)	(271)	(547)
<b>Closing EV</b>	<b>16,544</b>	<b>25,570</b>	<b>42,114</b>

  

US\$ millions, unless otherwise stated	2015		
	ANW	VIF	EV
<b>Opening EV</b>	15,351	21,802	37,153
Value of new business	(902)	3,100	2,198
Expected return on EV	3,364	(666)	2,698
Operating experience variances	29	245	274
Operating assumption changes	(112)	86	(26)
Finance costs	(76)	–	(76)
<b>EV operating profit</b>	<b>2,303</b>	<b>2,765</b>	<b>5,068</b>
Investment return variances	(1,494)	(310)	(1,804)
Effect of changes in economic assumptions	–	145	145
Other non-operating variances	436	(67)	369
<b>Total EV profit</b>	<b>1,245</b>	<b>2,533</b>	<b>3,778</b>
Dividends	(814)	–	(814)
Other capital movements	(12)	–	(12)
Effect of changes in exchange rates	(581)	(1,326)	(1,907)
<b>Closing EV</b>	<b>15,189</b>	<b>23,009</b>	<b>38,198</b>



## EV Equity

US\$ millions, unless otherwise stated	As at 30 November 2016	As at 30 November 2015
<b>EV</b>	<b>42,114</b>	38,198
Goodwill and other intangible assets <sup>(1)</sup>	<b>1,536</b>	1,620
<b>EV Equity</b>	<b>43,650</b>	39,818

Note:

(1) Consistent with the IFRS financial statements, net of tax, amounts attributable to participating funds and non-controlling interests.

## EV AND VONB SENSITIVITIES

Sensitivities to EV and VONB arising from changes to central assumptions from equity price and interest rate movements are shown below and are consistent with the prior period.

US\$ millions, unless otherwise stated	EV as at 30 November 2016	VONB 2016	EV as at 30 November 2015	VONB 2015
<b>Central value</b>	<b>42,114</b>	<b>2,750</b>	38,198	2,198
<b>Equity price changes</b>				
10 per cent increase in equity prices	<b>42,839</b>	<b>n/a</b>	38,924	n/a
10 per cent decrease in equity prices	<b>41,380</b>	<b>n/a</b>	37,458	n/a
<b>Interest rate changes</b>				
50 basis points increase in interest rates	<b>42,262</b>	<b>2,927</b>	38,305	2,336
50 basis points decrease in interest rates	<b>41,736</b>	<b>2,524</b>	38,087	2,036

Please refer to Section 3 of the Supplementary Embedded Value Information for additional information.

## IFRS Profit

### IFRS Operating Profit After Tax (OPAT)<sup>(1)</sup> by Segment

US\$ millions, unless otherwise stated	2016	2015	YoY CER	YoY AER
Hong Kong	<b>1,334</b>	1,147	<b>16%</b>	16%
Thailand	<b>768</b>	681	<b>17%</b>	13%
Singapore	<b>453</b>	426	<b>6%</b>	6%
Malaysia	<b>265</b>	267	<b>6%</b>	(1)%
China	<b>469</b>	384	<b>29%</b>	22%
Other Markets	<b>662</b>	588	<b>17%</b>	13%
Group Corporate Centre	<b>30</b>	63	<b>(52)%</b>	(52)%
<b>Total</b>	<b>3,981</b>	3,556	<b>15%</b>	12%

Note:

(1) Attributable to shareholders of AIA Group Limited only excluding non-controlling interests.

OPAT grew by 15 per cent to US\$3,981 million compared with 2015. The strong growth was from a combination of positive changes to product mix, increased scale, active management of our in-force portfolio and our disciplined expense management.

Each of our operating market segments delivered positive OPAT growth compared with 2015.

China achieved excellent growth of 29 per cent mainly driven by the quality of our earnings and the benefits of increasing scale from sustained growth in profitable new business. Hong Kong delivered another strong performance with an increase of 16 per cent as we continued to benefit from strong underlying business growth and the disciplined management of our in-force portfolio.

OPAT from Thailand increased by 17 per cent including the benefit of a lower corporate income tax rate. Singapore and Malaysia each delivered growth of 6 per cent and our Other Markets segment delivered excellent OPAT growth of 17 per cent overall.

The strong growth in OPAT increased ROE to 14.1 per cent in 2016.

OPAT reported in 2016 and the comparative figures for 2015 reflected the revised definition of operating profit to include the expected long-term investment return for equities and real estate as previously highlighted in note 49 to the financial statements in our Annual Report 2015. Further details are shown in note 48 to the financial statements. The change does not affect net profit or shareholders' equity.

### Total Weighted Premium Income (TWPI) by Segment

US\$ millions, unless otherwise stated	2016	2015	YoY CER	YoY AER
Hong Kong	<b>6,873</b>	5,115	<b>34%</b>	34%
Thailand	<b>3,327</b>	3,324	<b>4%</b>	–
Singapore	<b>2,276</b>	2,283	<b>1%</b>	–
Malaysia	<b>1,795</b>	1,825	<b>6%</b>	(2)%
China	<b>2,384</b>	2,028	<b>24%</b>	18%
Other Markets	<b>5,478</b>	5,301	<b>6%</b>	3%
<b>Total</b>	<b>22,133</b>	19,876	<b>14%</b>	11%

TWPI increased by 14 per cent to US\$22,133 million compared with 2015. The Group's persistency remained strong and stable at 95.0 per cent in 2016.

### Investment Return

US\$ millions, unless otherwise stated	2016	2015	YoY CER	YoY AER
Interest income	<b>5,081</b>	4,846	<b>8%</b>	5%
Expected long-term investment return for equities and real estate	<b>1,343</b>	1,297	<b>7%</b>	4%
<b>Total</b>	<b>6,424</b>	6,143	<b>7%</b>	5%

Investment return increased by 7 per cent to US\$6,424 million compared with 2015. The growth was primarily driven by an increase in the level of fixed income investments and higher expected return mainly due to higher market values from our equity portfolio.

## Operating Expenses

US\$ millions, unless otherwise stated	2016	2015	YoY CER	YoY AER
Operating expenses	<b>1,752</b>	1,638	<b>10%</b>	7%

Operating expenses grew by 10 per cent to US\$1,752 million with a lower expense ratio of 7.9 per cent compared with 8.2 per cent in 2015.

## Net Profit<sup>(1)</sup>

US\$ millions, unless otherwise stated	2016	2015	YoY CER	YoY AER
OPAT	<b>3,981</b>	3,556	<b>15%</b>	12%
Short-term fluctuations in investment return related to equities and real estate, net of tax	<b>97</b>	(717)	<b>n/m</b>	n/m
Other non-operating investment return and other items, net of tax	<b>86</b>	(74)	<b>n/m</b>	n/m
<b>Total</b>	<b>4,164</b>	2,765	<b>55%</b>	51%

Note:

(1) Attributable to shareholders of AIA Group Limited only excluding non-controlling interests.

## IFRS NON-OPERATING MOVEMENT

IFRS net profit increased by 55 per cent to US\$4,164 million compared with 2015. The increase was due to strong growth in OPAT of 15 per cent and positive short-term fluctuations in investment returns of US\$97 million compared with negative movements of US\$717 million in 2015. Other non-operating items were US\$86 million mainly from a lower corporate income tax rate in Thailand.

## Movement in Shareholders' Allocated Equity

US\$ millions, unless otherwise stated	2016	2015
<b>Opening shareholders' allocated equity</b>	<b>26,705</b>	26,391
Opening adjustments on revaluation gains on property held for own use	<b>259</b>	–
Net profit	<b>4,164</b>	2,765
Purchase of shares held by employee share-based trusts	<b>(86)</b>	(98)
Dividends	<b>(1,124)</b>	(814)
Revaluation gains/(losses) on property held for own use	<b>50</b>	(2)
Foreign currency translation adjustments	<b>(423)</b>	(1,623)
Other capital movements	<b>87</b>	86
<b>Total movement in shareholders' allocated equity</b>	<b>2,927</b>	314
<b>Closing shareholders' allocated equity</b>	<b>29,632</b>	26,705

The movement in shareholders' allocated equity is shown before fair value reserve movements. AIA believes this provides a clearer reflection of the underlying movement in shareholders' equity over the period, before the IFRS accounting treatment of movements in available for sale bonds.

Shareholders' allocated equity grew to US\$29,632 million at 30 November 2016. The increase of US\$2,927 million was mainly driven by the increase in net profit to US\$4,164 million, partly offset by foreign exchange translation movements of US\$(423) million and the payment of shareholder dividends totalling US\$1,124 million.

Sensitivities arising from foreign exchange rate, interest rate and equity price movements are included in note 36 to the financial statements.

### IFRS Earnings per Share (EPS)

Basic EPS based on IFRS OPAT attributable to shareholders increased by 15 per cent to 33.25 US cents in 2016.

Basic EPS based on IFRS net profit attributable to shareholders, including mark-to-market movements from our equity and investment property portfolios, increased by 55 per cent to 34.78 US cents in 2016.

#### IFRS Earnings Per Share – Basic

	Net Profit <sup>(1)</sup>		OPAT <sup>(1)</sup>	
	2016	2015	2016	2015
Profit (US\$ millions)	<b>4,164</b>	2,765	<b>3,981</b>	3,556
Weighted average number of ordinary shares (millions)	<b>11,972</b>	11,970	<b>11,972</b>	11,970
<b>Basic earnings per share (US cents)</b>	<b>34.78</b>	23.10	<b>33.25</b>	29.71

#### IFRS Earnings Per Share – Diluted

	Net Profit <sup>(1)</sup>		OPAT <sup>(1)</sup>	
	2016	2015	2016	2015
Profit (US\$ millions)	<b>4,164</b>	2,765	<b>3,981</b>	3,556
Weighted average number of ordinary shares <sup>(2)</sup> (millions)	<b>12,006</b>	12,007	<b>12,006</b>	12,007
<b>Diluted earnings per share<sup>(2)</sup> (US cents)</b>	<b>34.68</b>	23.03	<b>33.16</b>	29.62

Notes:

(1) Attributable to shareholders of AIA Group Limited only excluding non-controlling interests.

(2) Diluted earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 38 to the financial statements.

## Capital

### FREE SURPLUS GENERATION

The Group's free surplus at 30 November 2016 represented the excess of adjusted net worth over required capital calculated under the Hong Kong reserving and capital regulations (HKICO basis).

Underlying free surplus generation, which excludes investment return variances and other items, increased by 11 per cent to US\$4,024 million, reflecting the growing scale of our in-force business and our focus on writing quality new business with attractive returns on capital. The amount invested in writing new business reduced by 5 per cent to US\$1,374 million while we delivered VONB growth of 28 per cent, mainly reflecting a positive shift in product and country mix as well as writing more capital-efficient products.

Free surplus increased by US\$2,254 million to US\$9,782 million at 30 November 2016. The excellent growth was mainly due to a strong increase in underlying free surplus generation, net of new business investment, of US\$2,650 million and positive investment return variances and other items totalling US\$1,005 million, including the revised undertaking to the HKOCI, less the payment of shareholder dividends totalling US\$1,124 million.

The following table summarises the change in free surplus:

US\$ millions, unless otherwise stated	2016	2015
<b>Opening free surplus</b>	<b>7,528</b>	7,794
Underlying free surplus generated	<b>4,024</b>	3,719
Free surplus used to fund new business	<b>(1,374)</b>	(1,488)
Investment return variances and other items	<b>1,005</b>	(1,467)
Unallocated Group Office expenses	<b>(161)</b>	(128)
Dividends	<b>(1,124)</b>	(814)
Finance costs and other capital movements	<b>(116)</b>	(88)
<b>Closing free surplus</b>	<b>9,782</b>	7,528

## NET FUNDS TO GROUP CORPORATE CENTRE

Working capital comprises debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. Working capital increased to US\$8,416 million at 30 November 2016.

The increase was mainly due to net remittances from business units of US\$2,021 million and the issuance of a medium term note with net proceeds of US\$733 million, partly offset by the payment for our increased shareholding in Tata AIA, repayment of borrowings of US\$473 million and the payment of shareholder dividends totalling US\$1,124 million.

The movements in working capital are summarised as follows:

US\$ millions, unless otherwise stated	2016	2015
<b>Opening working capital</b>	<b>7,843</b>	6,614
Group Corporate Centre operating results <sup>(1)</sup>	<b>30</b>	63
Capital flows from business units		
Hong Kong	<b>1,034</b>	850
Thailand	<b>411</b>	708
Singapore	<b>209</b>	329
Malaysia	<b>186</b>	188
China	<b>46</b>	1
Other Markets	<b>135</b>	119
<b>Net funds remitted to Group Corporate Centre</b>	<b>2,021</b>	2,195
Payment for increase in interest of an associate (Tata AIA)	<b>(310)</b>	–
Increase in borrowings	<b>260</b>	183
Purchase of shares held by the employee share-based trusts	<b>(86)</b>	(98)
Payment of dividends	<b>(1,124)</b>	(814)
Change in fair value reserve and others <sup>(1)</sup>	<b>(218)</b>	(300)
<b>Closing working capital</b>	<b>8,416</b>	7,843

Note:

(1) Change in fair value reserve and others include non-operating investment return and other non-operating income and expenses. The comparative information has been adjusted to conform to current year presentation.

## IFRS Balance Sheet

### Consolidated Statement of Financial Position

US\$ millions, unless otherwise stated	As at 30 November 2016	As at 30 November 2015	Change AER
<b>Assets</b>			
Financial investments	<b>150,998</b>	139,083	9%
Investment property	<b>3,910</b>	3,659	7%
Cash and cash equivalents	<b>1,642</b>	1,992	(18)%
Deferred acquisition and origination costs	<b>18,898</b>	17,092	11%
Other assets	<b>9,626</b>	7,932	21%
<b>Total assets</b>	<b>185,074</b>	169,758	9%
<b>Liabilities</b>			
Insurance and investment contract liabilities	<b>135,214</b>	123,085	10%
Borrowings	<b>3,460</b>	3,195	8%
Other liabilities	<b>11,090</b>	12,056	(8)%
<b>Less total liabilities</b>	<b>149,764</b>	138,336	8%
<b>Equity</b>			
Total equity	<b>35,310</b>	31,422	12%
Less non-controlling interests	<b>326</b>	303	8%
<b>Total equity attributable to shareholders of AIA Group Limited</b>	<b>34,984</b>	31,119	12%
Shareholders' allocated equity	<b>29,632</b>	26,705	11%

### Movement in Shareholders' Equity

US\$ millions, unless otherwise stated	2016	2015
<b>Opening shareholders' equity</b>	<b>31,119</b>	32,467
Opening adjustments on revaluation gains on property held for own use	<b>259</b>	–
Net profit	<b>4,164</b>	2,765
Fair value gains/(losses) on assets	<b>938</b>	(1,662)
Purchase of shares held by employee share-based trusts	<b>(86)</b>	(98)
Dividends	<b>(1,124)</b>	(814)
Revaluation gains/(losses) on property held for own use	<b>50</b>	(2)
Foreign currency translation adjustments	<b>(423)</b>	(1,623)
Other capital movements	<b>87</b>	86
<b>Total movement in shareholders' equity</b>	<b>3,865</b>	(1,348)
<b>Closing shareholders' equity</b>	<b>34,984</b>	31,119

## Total Investments

US\$ millions, unless otherwise stated	As at 30 November 2016	Percentage of total	As at 30 November 2015	Percentage of total
Total policyholder and shareholder	<b>137,479</b>	<b>87%</b>	126,435	86%
Total unit-linked contracts and consolidated investment funds	<b>20,657</b>	<b>13%</b>	19,794	14%
<b>Total investments</b>	<b>158,136</b>	<b>100%</b>	146,229	100%

The investment mix remained stable during the year as set out below:

## Unit-Linked Contracts and Consolidated Investment Funds

US\$ millions, unless otherwise stated	As at 30 November 2016	Percentage of total	As at 30 November 2015	Percentage of total
<b>Unit-linked contracts and consolidated investment funds</b>				
Debt securities	<b>4,456</b>	<b>22%</b>	4,182	21%
Loans and deposits	<b>196</b>	<b>1%</b>	211	1%
Equities	<b>15,498</b>	<b>75%</b>	14,948	76%
Cash and cash equivalents	<b>504</b>	<b>2%</b>	450	2%
Derivatives	<b>3</b>	<b>-</b>	3	-
<b>Total unit-linked contracts and consolidated investment funds</b>	<b>20,657</b>	<b>100%</b>	19,794	100%



## Policyholder and Shareholder Investments

US\$ millions, unless otherwise stated	As at 30 November 2016	Percentage of total	As at 30 November 2015	Percentage of total
<b>Participating funds</b>				
Government and government agency bonds	<b>7,830</b>	<b>6%</b>	7,866	6%
Corporate bonds and structured securities	<b>10,877</b>	<b>8%</b>	11,190	9%
Loans and deposits	<b>1,830</b>	<b>1%</b>	1,917	2%
<b>Subtotal – Fixed income investments</b>	<b>20,537</b>	<b>15%</b>	20,973	17%
Equities	<b>5,451</b>	<b>4%</b>	4,915	4%
Investment property and property held for own use	<b>434</b>	–	436	–
Cash and cash equivalents	<b>179</b>	–	204	–
Derivatives	<b>17</b>	–	34	–
<b>Subtotal participating funds</b>	<b>26,618</b>	<b>19%</b>	26,562	21%
<b>Other policyholder and shareholder</b>				
Government and government agency bonds	<b>40,013</b>	<b>29%</b>	35,425	28%
Corporate bonds and structured securities	<b>50,442</b>	<b>36%</b>	45,977	36%
Loans and deposits	<b>5,036</b>	<b>4%</b>	5,083	4%
<b>Subtotal – Fixed income investments</b>	<b>95,491</b>	<b>69%</b>	86,485	68%
Equities	<b>9,262</b>	<b>7%</b>	7,296	6%
Investment property and property held for own use	<b>5,062</b>	<b>4%</b>	4,718	4%
Cash and cash equivalents	<b>959</b>	<b>1%</b>	1,338	1%
Derivatives	<b>87</b>	–	36	–
<b>Subtotal other policyholder and shareholder</b>	<b>110,861</b>	<b>81%</b>	99,873	79%
<b>Total policyholder and shareholder</b>	<b>137,479</b>	<b>100%</b>	126,435	100%

## **ASSETS**

Total assets increased by US\$15,316 million to US\$185,074 million at 30 November 2016, compared with US\$169,758 million at 30 November 2015, due to positive net revenues and mark-to-market gains from our debt securities.

Total investments include financial investments, investment property, property held for own use, and cash and cash equivalents increased by US\$11,907 million to US\$158,136 million at 30 November 2016, compared with US\$146,229 million at 30 November 2015.

Of the total US\$158,136 million investments at 30 November 2016, US\$137,479 million were held in respect of policyholders and shareholders and the remaining US\$20,657 million were backing unit-linked contracts and consolidated investment funds.

Fixed income investments, including debt securities, loans and term deposits held in respect of policyholders and shareholders, totalled US\$116,028 million at 30 November 2016 compared with US\$107,458 million at 30 November 2015. The average credit rating of the fixed income portfolio remained consistent with the position at 30 November 2015.

Government and government agency bonds represented 41 per cent of fixed income investments at 30 November 2016, compared with 40 per cent at 30 November 2015. Corporate bonds and structured securities accounted for 53 per cent of fixed income investments at 30 November 2016 and 30 November 2015.

Equity securities held in respect of policyholders and shareholders totalled US\$14,713 million at 30 November 2016, compared with US\$12,211 million at 30 November 2015. The 20 per cent increase in carrying value was mainly attributable to new purchases and positive mark-to-market movements. Within this figure, equity securities of US\$5,451 million were held in participating funds.

Cash and cash equivalents decreased by 18 per cent to US\$1,642 million at 30 November 2016 compared with US\$1,992 million at 30 November 2015, reflecting increased investments in financial assets, payment for the increase in our shareholding in Tata AIA and the payment of shareholder dividends totalling US\$1,124 million.

Investment property and property held for own use in respect of policyholders and shareholders totalled US\$5,496 million at 30 November 2016 compared with US\$5,154 million at 30 November 2015.

Deferred acquisition and origination costs increased to US\$18,898 million at 30 November 2016 compared with US\$17,092 million at 30 November 2015, largely reflecting new business growth.

Other assets increased to US\$9,626 million at 30 November 2016 compared with US\$7,932 million at 30 November 2015, reflecting the increase in our shareholding in Tata AIA and increased property, plant and equipment.

## LIABILITIES

Total liabilities increased to US\$149,764 million at 30 November 2016 from US\$138,336 million at 30 November 2015.

Insurance and investment contract liabilities grew to US\$135,214 million at 30 November 2016 compared with US\$123,085 million at 30 November 2015, reflecting the underlying growth of the in-force portfolio from new business and positive mark-to-market movements on equities backing unit-linked and participating policies and foreign exchange translation.

Borrowings increased to US\$3,460 million at 30 November 2016, due to the net proceeds of US\$733 million from the issuance of a medium term note in March 2016 less the repayment of borrowings totalling US\$473 million.

Other liabilities were US\$11,090 million at 30 November 2016, compared with US\$12,056 million at 30 November 2015.

Details of commitments and contingencies are included in note 41 to the financial statements.

## Regulatory Capital

The Group's lead insurance regulator is the Hong Kong Office of the Commissioner of Insurance (HKOCI). The Group's principal operating company is AIA Co., a Hong Kong-domiciled insurer.

At 30 November 2016, the total available capital for AIA Co., our main regulated entity, was US\$6,699 million as measured under the HKICO basis, resulting in a solvency ratio of 404 per cent of regulatory minimum capital compared with 428 per cent at 30 November 2015. The solvency ratio remained very strong with growth in retained earnings, offset by the net effect of short-term capital market movements on our investment portfolio and statutory reserves, the payment for our increased shareholding in Tata AIA and dividends to AIA Group Limited.

A summary of the total available capital and solvency ratios of AIA Co. is as follows:

US\$ millions, unless otherwise stated	As at 30 November 2016	As at 30 November 2015
Total available capital	<b>6,699</b>	6,761
Regulatory minimum capital (100%)	<b>1,659</b>	1,579
Solvency ratio (%)	<b>404%</b>	428%

The Group's individual branches and subsidiaries are also subject to supervision in the jurisdictions in which they and their parent entity operate. This means that local operating units, including branches and subsidiaries, must meet the regulatory capital requirements of their local prudential and, where applicable, parent entity regulators. These various regulators overseeing the Group's branches and subsidiaries actively monitor their capital position. The local operating units were in compliance with the capital requirements of their respective local regulators in each of our geographical markets at 30 November 2016.

## Global Medium Term Note Programme

Under our US\$5 billion Global Medium Term Note (GMTN) programme, AIA Group Limited issued a senior unsecured fixed rate note with nominal amount of US\$750 million in March 2016. The note will mature in 2046 and bears annual interest of 4.5 per cent. At 30 November 2016, the aggregate carrying amount of the debt issued under the GMTN programme was US\$3,459 million.

## **Credit Ratings**

At 30 November 2016, AIA Co. has financial strength ratings of AA-(Very Strong) with a stable outlook from Standard & Poor's and Aa3 (Very Low Credit Risk) with a positive outlook from Moody's.

AIA Group Limited has issuer credit ratings of A (Strong) with a stable outlook from Standard & Poor's and A3 (Low Credit Risk) with a positive outlook from Moody's.

## **Dividends**

The Board of Directors has recommended a step up in the final dividend of 25 per cent to 63.75 Hong Kong cents per share, subject to shareholders' approval at the Company's forthcoming AGM. This brings the total dividend for 2016 to 85.65 Hong Kong cents per share, an increase of 23 per cent compared with 2015. The Board's decision to recommend a further uplift from the new higher base established last year reflects the strength of our results and the confidence in AIA's future prospects. The Board intends to follow AIA's established prudent, sustainable and progressive dividend policy from this higher base allowing for future growth opportunities and the financial flexibility of the Group.

## **BUSINESS REVIEW**

### **Distribution**

#### **Agency**

AIA's proprietary network of agents is our primary distribution platform and central to our success. Our focus is on developing and distributing high-quality regular premium protection and long-term savings products to provide our customers with financial security and help meet their wealth aspirations. Our customers value enormously the professional advice and service delivered by our highly-skilled and well-trained agents and we are committed to the ongoing professional development of our agents and leaders to ensure that our long-term customer relationships and levels of customer engagement are of the highest standard. The strong foundation provided by our large, experienced and professional agency force differentiates AIA and places us at an advantage to capture the significant future growth opportunities from our broad range of customers across Asia.

The consistent execution of our Premier Agency strategy has delivered strong VONB growth of 21 per cent to US\$1,995 million, representing 70 per cent of the Group's total VONB in 2016. ANP increased by 25 per cent to US\$3,113 million with VONB margin of 64.1 per cent. These excellent results were achieved by ensuring the highest standards of knowledge, skills and best practices are developed, maintained and shared across our entire network of agents.

Our Premier Agency strategy emphasises the importance of quality recruitment and best-in-class training for new agents. AIA was the first insurer in Asia to introduce mandatory pre-contract induction programmes for new recruits across our markets. Our well-designed programmes attract high-calibre individuals and enable new agents to become more productive and in a shorter period of time. This has proved instrumental in increasing activity ratios. AIA's approach to selective hiring and professional training increased active new agents by 20 per cent in 2016.

AIA has an unmatched willingness and capacity to invest in developing our agency distribution at scale. We have collaborated with the very best institutions globally to develop our proven training modules for our career agents and agency leaders. In 2016, overall active agent numbers increased alongside significant growth in productivity in terms of ANP per active agent.

Million Dollar Round Table (MDRT) status is an important global industry standard for agents. Members are required to demonstrate exceptional professional knowledge and customer service. We have continued to support our agents in attaining MDRT qualification through a clear and disciplined focus on improving performance standards. In 2016, AIA became the only company to be ranked number one in the world for MDRT members for two consecutive years, driven by a 48 per cent increase in registered members compared with the prior year. While MDRT qualification is just one measure of our success, AIA's Premier Agency strategy has made significant progress in raising the performance across the whole of our agency distribution since our IPO.

AIA's interactive Point of Sale (iPoS) technology has been established as the principal sales tool for agents across our markets, enabling reduced turnaround times, increased productivity and an improved overall customer experience. We have continued to invest further in technology, including our second-generation interactive Mobile Office (iMO) platform. This has been widely recognised by our agents and agency leaders as a significant step forward in the management of their activities from recruitment and training to lead generation and face-to-face sales. Along with our many other initiatives across the region, iMO will ensure that we continue to drive material increases in the professionalism, activity and productivity of our agents.

## **Partnerships**

AIA's partnership business complements our agency distribution and creates significant opportunities for additional profitable growth by broadening our access to potential customers across the Asia-Pacific region. Our clear focus on developing long-term collaborative partnerships once again delivered excellent results with VONB up 35 per cent to US\$875 million. ANP increased strongly by 43 per cent to US\$2,010 million with VONB margin of 43.5 per cent. Partnerships accounted for 30 per cent of the Group's total VONB in 2016.

## **Intermediary Channels**

The strength of our multi-channel distribution platform is also reflected in the overall results from our intermediated partnership channels including independent financial advisers (IFAs), brokers, private banks and specialist advisers, which has enabled us to provide financial and protection solutions to a broader range of customers. Our differentiated products, leading customer service and dedicated intermediary support have resulted in significant VONB growth through these channels compared with 2015.

## **Bancassurance**

AIA strives to develop new relationships and expand existing partnerships with many highly-regarded local and regional banks. Our strategy is to deliver VONB growth through a disciplined approach to the products we offer to meet customers' needs while achieving our required return on invested capital. We use technology, including iPoS, to enhance the productivity of relationship managers and insurance specialists, and to broaden the product range available to bank customers. The successful execution of our strategy delivered a double-digit increase in VONB through this channel in 2016.

Our long-term exclusive partnership with Citibank, N.A. (Citibank) across the region delivered very strong double-digit VONB growth during the year. AIA and Citibank share a mutual goal of providing a full range of life and health insurance products and services to the bank's 15 million retail clients across these markets. We are achieving this through a number of strategic initiatives including ongoing product launches, investment in front-end sales technology and targeted training for Citibank's relationship managers and in-branch insurance specialists. Our comprehensive product strategy included the introduction of new regular premium unit-linked products for the mass affluent segment in Indonesia and a new multiple payment critical illness rider to our flagship All-in-One product in China. The successful integration of AIA's iPoS with Citibank's sales platforms now provides a seamless financial planning experience for customers.

## **Direct Marketing**

Our direct marketing business continued to achieve robust growth, particularly in Malaysia and Taiwan with higher productivity levels from telesales representatives and from a continued focus on selling protection products. The expansion of our telemarketing business with Citibank in Hong Kong, Singapore and Malaysia also made a strong contribution. VONB from direct marketing increased by more than 30 per cent excluding Korea.

## **Group Insurance**

Group insurance is an important part of AIA's strategy to meet the potential protection needs of the more than 1.8 billion people in the working population across Asia-Pacific (ex-Japan). This figure compares with just 160 million in the US and 250 million in the European Union.

AIA is the leading provider of group insurance across the region with top-ranked market positions in Hong Kong, Thailand, Singapore, Malaysia and Australia. Across our markets, we serve over 16 million existing group insurance scheme members and more than 120,000 corporate clients.

AIA's group insurance business delivered solid VONB growth in 2016. We benefited from an increase in our individual voluntary solutions business, the retention of large employee benefits contracts in Australia and improvements in operational efficiency.

Our multi-channel distribution platform provides an important source of competitive advantage in supporting both multinational corporate and small-and-medium sized enterprise (SME) clients throughout the region. We collaborate with a broad regional network of employee benefits consultants and brokers to develop tailored solutions and deepen penetration within their large corporate client base.

AIA has benefited from our efforts in supporting our agents to serve the growing SME market. More than half of the entire labour force in Asia are employed by SMEs and this market has become increasingly important as SMEs evolve from small family-run operations into scalable businesses. Our highly-trained agents are able to leverage their strong relationships with business owners to help identify and meet their needs and capture the demand for group insurance as these businesses grow in size and sophistication.

Our approach to individual voluntary solutions allows group scheme members to supplement their existing group insurance cover with individual products and additional benefits. In the US, more than 70 per cent of employers currently offer voluntary benefits to their employees. By contrast, this market is in the very early stages of development in Asia. Since its launch in 2015, our focus on individual voluntary solutions, combined with a simplified underwriting process and products specifically designed to complement existing scheme benefits, has made solid progress.

Employers in Asia rely increasingly on more sophisticated human resources capabilities to attract talent and, as a result, the demand for group insurance provision continues to grow strongly. AIA remains well-placed to make the most of the significant growth potential of this market as we continue to introduce innovative products and enhance service levels for both employers and individual scheme members.

## **Marketing**

AIA is one of the most recognised and trusted brands in Asia. In 2016, we continued to build our brand strength through our positioning as “The Real Life Company”. We are committed to delivering our brand promise of helping our customers meet their protection and long-term savings needs at the various stages of life, while also motivating them to living longer, healthier, better lives through our range of wellness initiatives.

## **Customer Engagement**

Our brand promise is exemplified by AIA Vitality, our science-backed wellness programme that allows AIA to play an active role in empowering and motivating customers to take better care of their health by rewarding positive lifestyle choices. We launched AIA Vitality in Malaysia and Thailand in 2016 following the successful roll-out in Singapore, Australia, the Philippines and Hong Kong. For example, AIA celebrated its 85th anniversary in Hong Kong by hosting the AIA Vitality Weekly Challenge. Rewards were provided through an easy-to-use and engaging smartphone application to motivate customers to lead an active lifestyle. The take-up rate of AIA Vitality on integrated products in Hong Kong exceeded 75 per cent by the end of 2016.

Our shirt sponsorship agreement with Tottenham Hotspur Football Club (Spurs) plays a vital role in AIA’s promotion of healthy lifestyles by encouraging active participation in sport. The partnership with Spurs was recognised in the “Best Sponsorship of a Sport, Team or Event of the Year” category at the 2016 Asian Sports Industry Awards. AIA also organised various customer and employee engagement events in 2016 to foster positive values of teamwork, discipline and sportsmanship. These events included the AIA Championship, a regional five-a-side football tournament that has attracted participants across Asia.

AIA’s in-force customer base is an important source of growth with more than 30 million individual policies and over 16 million participating members of group insurance schemes. We recognise the indispensable role customer engagement plays in the successful delivery of our brand promise. As such, we are focused on gaining deeper insights into customers’ needs and buying experiences. We continued to gather valuable feedback from our online customer community platform, which has over 17,000 active customer members, helping us prioritise the development of products and services by understanding what matters most to our customers. For example, the roll-out in March 2016 of Singapore’s first 2-in-1 Savest™ plan combining unit-linked and participating benefits, and our first multi-payment critical illness product in China are just two examples of listening to customers and developing innovative products that address their requirements.

## **Product Development**

We fulfil our brand promise by providing a comprehensive range of insurance products that meet customers’ needs for savings and protection with an emphasis placed on healthcare and wellness.

Our core offerings in many markets, including Malaysia, Singapore, Indonesia and the Philippines, are our regular premium unit-linked products. These provide customers with the flexibility to personalise their mix of wealth accumulation and protection cover as needs evolve over their lifetimes. We continued to make further inroads into the provision of unit-linked products in Thailand, building on our first-mover advantage. In Malaysia, we introduced an add-on plan to our popular regular premium unit-linked products to enable our policyholders to extend coverage to their families. Also in Malaysia, we launched AIA Vitality in June, becoming the first company globally to integrate health and wellness benefits with unit-linked life insurance and Takaful products.

We expanded our leading suite of protection products in 2016 with a focus on critical illness cover. AIA China extended its flagship All-in-One protection range with a new rider and a successful campaign to upgrade the cover levels of existing customers. In Hong Kong, we rolled out the first-in-market whole life simplified issue long-term care rider that offers extra protection options to allow the ageing population of the city to tailor their lifetime coverage.



## **Technology and Operations**

AIA has continued to make significant progress in transforming our technology systems and enhancing business processes across Asia in 2016. Our technology and operations functions are focused on delivering higher operational efficiency and simplifying customer interactions. By leveraging innovation and emerging technologies, we are better supporting the sustainable and profitable growth of our business, while providing high-quality service to our customers.

### **Driving Operational Efficiency and Productivity**

The implementation of our data centre modernisation initiatives is well underway. These programmes provide cost-efficient infrastructure services for AIA by reducing data centre office space, while raising service quality, increasing resilience and enhancing information security. We also completed a major revamp of our policy administration systems in Singapore, Malaysia and Hong Kong.

Information security is a critical aspect of our technology strategy. We are committed to protecting the interests of our customers, partners, employees and stakeholders by providing a world-class information security environment. We are further enhancing our cyber security practices through more advanced technologies, intelligence-led security, and targeted training to raise employee awareness.

### **Simplifying Customer Interactions**

AIA's early adoption of digital tools for our distribution channels has enhanced efficiency as well as customer experience. More than 70 per cent of new business was submitted through iPoS in 2016. We continue to develop additional functionality, further strengthening the sales management capabilities of our distribution channels through the innovative use of digital technology.

Knowing more about our customers is a critical factor for successful marketing. Our group-wide data project deploys a common data model across all of our major markets. This programme will provide richer analytics and deeper insights, benefiting our customers through product development and targeted marketing. We implemented a major revamp of our customer websites across the Group in 2016. The new easy-to-use customer websites are responsive to any mobile device, greatly facilitating customers' research into our products and business operations.

We continue to look for opportunities that leverage innovative and emerging technologies to support the evolution of our business operations. In Australia, we launched an artificial intelligence (AI) solution to perform natural language processing for claims assessment. The successful implementation of this AI solution has significantly improved operational efficiency, while increasing the accuracy of the claims assessment process.

### **Promoting Innovation**

We organised the AIA Accelerator programme for the second year, with the goal of delivering innovation through the use of new and emerging technologies to support business evolution and help drive social and economic development across the Asia-Pacific region. In 2016, AIA joined R3, a consortium of 50 of the world's leading financial institutions to develop groundbreaking commercial applications for the financial service industry, leveraging elements of distributed and shared ledger technology. We are the first pan-Asian life insurer to join R3 and we believe distributed ledger technology or "blockchain" may offer significant opportunities for the life and health insurance industry.

## Geographical Markets

### HONG KONG

US\$ millions, unless otherwise stated	2016	2015	YoY (CER)	YoY (AER)
VONB <sup>(1)</sup>	<b>1,161</b>	820	<b>42%</b>	42%
VONB margin <sup>(2)</sup>	<b>48.8%</b>	62.0%	<b>(13.2) pps</b>	(13.2) pps
ANP	<b>2,294</b>	1,263	<b>82%</b>	82%
TWPI	<b>6,873</b>	5,115	<b>34%</b>	34%
Operating profit after tax	<b>1,334</b>	1,147	<b>16%</b>	16%

### Financial Highlights

AIA Hong Kong delivered an excellent performance in 2016 with VONB growth of 42 per cent to US\$1,161 million. This is the first year that AIA Hong Kong has generated over US\$1 billion of VONB. This outstanding result was due to a significant increase in agent productivity and higher active agent numbers, combined with excellent growth in our partnership distribution channel. ANP increased by 82 per cent to US\$2,294 million with more than 90 per cent of new business coming from regular premium products. VONB margin remained strong at 48.8 per cent reflecting increased sales of long-term participating products that balance lower reported VONB margins with greater capital efficiency at inception. While we focus on sales across a number of different customer segments in Hong Kong, we continue to monitor closely any developments relating to customers visiting from Mainland China to ensure that we maintain robust compliance with ongoing measures. IFRS operating profit after tax increased by 16 per cent to US\$1,334 million as we continued to benefit from strong underlying business growth.

### Business Highlights

We have focused on recruiting high-calibre agents and supporting them with best-in-class training, contributing to an increase in the number of active agents and a significant uplift in agent productivity levels compared with 2015. Our Gen-Y Club and Road to MDRT programmes have been very successful in supporting our agency leaders in attracting top young talent through the AIA Premier Academy. New recruits aged 35 years or below accounted for close to two-thirds of overall recruits in 2016.

We also launched a Premier Agency Leader programme to develop our next generation of agency leaders by equipping them with enhanced leadership, agency management and recruitment skills. This contributed to a 21 per cent increase in the number of new recruits during the year. AIA retained its top-ranked position for registered MDRT members in Hong Kong with an increase of more than 60 per cent compared with 2015. AIA Hong Kong has the distinction of being the third largest company worldwide for registered MDRT members measured on a stand-alone basis. We believe that AIA's Premier Agency strategy provides a strong foundation for future growth in activity and productivity levels across our agency distribution in Hong Kong.

Partnership distribution also delivered significant VONB growth in 2016 with retail IFA business continuing its excellent momentum from the first half of the year. Our strategic long-term bancassurance partnership with Citibank delivered an excellent performance with VONB double the amount in 2015. This was the result of ongoing efforts to increase the productivity of relationship managers and in-branch insurance specialists through a series of integrated training programmes, successful customer campaigns and new product launches.

Our balanced product range enables us to capture the significant growth opportunities across a broad range of customer segments in Hong Kong. Since its launch in October 2015, we have seen strong demand for AIA Vitality, further differentiating our protection proposition and the quality of our engagement with our customers in Hong Kong. The take-up rate of AIA Vitality on integrated products exceeded 75 per cent by the end of 2016.

## THAILAND

US\$ millions, unless otherwise stated	2016	2015	YoY (CER)	YoY (AER)
VONB <sup>(1)</sup>	<b>384</b>	395	<b>1%</b>	(3)%
VONB margin <sup>(2)</sup>	<b>81.5%</b>	75.8%	<b>5.4 pps</b>	5.7 pps
ANP	<b>471</b>	520	<b>(6)%</b>	(9)%
TWPI	<b>3,327</b>	3,324	<b>4%</b>	–
Operating profit after tax	<b>768</b>	681	<b>17%</b>	13%

### Financial Highlights

AIA Thailand reported VONB of US\$384 million in 2016, including a period of reduced activity at the end of our financial year during the mourning period following the passing of King Bhumibol Adulyadej in October. VONB margin was up by 5.4 pps to 81.5 per cent offset by lower new business volumes. We are committed to the ongoing professional development of our market-leading agency distribution in Thailand and the proactive management of the quality of the new business we write. Our focus on driving regular premium sales, rather than short-term deposit replacement products, is reflected in our market-leading position in the protection market. Regular premium business accounted for 97 per cent of ANP with protection business comprising the majority of the VONB generated during the year. IFRS operating profit after tax grew by 17 per cent to US\$768 million including the benefit of a lower corporate income tax rate.

### Business Highlights

AIA continues to be well positioned to capture the significant long-term growth opportunities from the low levels of life insurance penetration in the Thai market. Our focus remains on driving increased agent activity and productivity through selective recruitment and continued development of our training capabilities. AIA Thailand's "Financial Adviser" programme builds on our positive experience and best practices in other countries by offering high-quality induction programmes to new agents with high potential. New hires through this programme increased by 35 per cent compared with 2015 and productivity was 26 per cent higher than the average level for new recruits. Ongoing training and mentoring opportunities are available to increase productivity levels with the aim of helping our agents achieve MDRT status. At the same time, we continue to strictly enforce the validation of agency contracts which affected overall new sales during the year but positions us well for future sustainable growth.

Our in-house training is developing highly-skilled agents who can provide advice on a wider range of savings and protection products. This is contributing to our market-leading position in terms of agents qualified to sell unit-linked insurance products. The launch of a new sales tool on our mobile sales platform supported these efforts by helping our agents explain the flexibility of unit-linked products in meeting customers' savings and protection needs. The number of licensed AIA agents qualified to distribute unit-linked products increased by 43 per cent in 2016 building on the significant growth achieved in 2015. AIA's market share of the unit-linked insurance market in Thailand was around 90 per cent based on reported premium in 2016, accounting for more than 15 per cent of AIA Thailand's overall VONB in 2016.

AIA Thailand is the market leader in group insurance with a significant in-force portfolio. Our agency channel generated additional value from scheme members who supplemented their insurance cover provided by their employers with individual products. The launch of AIA Vitality in June 2016 strengthened our leading position in the protection market. AIA Vitality is the first comprehensive wellness programme in Thailand and it is designed to complement our existing product range.

## SINGAPORE

US\$ millions, unless otherwise stated	2016	2015	YoY (CER)	YoY (AER)
VONB <sup>(1)</sup>	<b>316</b>	341	<b>(7)%</b>	(7)%
VONB margin <sup>(2)</sup>	<b>74.1%</b>	72.4%	<b>1.4 pps</b>	1.7 pps
ANP	<b>427</b>	471	<b>(9)%</b>	(9)%
TWPI	<b>2,276</b>	2,283	<b>1%</b>	–
Operating profit after tax	<b>453</b>	426	<b>6%</b>	6%

### Financial Highlights

AIA Singapore reported VONB of US\$316 million in 2016. VONB margin increased by 1.4 pps to 74.1 per cent with ANP lower by 9 per cent to US\$427 million. Growth in new regular premium business was offset by lower single premium sales through the broker channel, as previously reported in our Interim Report 2016. This reflected our approach to managing our product mix through proactive pricing actions and lower overall market sales, as we focus on delivering profitable growth over the long term. VONB from regular premium business grew by 16 per cent compared with 2015. IFRS operating profit after tax increased by 6 per cent to US\$453 million.

### Business Highlights

AIA's disciplined execution of our Premier Agency strategy in Singapore drove a strong performance in our agency channel in 2016. We delivered double-digit growth in agency VONB from increased active agent numbers and higher productivity in terms of ANP per active agent. Our efforts were supported by the high adoption rate of iPoS and the enhanced capabilities of iMO, including providing customers with on-the-spot underwriting decisions. Approximately 80 per cent of new business applications in Singapore were submitted through iPoS in 2016.

We introduced a new MDRT mentoring programme which provides our high potential agents with coaching from existing MDRT members. The number of MDRT qualifiers increased by 30 per cent compared with 2015. AIA continued to rank first in Singapore for MDRT registered members in 2016.

Our strategic partnership with Citibank also made solid progress in 2016. We provided structured training on sales effectiveness and advisers received intensive coaching from AIA's product specialists. As well as this focus on driving increased productivity within the bank's sales force, we captured opportunities from Citibank's credit card customer base by offering simplified protection solutions through expanded telemarketing operations. AIA Singapore continued to be a leader in the group insurance market in 2016 and we continued to benefit from increased individual protection sales to existing members of our in-force group insurance schemes through our agency distribution channel.

AIA Singapore is ranked number one for protection in terms of new business sums assured and is at the forefront of new product innovation. In August, we introduced a popular new critical illness product with first-in-market features that allow policyholders to fully restore their coverage amounts after making a claim, subject to an appropriate waiting period. AIA Vitality also continued to gain traction with VONB from integrated products up by 70 per cent compared with 2015.

## MALAYSIA

US\$ millions, unless otherwise stated	2016	2015	YoY (CER)	YoY (AER)
VONB <sup>(1)</sup>	<b>198</b>	172	<b>23%</b>	15%
VONB margin <sup>(2)</sup>	<b>57.1%</b>	57.9%	<b>(0.8) pps</b>	(0.8) pps
ANP	<b>341</b>	292	<b>25%</b>	17%
TWPI	<b>1,795</b>	1,825	<b>6%</b>	(2)%
Operating profit after tax	<b>265</b>	267	<b>6%</b>	(1)%

### Financial Highlights

AIA Malaysia delivered excellent VONB growth of 23 per cent to US\$198 million. ANP increased by 25 per cent to US\$341 million while VONB margin remained strong at 57.1 per cent. This sustained, high-quality performance was driven by excellent results from our agency distribution and new product innovation which combines protection cover and regular premium unit-linked savings with the addition of health and wellness solutions. IFRS operating profit after tax increased by 6 per cent to US\$265 million.

### Business Highlights

Our selective recruitment and rigorous agency training have continued to deliver excellent results in 2016. Our new long-term career development programme has continued to attract high-calibre individuals leading to a 25 per cent increase in the number of active new agents compared with 2015. AIA's agency business has also benefited from rolling out activity management tools, launching new products for the mass affluent segment and the use of technology to improve the customer experience at point of sale. As a result, agency productivity has improved significantly, with ANP per active agent up by more than 20 per cent compared with 2015.

AIA's Takaful business is an increasingly important driver of our new business growth in Malaysia. We are building a high-quality agency force to tap into the significant growth opportunities from this underpenetrated market. Our agency distribution grew individual Takaful ANP by 90 per cent and the number of active Takaful-producing agents increased by more than 70 per cent compared with 2015. In 2016, AIA became the second largest player in the Family Takaful sector within only three years of the launch of our joint Family Takaful operation with Public Bank.

Partnership distribution continued to make good progress in 2016. AIA's strategic bancassurance partnership with Public Bank continued to make solid progress, generating double-digit VONB growth. The productivity of the in-branch insurance specialists increased, benefiting from new product launches which generated higher average case sizes, and the comprehensive use of iPoS. Our partnership with Citibank also delivered excellent VONB growth as we introduced new critical illness products through direct marketing, specifically targeted at Citibank's existing customer base.

AIA Malaysia is committed to improving customer experience through the use of technology and innovation. More than 90 per cent of agency new business applications were submitted through iPoS in 2016. Turnaround times on underwriting have been significantly reduced since we introduced our new mobile underwriting system which features personalised applications and on-the-spot underwriting and has reduced processing times from days to minutes. We launched AIA Vitality in June, providing our customers in Malaysia with the knowledge, tools and motivation to improve their health and making AIA the first company globally to integrate health and wellness benefits with unit-linked life insurance and Takaful products.

## CHINA

US\$ millions, unless otherwise stated	2016	2015	YoY (CER)	YoY (AER)
VONB <sup>(1)</sup>	<b>536</b>	366	<b>54%</b>	46%
VONB margin <sup>(2)</sup>	<b>86.4%</b>	83.5%	<b>2.9 pps</b>	2.9 pps
ANP	<b>621</b>	438	<b>49%</b>	42%
TWPI	<b>2,384</b>	2,028	<b>24%</b>	18%
Operating profit after tax	<b>469</b>	384	<b>29%</b>	22%

### Financial Highlights

AIA's wholly-owned business in China delivered another set of excellent results in 2016 with 54 per cent growth in VONB to US\$536 million. Our focus on the provision of regular premium protection cover embedded across our product range, combined with the professionalism of our distribution, continued to drive high-quality growth. ANP grew by 49 per cent to US\$621 million, while VONB margin increased by 2.9 pps to 86.4 per cent with regular premium sales accounting for 97 per cent of new business. The quality of our earnings underpins our strong track record of growth and differentiates AIA in the market. Combined with the benefits of increasing scale, our approach has led to a 29 per cent increase in IFRS operating profit after tax to US\$469 million in 2016.

### Business Highlights

The sustained execution of AIA's Premier Agency strategy has continued to deliver strong results. We are focused on growing AIA's professional agency distribution through quality recruitment, best-in-class training and advanced leadership development programmes. Our stringent selection criteria and dedicated residential induction programmes have grown the number of new recruits by more than 50 per cent and increased the productivity of new agents by more than 20 per cent compared with 2015.

Our new MDRT mentorship programme is designed to promote a culture of activity management and ongoing professional development that helps our agents and leaders build long-term careers with AIA by providing customers with high-quality advice tailored to their needs. Our overall number of active agents increased by more than 50 per cent compared with 2015.

While our agency channel accounts for more than 90 per cent of VONB in China, our bancassurance business continued to make solid progress in 2016. We worked closely with Citibank to equip its sales force with the skills and tools to provide advice on protection and long-term savings products to the bank's customers. At the same time, we continued to build closer relationships with our other bank partners by developing regular premium products specifically targeted at their affluent customers.

We continue to target affluent customers in China by launching tailored branding campaigns and high-end protection products to complement our dedicated client services in meeting the growing needs for protection cover, estate planning and long-term retirement savings. Our objective is to reinforce AIA China's position as the provider of choice in this rapidly growing customer segment. We also launched a new multiple payment critical illness rider for our flagship All-in-One product for agency distribution in the first part of the year and extended this to our bank partners in the second half to increase the proportion of protection sales through our bancassurance channel.

## OTHER MARKETS

US\$ millions, unless otherwise stated	2016	2015	YoY (CER)	YoY (AER)
VONB <sup>(1)</sup>	<b>321</b>	296	<b>10%</b>	8%
VONB margin <sup>(2)</sup>	<b>32.9%</b>	29.4%	<b>3.3 pps</b>	3.5 pps
ANP	<b>969</b>	1,007	<b>(1)%</b>	(4)%
TWPI	<b>5,478</b>	5,301	<b>6%</b>	3%
Operating profit after tax	<b>662</b>	588	<b>17%</b>	13%

Other Markets include AIA's operations in Australia, Indonesia, Korea, New Zealand, the Philippines, Sri Lanka, Taiwan, Vietnam and India.

In April 2016, we increased our shareholding in Tata AIA, our joint venture with the Tata Group in India from 26 per cent to 49 per cent. The financial results from this joint venture are accounted for using the equity method. For clarity, TWPI, ANP and VONB exclude any contribution from India.

### Financial Highlights

Other Markets delivered VONB growth of 10 per cent to US\$321 million compared with 2015. VONB growth was higher in the second half at 15 per cent, compared with the second half of 2015. ANP was US\$969 million while VONB margin increased by 3.3 pps to 32.9 per cent. Highlights included excellent performances in Australia, Vietnam and Sri Lanka, partly offset by weaker market conditions in the Philippines, and Korea. IFRS operating profit after tax grew strongly by 17 per cent to US\$662 million.

### Business Highlights

**Australia:** AIA's business in Australia delivered excellent double-digit VONB growth in 2016, driven by outstanding performances in both individual retail IFA and group insurance businesses. Our new online portal helped us maintain our leadership position in the Australian retail IFA life market, enhancing our Premier IFA service model and supporting our IFA partners in growing their businesses. We also generated strong growth in group insurance business by focusing on the retention of major corporate clients during the year. AIA Vitality remains a critical component of our customer proposition as an independent protection specialist in Australia. In 2016, we expanded our comprehensive wellness programme by adding new partners and new product features, resulting in the number of AIA Vitality members more than doubling compared with 2015. We also launched an AIA Executive Wellness programme to coach selected IFAs on the benefits of our wellness products. AIA Vitality earned our Australian business the Life Insurance Product of the Year title at the Australian Insurance Awards 2016.

**Indonesia:** AIA Indonesia's agency business delivered double-digit VONB growth in 2016. Our approach in Indonesia is to develop a high-quality agency distribution that is well placed to capture the significant opportunities from the increasingly sophisticated financial protection needs of the rapidly growing middle class. In the second half of 2016, we launched our Financial Advisers Academy programme to drive quality recruitment and to embed our culture of high activity levels and professionalism in our new agents. AIA's bancassurance business benefited from our exclusive partnership with Citibank and our emphasis on the launch of protection products to mass affluent customers. This positive shift in product mix has driven a higher VONB margin in our bancassurance channel although with lower volumes compared with the prior year.

**Korea:** Our Korean business showed positive momentum over the second half. VONB margin increased by 4.8 pps to 23.7 per cent in 2016, following a positive shift in product mix and the launch of new protection products in the second half of the year. IFRS operating profit after tax has continued to be robust, growing by 10 per cent compared with 2015. The business has new leadership and we strengthened our distribution capabilities during the year, while continuing to selectively write new business that meets our return requirements. Our direct marketing business engaged new sponsors for outbound telemarketing leads and we increased the number of telesales representatives in the second half of the year. AIA is committed to our Premier Agency strategy with a clear focus on our quality recruitment programme to attract high-calibre individuals and the adoption of technology to improve activity management and productivity.

**New Zealand:** Our business in New Zealand generated strong VONB growth in 2016. This was the result of our ongoing strategy of engaging with selected IFA partners through our differentiated service model and enhancing the benefit design of our protection products. Our strategy continued to deliver strong year-on-year growth in the number of new policies issued and average case sizes through our IFA channel in 2016.

**Philippines:** Overall market conditions in the Philippines were challenging in the first half of 2016. VONB for our operations in the Philippines improved in the second half and was up by more than 20 per cent compared with the first half of the year. We are committed to strengthening our agency distribution through launching our new agency branch model and introducing recruitment initiatives during the year to attract young professionals. We also implemented a development programme to improve activity ratios and average case sizes to support more of our Premier Agents in their goal of achieving MDRT status. Our joint venture partnership with the Bank of the Philippine Islands (BPI) continued to lead the bancassurance market in 2016. We launched new unit-linked protection products to the bank's customers during the year, focusing on health and estate planning. This has significantly increased the proportion of new business that comes from protection sales compared with 2015. IFRS operating profit after tax also grew strongly, benefiting from our deliberate shift towards regular premium products.

**Sri Lanka:** Our Sri Lankan business delivered excellent VONB growth in 2016 from our agency and bancassurance distribution channels. We have continued the implementation of our Premier Agency strategy with the roll-out of new incentive schemes, recruitment and training programmes and agency activity management tools. Our agency business is supported by our new e-payment platform that allows customers to pay their premiums using mobile phones. AIA is the first insurer in Sri Lanka to launch this platform, offering enhanced service for our customers and improved efficiency for our agents. AIA's bancassurance channel benefited from higher-quality lead generation following the launch of a new digital sales activity management system and financial needs analysis tools designed to drive a higher proportion of regular premium sales and increased average case sizes. In November 2016, we expanded our bancassurance footprint by entering into a new long-term exclusive bancassurance partnership with DFCC Bank, one of the largest private sector banks in Sri Lanka.

**Taiwan:** Our Taiwanese business continued to develop its multi-channel distribution platform in 2016. Our direct marketing business delivered excellent VONB growth as we benefited from a 17 per cent increase in numbers of telesales representatives compared with 2015 and a higher VONB margin, partly offset by lower agency sales. Our IFA channel also had a strong year from new product launches and expanded service coverage.



**Vietnam:** AIA Vietnam delivered another year of excellent VONB growth. A strong increase in ANP was accompanied by a higher VONB margin from an uplift in protection rider sales and expense efficiency improvements. We continued to expand our innovative branch model aimed at attracting younger and more productive agents with a total of seven branches established across five cities by the end of 2016. These branches serve as regional centres for the training and professional development of our agency force. Along with other ongoing recruitment and training initiatives, these centres supported an increase in the number of active agents by more than 20 per cent compared with 2015.

Notes:

Throughout the Distribution section:

VONB and VONB margin by distribution channel are based on local statutory reserving and capital requirements and exclude pension business.

Throughout the Geographical Markets section:

- (1) VONB figures shown in the tables are based on local statutory reserving and capital requirements and include pension business.
- (2) VONB margin excludes pension business to be consistent with the definition of ANP used within the calculation.

## **REGULATORY DEVELOPMENTS**

Internationally, the regulatory environment facing life insurers has continued to evolve. In particular, the International Association of Insurance Supervisors (IAIS) continues a multi-year review of certain Insurance Core Principles with the longer-term aim of developing and implementing an updated common framework for the international regulation of insurance companies.

During 2016, regulators across AIA's span of operation continued a variety of initiatives intended to align their respective regulatory frameworks with the broad principles recommended by the IAIS. AIA continues to be involved in these initiatives across the region, and is an active participant in the international industry dialogue on a host of relevant issues, including formulation of an international capital standard.

In particular, Bermuda's prudential framework for insurance was deemed to be equivalent to the regulatory standards applied to European insurers in accordance with the requirements of the Solvency II Directive. Under its enhanced commercial prudential return regime, the Bermuda Monetary Authority has instituted a number of changes to its statutory and prudential reporting requirements including the need for commercial insurers to prepare an economic balance sheet. These new regulatory requirements will first apply to AIA's financial year ending 30 November 2017 and AIA is participating in the development of these initiatives.

In Hong Kong, the process continues in support of the creation of an Independent Insurance Authority. A Governing Board has been appointed and it is anticipated that the Independent Insurance Authority will take over the responsibilities of the HKOCI in 2017 and will also directly regulate intermediaries in due course. A multi-year consultation process is also underway towards the development of a risk-based capital regime for Hong Kong insurers. As previously disclosed, AIA is closely and constructively engaged in these developments.

## FINANCIAL STATEMENTS

### INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

#### **TO THE SHAREHOLDERS OF AIA GROUP LIMITED**

*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of AIA Group Limited (the "Company") and its subsidiaries set out on pages 40 to 153, which comprise the consolidated statement of financial position as at 30 November 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), and with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

## FINANCIAL STATEMENTS

### INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

#### **Auditor's responsibility** (continued)

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

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

#### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 30 November 2016 and of their financial performance and cash flows for the year then ended in accordance with both Hong Kong Financial Reporting Standards and with International Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

#### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong  
24 February 2017

## CONSOLIDATED INCOME STATEMENT

US\$m	Notes	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
<b>REVENUE</b>			
Premiums and fee income		<b>21,757</b>	19,781
Premiums ceded to reinsurers		<b>(1,313)</b>	(1,165)
Net premiums and fee income		<b>20,444</b>	18,616
Investment return	8	<b>7,555</b>	4,535
Other operating revenue	8	<b>197</b>	196
<b>Total revenue</b>		<b>28,196</b>	23,347
<b>EXPENSES</b>			
Insurance and investment contract benefits		<b>19,340</b>	16,136
Insurance and investment contract benefits ceded		<b>(1,119)</b>	(942)
<b>Net insurance and investment contract benefits</b>		<b>18,221</b>	15,194
Commission and other acquisition expenses		<b>2,735</b>	2,468
Operating expenses		<b>1,752</b>	1,638
Finance costs		<b>149</b>	152
Other expenses		<b>462</b>	448
<b>Total expenses</b>	9	<b>23,319</b>	19,900
<b>Profit before share of losses from associates and joint venture</b>		<b>4,877</b>	3,447
Share of losses from associates and joint venture		<b>(5)</b>	–
<b>Profit before tax</b>		<b>4,872</b>	3,447
Income tax expense attributable to policyholders' returns		<b>(62)</b>	(33)
<b>Profit before tax attributable to shareholders' profits</b>		<b>4,810</b>	3,414
Tax expense	10	<b>(660)</b>	(655)
Tax attributable to policyholders' returns		<b>62</b>	33
Tax expense attributable to shareholders' profits		<b>(598)</b>	(622)
<b>Net profit</b>		<b>4,212</b>	2,792
<i>Net profit attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>4,164</b>	2,765
Non-controlling interests		<b>48</b>	27
<b>EARNINGS PER SHARE (US\$)</b>			
Basic	11	<b>0.35</b>	0.23
Diluted	11	<b>0.35</b>	0.23

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US\$m	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
<b>Net profit</b>	<b>4,212</b>	2,792
<b>OTHER COMPREHENSIVE INCOME</b>		
Items that may be reclassified subsequently to profit or loss:		
Fair value gains/(losses) on available for sale financial assets (net of tax of: 2016: US\$8m; 2015: US\$(48)m)	<b>869</b>	(1,639)
Fair value losses/(gains) on available for sale financial assets transferred to income on disposal and impairment (net of tax of: 2016: US\$6m; 2015: US\$2m)	<b>2</b>	(42)
Foreign currency translation adjustments	<b>(412)</b>	(1,623)
Cash flow hedges	<b>1</b>	3
Share of other comprehensive income from associates and joint venture	<b>43</b>	3
Subtotal	<b>503</b>	(3,298)
Items that will not be reclassified subsequently to profit or loss:		
Revaluation gains/(losses) on property held for own use (net of tax of: 2016: US\$(66)m; 2015: US\$1m)	<b>309</b>	(2)
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: 2016: US\$1m; 2015: US\$5m)	<b>(21)</b>	(5)
Subtotal	<b>288</b>	(7)
Total other comprehensive income/(expense)	<b>791</b>	(3,305)
<b>Total comprehensive income/(expense)</b>	<b>5,003</b>	(513)
<i>Total comprehensive income/(expense) attributable to:</i>		
<b>Shareholders of AIA Group Limited</b>	<b>4,968</b>	(524)
Non-controlling interests	<b>35</b>	11

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$m	Notes	As at 30 November 2016	As at 30 November 2015 (As adjusted)
<b>ASSETS</b>			
Intangible assets	13	<b>1,743</b>	1,834
Investments in associates and joint venture	14	<b>650</b>	137
Property, plant and equipment	15	<b>1,132</b>	579
Investment property	16	<b>3,910</b>	3,659
Reinsurance assets	17	<b>2,046</b>	1,652
Deferred acquisition and origination costs	18	<b>18,898</b>	17,092
<b>Financial investments:</b>	19, 21		
Loans and deposits		<b>7,062</b>	7,211
Available for sale			
Debt securities		<b>90,092</b>	80,940
At fair value through profit or loss			
Debt securities		<b>23,526</b>	23,700
Equity securities		<b>30,211</b>	27,159
Derivative financial instruments	20	<b>107</b>	73
		<b>150,998</b>	139,083
Deferred tax assets	10	<b>7</b>	9
Current tax recoverable		<b>59</b>	45
Other assets	22	<b>3,989</b>	3,676
Cash and cash equivalents	24	<b>1,642</b>	1,992
<b>Total assets</b>		<b>185,074</b>	169,758
<b>LIABILITIES</b>			
Insurance contract liabilities	25	<b>128,186</b>	115,969
Investment contract liabilities	26	<b>7,028</b>	7,116
Borrowings	28	<b>3,460</b>	3,195
Obligations under repurchase agreements	29	<b>1,984</b>	3,085
Derivative financial instruments	20	<b>644</b>	695
Provisions	31	<b>253</b>	245
Deferred tax liabilities	10	<b>3,276</b>	3,109
Current tax liabilities		<b>210</b>	265
Other liabilities	32	<b>4,723</b>	4,657
<b>Total liabilities</b>		<b>149,764</b>	138,336

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$m	Notes	As at 30 November 2016	As at 30 November 2015 (As adjusted)
<b>EQUITY</b>			
Share capital	33	<b>13,998</b>	13,971
Employee share-based trusts	33	<b>(351)</b>	(321)
Other reserves	33	<b>(11,954)</b>	(11,978)
Retained earnings		<b>29,334</b>	26,294
Fair value reserve	33	<b>5,352</b>	4,414
Foreign currency translation reserve	33	<b>(1,812)</b>	(1,389)
Property revaluation reserve	33	<b>449</b>	140
Others		<b>(32)</b>	(12)
Amounts reflected in other comprehensive income		<b>3,957</b>	3,153
<i>Total equity attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>34,984</b>	31,119
Non-controlling interests	34	<b>326</b>	303
<b>Total equity</b>		<b>35,310</b>	31,422
<b>Total liabilities and equity</b>		<b>185,074</b>	169,758



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$m	Note	Other comprehensive income									Total equity
		Share capital	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	
<b>Balance at 1 December 2015, as previously reported</b>		<b>13,971</b>	<b>(321)</b>	<b>(11,978)</b>	<b>24,708</b>	<b>4,414</b>	<b>(1,381)</b>	<b>–</b>	<b>(12)</b>	<b>139</b>	<b>29,540</b>
Retrospective adjustments for IAS 40		–	–	–	<b>1,586</b>	–	<b>(8)</b>	<b>140</b>	–	<b>164</b>	<b>1,882</b>
<b>Balance at 1 December 2015, as adjusted</b>		<b>13,971</b>	<b>(321)</b>	<b>(11,978)</b>	<b>26,294</b>	<b>4,414</b>	<b>(1,389)</b>	<b>140</b>	<b>(12)</b>	<b>303</b>	<b>31,422</b>
Opening adjustments on revaluation gains on property held for own use		–	–	–	–	–	–	<b>259</b>	–	–	<b>259</b>
Net profit		–	–	–	<b>4,164</b>	–	–	–	–	<b>48</b>	<b>4,212</b>
Fair value gains/(losses) on available for sale financial assets		–	–	–	–	<b>874</b>	–	–	–	<b>(5)</b>	<b>869</b>
Fair value losses on available for sale financial assets transferred to income on disposal and impairment		–	–	–	–	<b>2</b>	–	–	–	–	<b>2</b>
Foreign currency translation adjustments		–	–	–	–	–	<b>(404)</b>	–	–	<b>(8)</b>	<b>(412)</b>
Cash flow hedges		–	–	–	–	–	–	–	<b>1</b>	–	<b>1</b>
Share of other comprehensive income/(expense) from associates and joint venture		–	–	–	–	<b>62</b>	<b>(19)</b>	–	–	–	<b>43</b>
Revaluation gains on property held for own use		–	–	–	–	–	–	<b>50</b>	–	–	<b>50</b>
Effect of remeasurement of net liability of defined benefit schemes		–	–	–	–	–	–	–	<b>(21)</b>	–	<b>(21)</b>
<b>Total comprehensive income/(expense) for the year</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>4,164</b>	<b>938</b>	<b>(423)</b>	<b>309</b>	<b>(20)</b>	<b>35</b>	<b>5,003</b>
Dividends	12	–	–	–	<b>(1,124)</b>	–	–	–	–	<b>(12)</b>	<b>(1,136)</b>
Shares issued under share option scheme and agency share purchase plan		<b>27</b>	–	–	–	–	–	–	–	–	<b>27</b>
Share-based compensation		–	–	<b>86</b>	–	–	–	–	–	–	<b>86</b>
Purchase of shares held by employee share-based trusts		–	<b>(86)</b>	–	–	–	–	–	–	–	<b>(86)</b>
Transfer of vested shares from employee share-based trusts		–	<b>56</b>	<b>(56)</b>	–	–	–	–	–	–	–
Others		–	–	<b>(6)</b>	–	–	–	–	–	–	<b>(6)</b>
<b>Balance at 30 November 2016</b>		<b>13,998</b>	<b>(351)</b>	<b>(11,954)</b>	<b>29,334</b>	<b>5,352</b>	<b>(1,812)</b>	<b>449</b>	<b>(32)</b>	<b>326</b>	<b>35,310</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$m	Note	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Other comprehensive income				Non-controlling interests	Total equity
						Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others		
<b>Balance at 1 December 2014, as previously reported</b>											
		13,962	(286)	(11,994)	22,831	6,076	227	–	(10)	149	30,955
Retrospective adjustments for IAS 40											
		–	–	–	1,512	–	7	142	–	161	1,822
<b>Balance at 1 December 2014, as adjusted</b>											
		13,962	(286)	(11,994)	24,343	6,076	234	142	(10)	310	32,777
Net profit											
		–	–	–	2,765	–	–	–	–	27	2,792
Fair value losses on available for sale financial assets											
		–	–	–	–	(1,632)	–	–	–	(7)	(1,639)
Fair value gains on available for sale financial assets transferred to income on disposal											
		–	–	–	–	(42)	–	–	–	–	(42)
Foreign currency translation adjustments											
		–	–	–	–	–	(1,614)	–	–	(9)	(1,623)
Cash flow hedges											
		–	–	–	–	–	–	–	3	–	3
Share of other comprehensive income/(expense) from associates and joint venture											
		–	–	–	–	12	(9)	–	–	–	3
Revaluation losses on property held for own use											
		–	–	–	–	–	–	(2)	–	–	(2)
Effect of remeasurement of net liability of defined benefit schemes											
		–	–	–	–	–	–	–	(5)	–	(5)
<b>Total comprehensive income/(expense) for the year</b>											
		–	–	–	2,765	(1,662)	(1,623)	(2)	(2)	11	(513)
Dividends											
	12	–	–	–	(814)	–	–	–	–	(18)	(832)
Shares issued under share option scheme and agency share purchase plan											
		9	–	–	–	–	–	–	–	–	9
Share-based compensation											
		–	–	79	–	–	–	–	–	–	79
Purchase of shares held by employee share-based trusts											
		–	(98)	–	–	–	–	–	–	–	(98)
Transfer of vested shares from employee share-based trusts											
		–	63	(63)	–	–	–	–	–	–	–
<b>Balance at 30 November 2015, as adjusted</b>											
		13,971	(321)	(11,978)	26,294	4,414	(1,389)	140	(12)	303	31,422

## CONSOLIDATED STATEMENT OF CASH FLOWS

US\$m	Notes	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit before tax</b>		<b>4,872</b>	3,447
Adjustments for:			
Financial investments		<b>(13,438)</b>	(9,429)
Insurance and investment contract liabilities		<b>11,794</b>	8,337
Obligations under securities lending and repurchase agreements	29	<b>(1,019)</b>	(462)
Other non-cash operating items, including investment income		<b>(6,164)</b>	(5,592)
Operating cash items:			
Interest received		<b>5,261</b>	4,944
Dividends received		<b>645</b>	614
Interest paid		<b>(39)</b>	(76)
Tax paid		<b>(548)</b>	(546)
<b>Net cash provided by operating activities</b>		<b>1,364</b>	1,237
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for intangible assets	13	<b>(64)</b>	(103)
Distribution or dividend from/(contribution to) associates and joint venture	14	<b>2</b>	(9)
Payments for investment property and property, plant and equipment	15,16	<b>(181)</b>	(139)
Payments for increase in interest of an associate		<b>(310)</b>	–
Disposal of a subsidiary, net of cash disposed		<b>–</b>	21
<b>Net cash used in investing activities</b>		<b>(553)</b>	(230)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of medium term notes	28	<b>733</b>	745
Interest paid on medium term notes		<b>(108)</b>	(76)
Proceeds from other borrowings	28	<b>13</b>	3
Repayment of medium term notes	28	<b>(150)</b>	–
Repayment of other borrowings	28	<b>(336)</b>	(490)
Dividends paid during the year		<b>(1,136)</b>	(832)
Purchase of shares held by employee share-based trusts		<b>(86)</b>	(98)
Shares issued under share option scheme and agency share purchase plan		<b>27</b>	9
<b>Net cash used in financing activities</b>		<b>(1,043)</b>	(739)
Net (decrease)/increase in cash and cash equivalents		<b>(232)</b>	268
Cash and cash equivalents at beginning of the financial year		<b>1,750</b>	1,631
Effect of exchange rate changes on cash and cash equivalents		<b>(36)</b>	(149)
<b>Cash and cash equivalents at end of the financial year</b>		<b>1,482</b>	1,750

## CONSOLIDATED STATEMENT OF CASH FLOWS

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

US\$m	Note	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
Cash and cash equivalents in the consolidated statement of financial position	24	<b>1,642</b>	1,992
Bank overdrafts		<b>(160)</b>	(242)
<b>CASH AND CASH EQUIVALENTS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS</b>		<b>1,482</b>	1,750

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES**

### **1. CORPORATE INFORMATION**

AIA Group Limited (the “Company”) was established as a company with limited liability incorporated in Hong Kong on 24 August 2009. The address of its registered office is 35/F, AIA Central, No. 1 Connaught Road Central, Hong Kong.

AIA Group Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code “1299” with American Depositary Receipts (Level 1) being traded on the over-the-counter market (ticker symbol: “AAGIY”).

AIA Group Limited and its subsidiaries (collectively “AIA” or the “Group”) is a life insurance based financial services provider operating in 18 markets throughout the Asia-Pacific region. The Group’s principal activity is the writing of life insurance business, providing life insurance, accident and health insurance and savings plans throughout Asia, and distributing related investment and other financial services products to its customers.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **2.1 Basis of preparation and statement of compliance**

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRS), International Financial Reporting Standards (IFRS) and the Hong Kong Companies Ordinance. IFRS is substantially consistent with HKFRS and the accounting policy selections that the Group has made in preparing these consolidated financial statements are such that the Group is able to comply with both HKFRS and IFRS. References to IFRS, International Accounting Standards (IAS) and Interpretations developed by the IFRS Interpretations Committee (IFRS IC) in these consolidated financial statements should be read as referring to the equivalent HKFRS, Hong Kong Accounting Standards (HKAS) and Hong Kong (IFRIC) Interpretations (HK(IFRIC) – Int) as the case may be. Accordingly, there are not any differences of accounting practice between HKFRS and IFRS affecting these consolidated financial statements.

The consolidated financial statements have been approved for issue by the Board of Directors on 24 February 2017.

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

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

The accounting policies adopted are consistent with those of the previous financial year, except as described below in notes 47 and 48. There are no new standards, interpretation and amendments to standards that are mandatory for the Group to adopt for the financial year ended 30 November 2016.

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.1 Basis of preparation and statement of compliance** (continued)

(a) The following relevant new standards, interpretation and amendments to standards have been issued but are not effective for the financial year ended 30 November 2016 and have not been early adopted (the financial years for which the adoption is required for the Group are stated in parentheses). The Group has assessed the full impact of these new standards on its financial position and results of operations and they are not expected to have a material impact on the financial position or results of operations of the Group but may require additional disclosures:

- IFRIC 22, Foreign Currency Transactions and Advance Consideration (2019);
- Amendments to IAS 1, Disclosure Initiative (2017);
- Amendments to IAS 7, Disclosure Initiative (2018);
- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (2018);
- Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation (2017);
- Amendments to IAS 19, Employee Benefits, Discount rate: regional market issue (2017);
- Amendments to IAS 27, Equity Method in Separate Financial Statements (2017);
- Amendments to IAS 28, Measuring an Associate or Joint Venture at Fair Value (2019);
- Amendments to IAS 34, Interim Financial Reporting, Disclosure of information 'elsewhere in the interim financial report' (2017);
- Amendments to IAS 40, Transfers of Investment Property (2019);
- IFRS 15, Revenue from Contracts with Customers (2019);
- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (2019);
- Amendments to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, Changes in methods of disposal (2017);
- Amendments to IFRS 7, Financial Instruments: Disclosure, Servicing contracts and applicability of the amendments to IFRS 7 to condensed interim financial statements (2017);
- Amendments to IFRS 11, Acquisitions of Interests in Joint Operations (2017);
- Amendments to IFRS 12, Clarification of the Scope of the Standard (2018); and
- Amendments to IFRS 15, Revenue from Contracts with Customers (2019).

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.1 Basis of preparation and statement of compliance** (continued)

(b) The following relevant new standards and requirements have been issued but are not effective for the financial year ended 30 November 2016 and have not been early adopted:

- IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. In addition, a revised expected credit losses model will replace the incurred loss impairment model in IAS 39. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity's risk management strategies. The Group is yet to fully assess the impact of the standard on its financial position and results of operations. The standard is mandatorily effective for annual periods beginning on or after 1 January 2018.
- On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied. The Group will evaluate available alternatives in determining the adoption date of the relevant standard. Based on the amendments to IFRS 4, the Group is eligible for electing the temporary option to defer the effective date of IFRS 9.
- IFRS 16, Leases, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is yet to assess the full impact of the standard on its financial position and results of operations. The standard is mandatorily effective for annual periods beginning on or after 1 January 2019.

In addition, for the financial year ended 30 November 2016, the Group revised certain accounting policies and basis of presentation and assessed the impact to the consolidated financial statements (see notes 47 and 48).

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.2 Operating profit**

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management purposes, the Group evaluates its results and its operating segments using a financial performance measure referred to as "operating profit". Operating profit includes among others the expected long-term investment returns for investments in equities and real estate based on the assumptions applied by the Group in the Supplementary Embedded Value Information. The Group defines operating profit after tax as net profit excluding the following non-operating items:

- short-term fluctuations between expected and actual investment returns related to equities and real estate;
- other investment return (including short-term fluctuations due to market factors); and
- other significant items that management considers to be non-operating income and expenses.

The Group considers that the presentation of operating profit enhances the understanding and comparability of its performance and that of its operating segments. The Group considers that trends can be more clearly identified without the fluctuating effects of these non-operating items, many of which are largely dependent on market factors.

Operating profit is provided as additional information to assist in the comparison of business trends in different reporting periods on a consistent basis and enhance overall understanding of financial performance.

### **2.3 Basis of consolidation**

#### **Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. The Group has determined that the investment funds and structured securities, such as collateralised debt obligations, mortgage-backed securities and other asset-backed securities that the Group has interest are structured entities.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are excluded from consolidation from the date at which the Group no longer has control. Intercompany transactions are eliminated.

The Group utilises the acquisition method of accounting to account for the acquisition of subsidiaries, unless the acquisition forms part of the Group reorganisation of entities under common control. Under this method, the cost of an acquisition is measured as the fair value of consideration payable, shares issued or liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see note 2.10 below). The Group recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the subsidiary. Any surplus of the acquirer's interest in the subsidiary's net assets over the cost of acquisition is credited to the consolidated income statement.

The consolidated financial statements of the Group include the assets, liabilities and results of the Company and subsidiaries in which AIA Group Limited has a controlling interest, using accounts drawn up to the reporting date.



## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.3 Basis of consolidation** (continued)

#### **Investment funds**

Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds are consolidated in the financial statements. In conducting the assessment, the Group considers substantive contractual rights as well as de facto control. De facto control of an entity may arise from circumstances where the Group does not have more than 50% of the voting power but it has the practical ability to direct the relevant activities of the entity. If the Group has power to remove or control over the party having the ability to direct the relevant activities of the fund based on the facts and circumstances and that the Group has exposure to variable returns of the investment funds, they are consolidated. Variable returns include both rights to the profits or distributions as well as the obligation to absorb losses of the investees.

#### **Employee share-based trusts**

Trusts are set up to acquire shares of the Company for distribution to participants in future periods through the share-based compensation schemes. The consolidation of these trusts is evaluated in accordance with IFRS 10; where the Group is deemed to control the trusts, they are consolidated. Shares acquired by the trusts to the extent not provided to the participants upon vesting are carried at cost and reported as “employee share-based trusts” in the consolidated statement of financial position, and as a deduction from the equity in the consolidated statement of changes in equity.

#### **Non-controlling interests**

Non-controlling interests are presented within equity except when they arise through the minority's interest in puttable liabilities such as the unit holders' interest in consolidated investment funds, when they are recognised as a liability, reflecting the net assets of the consolidated entity.

Acquisitions and disposals of non-controlling interests, except when they arise through the minority's interest in puttable liabilities, are treated as transactions between equity holders. As a result, any difference between the acquisition cost or sale price of the non-controlling interest and the carrying value of the non-controlling interest is recognised as an increase or decrease in equity.

#### **Associates and joint ventures**

Associates are entities over which the Group has significant influence, but which it does not control. Generally, it is presumed that the Group has significant influence if it has between 20 per cent and 50 per cent of voting rights. Joint ventures are entities whereby the Group and other parties undertake an economic activity which is subject to joint control arising from a contractual agreement.

Gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Losses are also eliminated, unless the transaction provides evidence of an impairment of an asset transferred between entities.

Investments in associates and joint ventures are accounted for using the equity method of accounting. Under this method, the cost of the investment in an associate or joint venture, together with the Group's share of that entity's post-acquisition changes to equity, is included as an asset in the consolidated statement of financial position. Cost includes goodwill arising on acquisition. The Group's share of post-acquisition profits or losses is recognised in the consolidated income statement and its share of post-acquisition movement in equity is recognised in other comprehensive income. Equity accounting is discontinued when the Group no longer has significant influence over the investment. If the Group's share of losses in an associate or joint venture equals or exceeds its interest in the undertaking, additional losses are provided for, and a liability recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. The Group also accounts for investments in joint ventures that are subject to joint control using the equity method of accounting.

#### **The Company's investments**

In the Company's statement of financial position, subsidiaries, associates and joint ventures are stated at cost, unless impaired. The Company's interests in investment funds such as mutual funds and unit trusts are designated at fair value through profit or loss.

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.4 Insurance and investment contracts**

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

In a limited number of cases, the Group measures insurance contract liabilities with reference to statutory requirements in the applicable jurisdiction, without deferral of acquisition costs.

#### **Product classification**

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Insurance and investment contracts (continued)

#### Product classification (continued)

The Group applies the same accounting policies for the recognition and measurement of obligations and the deferral of acquisition costs arising from investment contracts with DPF as it does to insurance contracts. The Group refers to such contracts as participating business. In some jurisdictions participating business is written in a participating fund which is distinct from the other assets of the Company or branch. The allocation of benefits from the assets held in such participating funds is subject to minimum policyholder participation mechanisms which are established by regulation. The extent of such policy participation may change over time. The current policyholder participation in declared dividends for locations with participating funds is set out below:

Country	Current policyholder participation
Singapore	90%
Malaysia	90%
China	70%
Australia	80%
Brunei	80%

In some jurisdictions participating business is not written in a distinct fund and the Group refers to this as other participating business.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Insurance and investment contracts (continued)

#### Product classification (continued)

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

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

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.4 Insurance and investment contracts** (continued)

#### **Product classification** (continued)

The basis of accounting for insurance and investment contracts is discussed in notes 2.4.1 and 2.4.2 below.

#### **2.4.1 Insurance contracts and investment contracts with DPF**

##### ***Premiums***

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

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

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

##### ***Unearned revenue liability***

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

##### ***Deferred profit liability***

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

##### ***Deferred acquisition costs***

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

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

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.4 Insurance and investment contracts** (continued)

#### **2.4.1 Insurance contracts and investment contracts with DPF** (continued)

##### ***Deferred sales inducements***

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

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

##### ***Unbundling***

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

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

##### ***Bifurcation***

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

##### ***Benefits and claims***

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

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

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

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

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

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

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

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.4 Insurance and investment contracts** (continued)

#### **2.4.1 Insurance contracts and investment contracts with DPF** (continued)

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

The Group accounts for insurance contract liabilities for participating business written in participating funds by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating funds that would be allocated to policyholders assuming all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based upon applicable regulations. The Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

##### ***Liability adequacy testing***

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

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

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

##### ***Financial guarantees***

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

#### **2.4.2 Investment contracts**

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

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

##### ***Investment contract fee revenue***

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

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.4 Insurance and investment contracts** (continued)

#### **2.4.2 Investment contracts** (continued)

##### ***Deferred origination costs***

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

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

##### ***Investment contract liabilities***

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

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

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

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

##### ***Deferred fee income liability***

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



## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.4 Insurance and investment contracts** (continued)

#### **2.4.3 Insurance and investment contracts**

##### ***Reinsurance***

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

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

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

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

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

##### ***Value of business acquired (VOBA)***

The VOBA in respect of a portfolio of long-term insurance and investment contracts, either directly or through the purchase of a subsidiary, is recognised as an asset. If this results from the acquisition of an investment in a joint venture or an associate, the VOBA is held within the carrying amount of that investment. In all cases, the VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated income statement.

##### ***Shadow accounting***

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

##### ***Other assessments and levies***

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.5 Financial instruments**

#### **2.5.1 Classification of and designation of financial instruments**

##### ***Financial assets and liabilities at fair value through profit or loss***

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

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

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

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

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

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

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

##### ***Available for sale financial assets***

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

The available for sale category is used where the relevant investments backing insurance and investment contract liabilities and shareholders' equity are not managed on a fair value basis. These principally consist of the Group's debt securities (other than those backing participating funds and unit-linked contracts). Available for sale financial assets are initially recognised at fair value plus attributable transaction costs. For available for sale debt securities, the difference between their cost and par value is amortised. Available for sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available for sale is recognised in investment income in the consolidated income statement using the effective interest method.

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

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

##### ***Realised gains and losses on financial assets***

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.5 Financial instruments** (continued)

#### **2.5.1 Classification of and designation of financial instruments** (continued)

##### ***Recognition of financial instruments***

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

##### ***Derecognition and offset of financial assets***

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

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

##### ***Loans and receivables***

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

##### ***Term deposits***

Deposits include time deposits with financial institutions which do not meet the definition of cash and cash equivalents as their maturity at acquisition exceeds three months. Certain of these balances are subject to regulatory or other restriction as disclosed in note 19 Loans and deposits. Deposits are stated at amortised cost using the effective interest method.

##### ***Cash and cash equivalents***

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

#### **2.5.2 Fair values of non-derivative financial instruments**

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

Financial instruments carried at fair value are measured using a fair value hierarchy described in note 21.

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.5 Financial instruments** (continued)

#### **2.5.3 Impairment of financial assets**

##### ***General***

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

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

##### ***Available for sale financial instruments***

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

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

##### ***Loans and receivables***

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

#### **2.5.4 Derivative financial instruments**

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

##### ***Derivative instruments for economic hedging***

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.5 Financial instruments** (continued)

#### **2.5.4 Derivative financial instruments** (continued)

##### ***Embedded derivatives***

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

#### **2.6 Segment reporting**

An operating segment is a component of the Group that engages in business activity from which it earns revenues and incurs expenses and, for which, discrete financial information is available, and whose operating results are regularly reviewed by the Group's chief operating decision-maker, considered to be the Executive Committee of the Group (ExCo).

#### **2.7 Foreign currency translation**

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

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

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

#### **2.8 Property, plant and equipment**

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

The Group records its interest in leasehold land and land use rights associated with property held for own use separately as operating leases or finance leases depending on whether substantially all the risks and rewards incidental to ownership of the land are transferred to the Group. Those interests classified as finance leases are reported as a component of the property held for own use and carried at fair value at last valuation date. The prepayments to acquire leasehold land classified as operating leases are recorded at original cost within "Other assets" and amortised over the term of the lease (see note 2.19).

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.8 Property, plant and equipment** (continued)

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

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

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

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

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

### **2.9 Investment property**

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

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

### **2.10 Goodwill and other intangible assets**

#### ***Goodwill***

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions prior to 1 December 2006 (the date of transition to IFRS) is carried at book value (original cost less cumulative amortisation) on that date, less any impairment subsequently incurred. Goodwill arising on the Group's investment in subsidiaries since that date is shown as a separate asset and is carried at cost less any accumulated impairment losses, whilst that on associates and joint ventures is included within the carrying value of those investments. All acquisition-related costs are expensed as incurred.

#### ***Other intangible assets***

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

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.11 Impairment of non-financial assets**

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

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

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

### **2.12 Securities lending including repurchase agreements**

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

#### ***Assets sold under repurchase agreements (repos)***

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

#### ***Assets purchased under agreements to resell (reverse repos)***

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.13 Collateral**

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

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

### **2.14 Borrowings**

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

### **2.15 Income taxes**

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

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

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

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

Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill or from goodwill for which amortisation is not deductible for tax purposes, or from the initial recognition of an asset or liability in a transaction which is not a business combination and which affects neither accounting nor taxable profit or loss at the time of the transaction.

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

In addition to paying tax on shareholders' profits, certain of the Group's life insurance businesses pay tax on policyholders' investment returns (policyholder tax) at policyholder tax rates. Policyholder tax is accounted for as an income tax and is included in the total tax expense and disclosed separately.



## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.16 Revenue**

#### ***Investment return***

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

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

#### ***Other fee and commission income***

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

### **2.17 Employee benefits**

#### ***Annual leave and long service leave***

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

#### ***Post-retirement benefit obligations***

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

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

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

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

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.17 Employee benefits** (continued)

#### ***Share-based compensation and cash incentive plans***

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

The Group's share-based compensation plans are predominantly equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the award of shares and/or share options is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

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

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

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

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

### **2.18 Provisions and contingencies**

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

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

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

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.19 Leases**

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

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

### **2.20 Share capital**

Ordinary shares are classified in equity when there is not any obligation to transfer cash or other assets to the holders.

#### ***Share issue costs***

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

#### ***Dividends***

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

### **2.21 Presentation of the consolidated statement of financial position**

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

### **2.22 Earnings per share**

Basic earnings per share is calculated by dividing net profit available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Earnings per share has also been calculated on the operating profit before adjusting items, attributable to ordinary shareholders, as the Directors believe this figure provides a better indication of operating performance.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as share options awarded to employees.

Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

## **2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.23 Fiduciary activities**

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

### **2.24 Consolidated statement of cash flow**

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

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

### **2.25 Related party transactions**

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

## **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

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

### **3.1 Product classification**

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. The Group exercises significant judgement to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Group to pay significant additional benefits to its customers. In the event the Group has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. The judgements exercised in determining the level of insurance risk in product classification affect the amounts recognised in the consolidated financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs. The accounting policy on product classification is described in note 2.4.

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

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

### **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS** (continued)

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

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

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

The judgements exercised in the valuation of insurance contract liabilities (including investment contracts with DPF) affect the amounts recognised in the consolidated financial statements as insurance contract benefits and insurance contract liabilities. Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 2.4, 25 and 27.

#### **3.3 Deferred acquisition and origination costs**

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

As noted in note 2.4.1, deferred acquisition costs for traditional life insurance and annuity policies are amortised over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are applied consistently throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

As noted in note 2.4.1, deferred acquisition costs for universal life and unit-linked contracts are amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. As noted in note 3.2, significant judgement is exercised in making appropriate estimates of gross profits. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favourable investment performance, previously expensed acquisition costs are reversed, not exceeding the amount initially deferred.

Additional details of deferred acquisition and origination costs are provided in notes 2.4 and 18.

### **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS** (continued)

#### **3.4 Liability adequacy testing**

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

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

#### **3.5 Fair value measurement**

##### **3.5.1 Fair value of financial assets**

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

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

Changes in the fair value of financial assets held by the Group's participating funds affect not only the value of financial assets, but are also reflected in corresponding movements in insurance and investment contract liabilities. This is due to an insurance liability being recorded for the proportion of the net assets of the participating funds that would be allocated to policyholders if all relevant surplus at the date of the consolidated statement of financial position were to be declared as a policyholder dividend based on current local regulations. Both of the foregoing changes are reflected in the consolidated income statement.

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

Further details of the fair value of financial assets and the sensitivity analysis to interest rates and equity prices are provided in notes 21 and 36.

### **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS** (continued)

#### **3.5 Fair value measurement** (continued)

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

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

Further details of the fair value of property held for own use and investment property are provided in note 21.

##### **3.6 Impairment of financial assets**

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

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

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

Further details of the impairment of financial assets during the year are provided in note 23.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### 3.7 Impairment of goodwill and other intangible assets

For the purposes of impairment testing, goodwill and other intangible assets are grouped into cash-generating units. These assets are tested for impairment by comparing the carrying amount of the cash-generating unit, including goodwill, 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. Further details of the impairment of goodwill during the year are provided in note 13.

#### 4. EXCHANGE RATES

The Group's principal overseas operations during the reporting period were located within the Asia-Pacific region. The results and cash flows of these operations have been translated into US dollars at the following average rates:

	US dollar exchange rates	
	Year ended 30 November 2016	Year ended 30 November 2015
Hong Kong	<b>7.76</b>	7.75
Thailand	<b>35.30</b>	33.96
Singapore	<b>1.38</b>	1.37
Malaysia	<b>4.13</b>	3.82
China	<b>6.60</b>	6.26

Assets and liabilities have been translated at the following year-end rates:

	US dollar exchange rates	
	As at 30 November 2016	As at 30 November 2015
Hong Kong	<b>7.76</b>	7.75
Thailand	<b>35.61</b>	35.84
Singapore	<b>1.43</b>	1.41
Malaysia	<b>4.47</b>	4.25
China	<b>6.89</b>	6.40

Exchange rates are expressed in units of local currency per US\$1.



## 5. OPERATING PROFIT AFTER TAX

Operating profit after tax may be reconciled to net profit as follows:

US\$m	Note	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
<b>Operating profit after tax</b>	7	<b>4,013</b>	3,585
Non-operating items, net of related changes in insurance and investment contract liabilities:			
Short-term fluctuations in investment return related to equities and real estate (net of tax of 2016: US\$(4)m; 2015: US\$77m)		<b>97</b>	(717)
Other non-operating investment return and other items (net of tax of 2016: US\$169m; 2015: US\$36m)		<b>102</b>	(76)
<b>Net profit</b>		<b>4,212</b>	2,792
<i>Operating profit after tax attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>3,981</b>	3,556
Non-controlling interests		<b>32</b>	29
<i>Net profit attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>4,164</b>	2,765
Non-controlling interests		<b>48</b>	27

Operating profit is determined using, among others, expected long-term investment returns for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions applied to determine expected long-term investment returns are based on the same assumptions applied by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.

## 6. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS

For management decision-making and internal performance management purposes, the Group measures business volumes during the year using a performance measure referred to as total weighted premium income (TWPI). The Group measures new business activity using a performance measure referred to as annualised new premiums (ANP). The presentation of this note is consistent with our reportable segment presentation in note 7.

TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded, and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the Group's accounting policies.

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

## 6. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS (continued)

ANP is a key internal measure of new business activities, which consists of 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. ANP excludes new business of pension business, personal lines and motor insurance.

TWPI US\$m	Year ended 30 November 2016	Year ended 30 November 2015
<b>TWPI by geography</b>		
Hong Kong	<b>6,873</b>	5,115
Thailand	<b>3,327</b>	3,324
Singapore	<b>2,276</b>	2,283
Malaysia	<b>1,795</b>	1,825
China	<b>2,384</b>	2,028
Other Markets	<b>5,478</b>	5,301
<b>Total</b>	<b>22,133</b>	19,876
<b>First year premiums by geography</b>		
Hong Kong	<b>2,065</b>	1,070
Thailand	<b>439</b>	476
Singapore	<b>261</b>	261
Malaysia	<b>276</b>	260
China	<b>585</b>	410
Other Markets	<b>872</b>	916
<b>Total</b>	<b>4,498</b>	3,393
<b>Single premiums by geography</b>		
Hong Kong	<b>1,761</b>	1,480
Thailand	<b>163</b>	194
Singapore	<b>1,443</b>	1,959
Malaysia	<b>167</b>	152
China	<b>194</b>	107
Other Markets	<b>619</b>	874
<b>Total</b>	<b>4,347</b>	4,766
<b>Renewal premiums by geography</b>		
Hong Kong	<b>4,632</b>	3,897
Thailand	<b>2,872</b>	2,828
Singapore	<b>1,871</b>	1,826
Malaysia	<b>1,502</b>	1,550
China	<b>1,779</b>	1,607
Other Markets	<b>4,544</b>	4,298
<b>Total</b>	<b>17,200</b>	16,006

## 6. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS (continued)

ANP US\$m	Year ended 30 November 2016	Year ended 30 November 2015
<b>ANP by geography</b>		
Hong Kong	<b>2,294</b>	1,263
Thailand	<b>471</b>	520
Singapore	<b>427</b>	471
Malaysia	<b>341</b>	292
China	<b>621</b>	438
Other Markets	<b>969</b>	1,007
<b>Total</b>	<b>5,123</b>	3,991

## 7. SEGMENT INFORMATION

The Group's operating segments, based on the reports received by the ExCo, are each of the geographical markets in which the Group operates. Each of the reportable segments, other than the "Group Corporate Centre" segment, writes life insurance business, providing life insurance, accident and health insurance and savings plans to customers in its local market, and distributes related investment and other financial services products. The reportable segments are Hong Kong (including Macau), Thailand, Singapore (including Brunei), Malaysia, China, Other Markets and Group Corporate Centre. Other Markets includes the Group's operations in Australia, Indonesia, Korea, New Zealand, the Philippines, Sri Lanka, Taiwan, Vietnam and India. The activities of the Group Corporate Centre segment consist of the Group's corporate functions, shared services and eliminations of intragroup transactions.

For the year ended 30 November 2016, Korea is no longer disclosed separately as a reportable segment.

As each reportable segment other than the Group Corporate Centre segment focuses on serving the life insurance needs of its local market, there are limited transactions between reportable segments. The key performance indicators reported in respect of each segment are:

- ANP;
- TWPI;
- investment return;
- operating expenses;
- operating profit after tax attributable to shareholders of AIA Group Limited;
- expense ratio, measured as operating expenses divided by TWPI;
- operating margin, measured as operating profit after tax expressed as a percentage of TWPI; and
- operating return on shareholders' allocated equity measured as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a percentage of the simple average of opening and closing shareholders' allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests and fair value reserve).

In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable segments by the Group Corporate Centre segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.

Business volumes in respect of the Group's five largest customers are less than 30 per cent of premiums and fee income.

## 7. SEGMENT INFORMATION (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
Year ended 30 November 2016								
<b>ANP</b>	<b>2,294</b>	<b>471</b>	<b>427</b>	<b>341</b>	<b>621</b>	<b>969</b>	–	<b>5,123</b>
<b>TWPI</b>	<b>6,873</b>	<b>3,327</b>	<b>2,276</b>	<b>1,795</b>	<b>2,384</b>	<b>5,478</b>	–	<b>22,133</b>
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	<b>7,172</b>	<b>3,271</b>	<b>2,659</b>	<b>1,621</b>	<b>2,267</b>	<b>3,655</b>	<b>(4)</b>	<b>20,641</b>
Investment return	<b>1,788</b>	<b>1,056</b>	<b>1,024</b>	<b>541</b>	<b>663</b>	<b>1,025</b>	<b>327</b>	<b>6,424</b>
<b>Total revenue</b>	<b>8,960</b>	<b>4,327</b>	<b>3,683</b>	<b>2,162</b>	<b>2,930</b>	<b>4,680</b>	<b>323</b>	<b>27,065</b>
Net insurance and investment contract benefits	<b>6,311</b>	<b>2,541</b>	<b>2,672</b>	<b>1,474</b>	<b>1,937</b>	<b>2,588</b>	<b>(11)</b>	<b>17,512</b>
Commission and other acquisition expenses	<b>790</b>	<b>609</b>	<b>303</b>	<b>183</b>	<b>146</b>	<b>655</b>	–	<b>2,686</b>
Operating expenses	<b>310</b>	<b>184</b>	<b>161</b>	<b>163</b>	<b>235</b>	<b>515</b>	<b>184</b>	<b>1,752</b>
Finance costs and other expenses	<b>104</b>	<b>38</b>	<b>16</b>	<b>11</b>	<b>12</b>	<b>43</b>	<b>110</b>	<b>334</b>
<b>Total expenses</b>	<b>7,515</b>	<b>3,372</b>	<b>3,152</b>	<b>1,831</b>	<b>2,330</b>	<b>3,801</b>	<b>283</b>	<b>22,284</b>
Share of losses from associates and joint venture	–	–	–	–	–	<b>(5)</b>	–	<b>(5)</b>
<b>Operating profit before tax</b>	<b>1,445</b>	<b>955</b>	<b>531</b>	<b>331</b>	<b>600</b>	<b>874</b>	<b>40</b>	<b>4,776</b>
Tax on operating profit before tax	<b>(101)</b>	<b>(187)</b>	<b>(78)</b>	<b>(64)</b>	<b>(131)</b>	<b>(192)</b>	<b>(10)</b>	<b>(763)</b>
<b>Operating profit after tax</b>	<b>1,344</b>	<b>768</b>	<b>453</b>	<b>267</b>	<b>469</b>	<b>682</b>	<b>30</b>	<b>4,013</b>
<i>Operating profit after tax attributable to:</i>								
<b>Shareholders of AIA Group Limited</b>	<b>1,334</b>	<b>768</b>	<b>453</b>	<b>265</b>	<b>469</b>	<b>662</b>	<b>30</b>	<b>3,981</b>
Non-controlling interests	<b>10</b>	–	–	<b>2</b>	–	<b>20</b>	–	<b>32</b>
<b>Key operating ratios:</b>								
Expense ratio	<b>4.5%</b>	<b>5.5%</b>	<b>7.1%</b>	<b>9.1%</b>	<b>9.9%</b>	<b>9.4%</b>	–	<b>7.9%</b>
Operating margin	<b>19.6%</b>	<b>23.1%</b>	<b>19.9%</b>	<b>14.9%</b>	<b>19.7%</b>	<b>12.4%</b>	–	<b>18.1%</b>
Operating return on shareholders' allocated equity	<b>22.9%</b>	<b>19.0%</b>	<b>19.1%</b>	<b>19.7%</b>	<b>17.0%</b>	<b>13.5%</b>	–	<b>14.1%</b>
Operating profit before tax includes:								
Finance costs	<b>28</b>	<b>5</b>	<b>7</b>	<b>2</b>	<b>19</b>	<b>2</b>	<b>86</b>	<b>149</b>
Depreciation and amortisation	<b>23</b>	<b>9</b>	<b>13</b>	<b>17</b>	<b>13</b>	<b>37</b>	<b>15</b>	<b>127</b>

## 7. SEGMENT INFORMATION (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
30 November 2016								
<b>Total assets</b>	<b>52,916</b>	<b>26,800</b>	<b>31,087</b>	<b>12,409</b>	<b>18,672</b>	<b>33,011</b>	<b>10,179</b>	<b>185,074</b>
<b>Total liabilities</b>	<b>45,166</b>	<b>21,163</b>	<b>28,345</b>	<b>11,079</b>	<b>15,064</b>	<b>25,881</b>	<b>3,066</b>	<b>149,764</b>
<b>Total equity</b>	<b>7,750</b>	<b>5,637</b>	<b>2,742</b>	<b>1,330</b>	<b>3,608</b>	<b>7,130</b>	<b>7,113</b>	<b>35,310</b>
<b>Shareholders' allocated equity</b>	<b>5,935</b>	<b>4,400</b>	<b>2,502</b>	<b>1,331</b>	<b>2,864</b>	<b>5,369</b>	<b>7,231</b>	<b>29,632</b>
Net capital (out)/in flows	(1,034)	(411)	(209)	(186)	(46)	175	608	(1,103)
Total assets include:								
Investments in associates and joint venture	-	-	1	6	-	643	-	650

Segment information may be reconciled to the consolidated income statement as shown below:

US\$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items <sup>(1)</sup>	Consolidated income statement	
Year ended 30 November 2016					
Net premiums, fee income and other operating revenue	<b>20,641</b>	-	-	<b>20,641</b>	Net premiums, fee income and other operating revenue
Investment return	<b>6,424</b>	<b>42</b>	<b>1,089</b>	<b>7,555</b>	Investment return
<b>Total revenue</b>	<b>27,065</b>	<b>42</b>	<b>1,089</b>	<b>28,196</b>	<b>Total revenue</b>
Net insurance and investment contract benefits	<b>17,512</b>	<b>(59)</b>	<b>768</b>	<b>18,221</b>	Net insurance and investment contract benefits
Other expenses	<b>4,772</b>	-	<b>326</b>	<b>5,098</b>	Other expenses
<b>Total expenses</b>	<b>22,284</b>	<b>(59)</b>	<b>1,094</b>	<b>23,319</b>	<b>Total expenses</b>
Share of losses from associates and joint venture	<b>(5)</b>	-	-	<b>(5)</b>	Share of losses from associates and joint venture
<b>Operating profit before tax</b>	<b>4,776</b>	<b>101</b>	<b>(5)</b>	<b>4,872</b>	<b>Profit before tax</b>

Note:

(1) Include unit-linked contracts.

## 7. SEGMENT INFORMATION (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets <sup>(2)</sup>	Group Corporate Centre	Total
Year ended 30 November 2015 – As adjusted								
<b>ANP</b>	1,263	520	471	292	438	1,007	–	3,991
<b>TWPI</b>	5,115	3,324	2,283	1,825	2,028	5,301	–	19,876
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	5,040	3,320	3,355	1,679	1,910	3,507	1	18,812
Investment return	1,564	1,090	956	556	641	1,017	319	6,143
<b>Total revenue</b>	<b>6,604</b>	<b>4,410</b>	<b>4,311</b>	<b>2,235</b>	<b>2,551</b>	<b>4,524</b>	<b>320</b>	<b>24,955</b>
Net insurance and investment contract benefits	4,461	2,686	3,258	1,558	1,694	2,577	(2)	16,232
Commission and other acquisition expenses	558	594	381	183	145	607	–	2,468
Operating expenses	249	177	154	156	224	509	169	1,638
Finance costs and other expenses	94	37	16	11	11	46	82	297
<b>Total expenses</b>	<b>5,362</b>	<b>3,494</b>	<b>3,809</b>	<b>1,908</b>	<b>2,074</b>	<b>3,739</b>	<b>249</b>	<b>20,635</b>
Share of profit from associates and joint venture	–	–	–	–	–	–	–	–
<b>Operating profit before tax</b>	<b>1,242</b>	<b>916</b>	<b>502</b>	<b>327</b>	<b>477</b>	<b>785</b>	<b>71</b>	<b>4,320</b>
Tax on operating profit before tax	(86)	(235)	(76)	(58)	(93)	(179)	(8)	(735)
<b>Operating profit after tax</b>	<b>1,156</b>	<b>681</b>	<b>426</b>	<b>269</b>	<b>384</b>	<b>606</b>	<b>63</b>	<b>3,585</b>
<i>Operating profit after tax attributable to:</i>								
<b>Shareholders of AIA Group Limited</b>	<b>1,147</b>	<b>681</b>	<b>426</b>	<b>267</b>	<b>384</b>	<b>588</b>	<b>63</b>	<b>3,556</b>
Non-controlling interests	9	–	–	2	–	18	–	29
<b>Key operating ratios:</b>								
Expense ratio	4.9%	5.3%	6.7%	8.5%	11.0%	9.6%	–	8.2%
Operating margin <sup>(1)</sup>	22.6%	20.5%	18.7%	14.7%	18.9%	11.4%	–	18.0%
Operating return on shareholders' allocated equity	20.2%	16.8%	18.2%	17.7%	16.1%	13.3%	–	13.4%
Operating profit before tax includes:								
Finance costs	24	4	6	7	46	2	63	152
Depreciation and amortisation	17	10	12	14	12	35	13	113

## 7. SEGMENT INFORMATION (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets <sup>(2)</sup>	Group Corporate Centre	Total
30 November 2015 – As adjusted								
<b>Total assets</b>	45,265	24,758	30,134	12,679	17,091	30,381	9,450	169,758
<b>Total liabilities</b>	38,135	20,124	27,693	11,307	14,032	24,085	2,960	138,336
<b>Total equity</b>	7,130	4,634	2,441	1,372	3,059	6,296	6,490	31,422
<b>Shareholders' allocated equity</b>	5,713	3,679	2,247	1,362	2,644	4,458	6,602	26,705
Net capital (out)/in flows	(850)	(708)	(329)	(188)	(1)	(119)	1,371	(824)

Total assets include:

Investments in associates and joint venture

–	–	1	6	–	130	–	137
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Notes:

(1) Operating margin has been adjusted to conform to the current year presentation.

(2) Includes Korea.

Segment information may be reconciled to the consolidated income statement as shown below:

US\$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items <sup>(1)</sup>	Consolidated income statement	
Year ended 30 November 2015 – As adjusted					
Net premiums, fee income and other operating revenue	18,812	–	–	18,812	Net premiums, fee income and other operating revenue
Investment return	6,143	(958)	(650)	4,535	Investment return
<b>Total revenue</b>	<b>24,955</b>	<b>(958)</b>	<b>(650)</b>	<b>23,347</b>	<b>Total revenue</b>
Net insurance and investment contract benefits	16,232	(164)	(874)	15,194	Net insurance and investment contract benefits
Other expenses	4,403	–	303	4,706	Other expenses
<b>Total expenses</b>	<b>20,635</b>	<b>(164)</b>	<b>(571)</b>	<b>19,900</b>	<b>Total expenses</b>
Share of profit from associates and joint venture	–	–	–	–	Share of profit from associates and joint venture
<b>Operating profit before tax</b>	<b>4,320</b>	<b>(794)</b>	<b>(79)</b>	<b>3,447</b>	<b>Profit before tax</b>

Note:

(1) Include unit-linked contracts.

## 8. REVENUE

### Investment return

US\$m	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
Interest income	<b>5,290</b>	5,102
Dividend income	<b>654</b>	622
Rental income	<b>140</b>	127
<b>Investment income</b>	<b>6,084</b>	5,851
<b>Available for sale</b>		
Net realised gains from debt securities	<b>25</b>	44
Impairment of debt securities	<b>(22)</b>	–
<b>Net gains of available for sale financial assets reflected in the consolidated income statement</b>	<b>3</b>	44
<b>At fair value through profit or loss</b>		
<b>Net gains/(losses) of financial assets designated at fair value through profit or loss</b>		
Net gains/(losses) of debt securities	<b>125</b>	(187)
Net gains/(losses) of equity securities	<b>934</b>	(1,124)
<b>Net gains/(losses) of financial instruments held for trading</b>		
Net losses of debt investments	<b>(1)</b>	(1)
Net fair value movement on derivatives	<b>39</b>	(633)
<b>Net gains/(losses) in respect of financial instruments at fair value through profit or loss</b>	<b>1,097</b>	(1,945)
Net fair value movement of investment property	<b>288</b>	73
Net foreign exchange gains	<b>75</b>	593
Other net realised gains/(losses)	<b>8</b>	(81)
<b>Investment experience</b>	<b>1,471</b>	(1,316)
<b>Investment return</b>	<b>7,555</b>	4,535

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

US\$m	Year ended 30 November 2016	Year ended 30 November 2015
Foreign exchange gains	<b>36</b>	195

### Other operating revenue

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



## 9. EXPENSES

US\$m	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
Insurance contract benefits	10,501	9,874
Change in insurance contract liabilities	8,594	6,598
Investment contract benefits	245	(336)
<b>Insurance and investment contract benefits</b>	<b>19,340</b>	16,136
Insurance and investment contract benefits ceded	(1,119)	(942)
<b>Insurance and investment contract benefits, net of reinsurance ceded</b>	<b>18,221</b>	15,194
Commission and other acquisition expenses incurred	4,786	3,991
Deferral and amortisation of acquisition costs	(2,051)	(1,523)
<b>Commission and other acquisition expenses</b>	<b>2,735</b>	2,468
Employee benefit expenses	1,168	1,101
Depreciation	64	61
Amortisation	37	33
Operating lease rentals	122	114
Other operating expenses	361	329
<b>Operating expenses</b>	<b>1,752</b>	1,638
Investment management expenses and others	340	338
Depreciation on property held for own use	21	20
Restructuring and other non-operating costs <sup>(1)</sup>	82	73
Change in third-party interests in consolidated investment funds	19	17
<b>Other expenses</b>	<b>462</b>	448
Finance costs	149	152
<b>Total</b>	<b>23,319</b>	19,900

Note:

(1) Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Other non-operating costs primarily consist of acquisition-related and integration expenses.

Other operating expenses include auditors' remuneration of US\$15m (2015: US\$13m), an analysis of which is set out below:

US\$m	Year ended 30 November 2016	Year ended 30 November 2015
Audit services	12	11
Non-audit services, including audit-related services, tax services and others	3	2
<b>Total</b>	<b>15</b>	13

Finance costs may be analysed as:

US\$m	Year ended 30 November 2016	Year ended 30 November 2015
Securities lending and repurchase agreements (see note 29 for details)	35	66
Medium term notes	111	76
Other loans	3	10
<b>Total</b>	<b>149</b>	152

## 9. EXPENSES (continued)

Employee benefit expenses consist of:

US\$m	Year ended 30 November 2016	Year ended 30 November 2015
Wages and salaries	936	900
Share-based compensation	79	75
Pension costs – defined contribution plans	67	60
Pension costs – defined benefit plans	11	8
Other employee benefit expenses	75	58
<b>Total</b>	<b>1,168</b>	<b>1,101</b>

## 10. INCOME TAX

US\$m	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
<b>Tax charged in the consolidated income statement</b>		
Current income tax – Hong Kong Profits Tax	87	79
Current income tax – overseas	392	556
Deferred income tax on temporary differences	181	20
<b>Total</b>	<b>660</b>	<b>655</b>

The tax benefit or expense attributable to life insurance policyholder returns in Singapore, Brunei, Malaysia, Australia, Indonesia, the Philippines and Sri Lanka is included in the tax charge or credit and is analysed separately in the consolidated income statement in order to permit comparison of the underlying effective rate of tax attributable to shareholders from year to year. The tax attributable to policyholders' returns included above is US\$62m (2015: US\$33m).

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

	Year ended 30 November 2016	Year ended 30 November 2015
Hong Kong	16.5%	16.5%
Thailand	20%	20%
Singapore	17%	17%
Malaysia	24%	25%
China	25%	25%
Others	12% - 30%	12% - 30%

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

During the year, Thailand enacted a permanent change in the corporate income tax rate from 30 per cent to 20 per cent from assessment year 2016 onwards. The decrease in tax rate resulted in a reduction in deferred tax liabilities of US\$314m, of which US\$181m is recognised in profit or loss and US\$133m is recognised in other comprehensive income.

## 10. INCOME TAX (continued)

US\$m	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
<b>Income tax reconciliation</b>		
<b>Profit before income tax</b>	<b>4,872</b>	3,447
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective jurisdictions	<b>935</b>	694
Reduction in tax payable from:		
Exempt investment income	<b>(166)</b>	(105)
Amount over-provided in prior years	<b>(23)</b>	(19)
Changes in tax rate and law	<b>(181)</b>	(1)
Provisions for uncertain tax positions	<b>–</b>	(49)
Others	<b>(65)</b>	–
	<b>(435)</b>	(174)
Increase in tax payable from:		
Life insurance tax <sup>(1)</sup>	<b>18</b>	7
Withholding taxes	<b>1</b>	3
Disallowed expenses	<b>81</b>	57
Unrecognised deferred tax assets	<b>30</b>	16
Provisions for uncertain tax positions	<b>30</b>	–
Others	<b>–</b>	52
	<b>160</b>	135
<b>Total income tax expense</b>	<b>660</b>	655

Note:

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

## 10. INCOME TAX (continued)

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

US\$m	Net deferred tax asset/ (liability) at 1 December	Credited/ (charged) to the income statement	Credited/(charged) to other comprehensive income			Net deferred tax asset/ (liability) at year end
			Fair value reserve <sup>(2)</sup>	Foreign exchange	Others	
30 November 2016						
Revaluation of financial instruments	(1,429)	26	14	2	–	(1,387)
Deferred acquisition costs	(2,409)	196	–	17	–	(2,196)
Insurance and investment contract liabilities	1,477	(392)	–	9	–	1,094
Withholding taxes	(148)	(1)	–	17	–	(132)
Provision for expenses	139	(29)	–	(1)	1	110
Losses available for offset against future taxable income	23	47	–	(1)	–	69
Life surplus <sup>(1)</sup>	(525)	(24)	–	15	–	(534)
Others	(228)	(4)	–	5	(66)	(293)
<b>Total</b>	<b>(3,100)</b>	<b>(181)</b>	<b>14</b>	<b>63</b>	<b>(65)</b>	<b>(3,269)</b>
30 November 2015 – As adjusted						
Revaluation of financial instruments	(1,552)	128	(46)	41	–	(1,429)
Deferred acquisition costs	(2,417)	(183)	–	191	–	(2,409)
Insurance and investment contract liabilities	1,574	33	–	(130)	–	1,477
Withholding taxes	(145)	(3)	–	–	–	(148)
Provision for expenses	137	7	–	(10)	5	139
Losses available for offset against future taxable income	18	8	–	(3)	–	23
Life surplus <sup>(1)</sup>	(615)	20	–	70	–	(525)
Others	(212)	(30)	–	15	(1)	(228)
<b>Total</b>	<b>(3,212)</b>	<b>(20)</b>	<b>(46)</b>	<b>174</b>	<b>4</b>	<b>(3,100)</b>

Notes:

(1) Life surplus relates to the temporary difference which arises where the taxable profits are based on actual distributions from the long-term fund. This primarily relates to Singapore and Malaysia.

(2) Of the fair value reserve deferred tax (credit)/charge of US\$(14)m (2015: US\$46m) for 2016, US\$(8)m (2015: US\$48m) relates to fair value gains and losses on available for sale financial assets and US\$(6)m (2015: US\$(2)m) relates to fair value gains and losses on available for sale financial assets transferred to income on disposal and impairment.

Deferred tax assets are recognised to the extent that sufficient future taxable profits will be available for realisation. The Group has not recognised deferred tax assets of US\$59m (2015: US\$60m) on tax losses and the temporary difference on insurance and investment contract liabilities arising from different accounting and statutory/tax reserving methodology for certain branches and subsidiaries on the basis that they have histories of tax losses and there is insufficient evidence that future profits will be available.

The Group has not provided deferred tax liabilities of US\$156m (2015: US\$110m) in respect of unremitted earnings of operations in three jurisdictions from which a withholding tax charge would be incurred upon distribution as the Group does not consider it probable that this portion of accumulated earnings will be remitted in the foreseeable future.

The Group has unused income tax losses carried forward in Hong Kong, Macau, Thailand, Malaysia, China, Korea, New Zealand, the Philippines, Sri Lanka and Taiwan. The tax losses of Hong Kong, Malaysia, New Zealand and Sri Lanka can be carried forward indefinitely. The tax losses of remaining branches and subsidiaries are due to expire within the periods ending 2019 (Macau and the Philippines), 2021 (Thailand and China), 2025 (Taiwan) and 2026 (Korea).

## 11. EARNINGS PER SHARE

### Basic

Basic earnings per share is calculated by dividing the net profit attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the year. The shares held by employee share-based trusts are not considered to be outstanding from the date of the purchase for purposes of computing basic and diluted earnings per share.

	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	<b>4,164</b>	2,765
Weighted average number of ordinary shares in issue (million)	<b>11,972</b>	11,970
<b>Basic earnings per share (US cents per share)</b>	<b>34.78</b>	23.10

### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of 30 November 2016 and 2015, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 38.

	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	<b>4,164</b>	2,765
Weighted average number of ordinary shares in issue (million)	<b>11,972</b>	11,970
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded under share-based compensation plans (million)	<b>34</b>	37
Weighted average number of ordinary shares for diluted earnings per share (million)	<b>12,006</b>	12,007
<b>Diluted earnings per share (US cents per share)</b>	<b>34.68</b>	23.03

At 30 November 2016, 14,937,248 share options (2015: 5,899,149) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

### Operating profit after tax per share

Operating profit after tax (see note 5) per share is calculated by dividing the operating profit after tax attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the year. As of 30 November 2016 and 2015, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 38.

	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
Basic (US cents per share)	<b>33.25</b>	29.71
Diluted (US cents per share)	<b>33.16</b>	29.62

## 12. DIVIDENDS

Dividends to shareholders of the Company attributable to the year:

US\$m	Year ended 30 November 2016	Year ended 30 November 2015
Interim dividend declared and paid of 21.90 Hong Kong cents per share (2015: 18.72 Hong Kong cents per share)	<b>338</b>	289
Final dividend proposed after the reporting date of 63.75 Hong Kong cents per share (2015: 51.00 Hong Kong cents per share) <sup>(1)</sup>	<b>985</b>	788
	<b>1,323</b>	1,077

Note:

(1) Based upon shares outstanding at 30 November 2016 and 2015 that are entitled to a dividend, other than those held by employee share-based trusts.

The above final dividend was proposed by the Board on 24 February 2017 subject to shareholders' approval at the AGM to be held on 12 May 2017. The proposed final dividend has not been recognised as a liability at the reporting date.

Dividends to shareholders of the Company attributable to the previous financial year, approved and paid during the year:

US\$m	Year ended 30 November 2016	Year ended 30 November 2015
Final dividend in respect of the previous financial year, approved and paid during the year of 51.00 Hong Kong cents per share (2015: 34.00 Hong Kong cents per share)	<b>786</b>	525

### 13. INTANGIBLE ASSETS

US\$m	Goodwill	Computer software	Distribution and other rights	Total
<b>Cost</b>				
At 1 December 2014	1,135	325	933	2,393
Additions	–	124	–	124
Disposals	–	(16)	(3)	(19)
Disposal of a subsidiary	(10)	–	–	(10)
Foreign exchange movements	(317)	(28)	(60)	(405)
At 30 November 2015	<b>808</b>	<b>405</b>	<b>870</b>	<b>2,083</b>
Additions	–	<b>61</b>	<b>3</b>	<b>64</b>
Disposals	–	<b>(4)</b>	<b>(1)</b>	<b>(5)</b>
Foreign exchange movements and others	<b>(33)</b>	<b>(4)</b>	<b>(57)</b>	<b>(94)</b>
<b>At 30 November 2016</b>	<b>775</b>	<b>458</b>	<b>815</b>	<b>2,048</b>
<b>Accumulated amortisation</b>				
At 1 December 2014	(6)	(201)	(34)	(241)
Amortisation charge for the year	–	(32)	(20)	(52)
Disposals	–	15	3	18
Foreign exchange movements	2	19	5	26
At 30 November 2015	<b>(4)</b>	<b>(199)</b>	<b>(46)</b>	<b>(249)</b>
Amortisation charge for the year	–	<b>(36)</b>	<b>(27)</b>	<b>(63)</b>
Disposals	–	<b>2</b>	<b>1</b>	<b>3</b>
Foreign exchange movements	–	<b>1</b>	<b>3</b>	<b>4</b>
<b>At 30 November 2016</b>	<b>(4)</b>	<b>(232)</b>	<b>(69)</b>	<b>(305)</b>
<b>Net book value</b>				
At 30 November 2015	804	206	824	1,834
<b>At 30 November 2016</b>	<b>771</b>	<b>226</b>	<b>746</b>	<b>1,743</b>

Of the above, US\$1,680m (2015: US\$1,782m) is expected to be recovered more than 12 months after the end of the reporting period.

#### Impairment tests for goodwill

Goodwill arises primarily in respect of the Group's insurance business in Malaysia. Goodwill is tested for impairment by comparing the carrying amount of the cash-generating unit, including goodwill, to the recoverable amount of that cash-generating unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the goodwill allocated to that unit shall be regarded as not impaired. The recoverable amount is the value in use of the cash-generating unit unless otherwise stated. The value in use is determined by calculating the present value of expected future cash flows plus a multiple of the present value of the new business generated.

Value in use is calculated as an actuarially determined appraisal value, based on the embedded value of the business and the value from future new business.

The key assumptions used in the embedded value calculations include investment returns, mortality, morbidity, persistency, expenses and inflation. The value from future new business is calculated based on a combination of indicators which include, among others, a multiple of the projected one-year value of new business (VONB), taking into account recent production mix, business strategy and market trends. The Group may apply alternative method to estimate the value of future new business if the described method is not appropriate under the circumstances.

## 14. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

US\$m	Year ended 30 November 2016	Year ended 30 November 2015
<b>Group</b>		
Investments in associates	650	137
Investment in joint venture	–	–
<b>Total</b>	<b>650</b>	<b>137</b>

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

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

	Place of incorporation	Principal activity	Type of shares held	Group's interest %	
				As at 30 November 2016	As at 30 November 2015
Tata AIA Life Insurance Company Limited	India	Insurance	Ordinary	49%	26%

On 25 April 2016, the Group increased its shareholding of Tata AIA Life Insurance Company Limited from 26 per cent to 49 per cent.

All associates and joint venture are unlisted.

### Aggregated financial information of associates

The investment in the associate is measured using the equity method. The following table analyses, in aggregate, the carrying amount and share of profit and other comprehensive income of these associates.

US\$m	Year ended 30 November 2016	Year ended 30 November 2015
Carrying amount in the statement of financial position	650	137
Losses from continuing operations	(5)	–
Other comprehensive income	43	3
<b>Total comprehensive income</b>	<b>38</b>	<b>3</b>



## 15. PROPERTY, PLANT AND EQUIPMENT

US\$m	Property held for own use	Computer hardware	Fixtures and fittings and others	Total
<b>Cost or revaluation</b>				
At 1 December 2014 – As previously reported	557	224	370	1,151
Effect of change in accounting policies	64	–	–	64
At 1 December 2014 – As adjusted	621	224	370	1,215
Additions	14	18	46	78
Disposals	–	(18)	(38)	(56)
Net transfers from investment property	29	–	–	29
Foreign exchange movements	(49)	(17)	(21)	(87)
At 30 November 2015 – As adjusted	<b>615</b>	<b>207</b>	<b>357</b>	<b>1,179</b>
Additions	<b>3</b>	<b>19</b>	<b>131</b>	<b>153</b>
Disposals	<b>(34)</b>	<b>(36)</b>	<b>(13)</b>	<b>(83)</b>
Net transfers from investment property	<b>19</b>	–	–	<b>19</b>
Increase from valuation	<b>312</b>	–	–	<b>312</b>
Foreign exchange movements	<b>(10)</b>	<b>(2)</b>	<b>(11)</b>	<b>(23)</b>
<b>At 30 November 2016</b>	<b>905</b>	<b>188</b>	<b>464</b>	<b>1,557</b>
<b>Accumulated depreciation</b>				
At 1 December 2014 – As previously reported	(196)	(181)	(233)	(610)
Effect of change in accounting policies	(7)	–	–	(7)
At 1 December 2014 – As adjusted	(203)	(181)	(233)	(617)
Depreciation charge for the year	(17)	(24)	(37)	(78)
Disposals	–	17	26	43
Net transfers from investment property	(1)	–	–	(1)
Foreign exchange movements	21	16	16	53
At 30 November 2015 – As adjusted	<b>(200)</b>	<b>(172)</b>	<b>(228)</b>	<b>(600)</b>
Depreciation charge for the year	<b>(15)</b>	<b>(19)</b>	<b>(45)</b>	<b>(79)</b>
Disposals	<b>11</b>	<b>28</b>	–	<b>39</b>
Revaluation adjustment	<b>209</b>	–	–	<b>209</b>
Foreign exchange movements	<b>(5)</b>	<b>3</b>	<b>8</b>	<b>6</b>
<b>At 30 November 2016</b>	<b>–</b>	<b>(160)</b>	<b>(265)</b>	<b>(425)</b>
<b>Net book value</b>				
At 30 November 2015 – As adjusted	415	35	129	579
<b>At 30 November 2016</b>	<b>905</b>	<b>28</b>	<b>199</b>	<b>1,132</b>

Properties held for own use are carried at fair value at the reporting date less accumulated depreciation. The fair value at the reporting date is determined by independent professional valuers. Details of valuation techniques and process are disclosed in notes 3 and 21.

During the reporting period, no expenditure (2015: nil) recognised in the carrying amount of property held for own use was in the course of its construction. Increases from revaluation on property held for own use of US\$521m (2015: nil) were taken to other comprehensive income.

If property held for own use were stated on a historical cost basis, the carrying value would be US\$393m (2015: US\$415m). The Group holds property, plant and equipment for its long-term use and, accordingly, the annual depreciation charge approximates to the amount expected to be recovered through consumption within 12 months after the end of the reporting period.

## 16. INVESTMENT PROPERTY

US\$m

### Fair value

At 1 December 2014 – As previously reported	1,384
Effect of change in accounting policies	2,255
At 30 November 2014 – As adjusted	3,639
Additions and capitalised subsequent expenditures	86
Disposals	(2)
Net transfers to property, plant and equipment	(28)
Net transfers to other assets	(15)
Fair value gain	73
Foreign exchange movements	(94)
At 30 November 2015 – As adjusted	<b>3,659</b>
Additions and capitalised subsequent expenditures	<b>60</b>
Disposals	<b>(3)</b>
Net transfers to property, plant and equipment	<b>(19)</b>
Net transfers to other assets	<b>(40)</b>
Fair value gain	<b>288</b>
Foreign exchange movements	<b>(35)</b>
<b>At 30 November 2016</b>	<b>3,910</b>

Investment properties are carried at fair value at the reporting date as determined by independent professional valuers. Details of valuation techniques and process are disclosed in notes 3 and 21.

The Group leases out its investment property under operating leases. The leases typically run for an initial period of one to twelve years, with an option to renew the lease based on future negotiations. Lease payments are usually negotiated every one to three years to reflect market rentals. There were not any material contingent rentals earned as income for the year. Rental income generated from investment property amounted to US\$140m (2015: US\$127m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US\$32m (2015: US\$28m).

The Group owns investment property in the form of freehold land outside Hong Kong and leasehold land under finance lease. Leasehold land under operating leases which is held for long-term rental or capital appreciation or both that is not occupied by the Group is classified as investment property. They are initially recognised at cost with changes in fair values in subsequent periods recognised in the consolidated income statement. The Group does not hold freehold land in Hong Kong.

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

US\$m	As at 30 November 2016	As at 30 November 2015
<b>Leases of investment property</b>		
Expiring no later than one year	<b>121</b>	117
Expiring later than one year and no later than five years	<b>143</b>	148
Expiring after five years or more	<b>8</b>	8
<b>Total</b>	<b>272</b>	273

## 17. REINSURANCE ASSETS

US\$m	As at 30 November 2016	As at 30 November 2015
Amounts recoverable from reinsurers	<b>335</b>	257
Ceded insurance and investment contract liabilities	<b>1,711</b>	1,395
<b>Total</b>	<b>2,046</b>	1,652

## 18. DEFERRED ACQUISITION AND ORIGINATION COSTS

US\$m	As at 30 November 2016	As at 30 November 2015
<b>Carrying amount</b>		
Deferred acquisition costs on insurance contracts	<b>18,351</b>	16,424
Deferred origination costs on investment contracts	<b>418</b>	470
Value of business acquired	<b>129</b>	198
<b>Total</b>	<b>18,898</b>	17,092
	Year ended 30 November 2016	Year ended 30 November 2015
<b>Movements in the year</b>		
<b>At beginning of financial year</b>	<b>17,092</b>	16,593
Deferral and amortisation of acquisition and origination costs	<b>2,057</b>	1,490
Foreign exchange movements	<b>(172)</b>	(1,151)
Impact of assumption changes	<b>(6)</b>	33
Other movements	<b>(73)</b>	127
<b>At end of financial year</b>	<b>18,898</b>	17,092

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

## 19. FINANCIAL INVESTMENTS

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

Policyholder and Shareholder Investments are further categorised as Participating Funds and Other Policyholder and Shareholder. The Group has elected to separately analyse financial investments held by Participating Funds within Policyholder and Shareholder Investments as they are subject to local regulations that generally prescribe a minimum proportion of policyholder participation in declared dividends. The Group has elected the fair value option for debt and equity securities of Participating Funds. The Group's accounting policy is to record an insurance liability for the proportion of net assets of the Participating Funds that would be allocated to policyholders assuming all performance would be declared as a dividend based upon local regulations as at the date of the statement of financial position. As a result the Group's net profit for the year before tax is impacted by the proportion of investment return that would be allocated to shareholders as described above.

Other Policyholder and Shareholder Investments are distinct from Unit-linked Investments and Participating Funds as there is not any direct contractual or regulatory requirement governing the amount, if any, for allocation to policyholders. The Group has elected to apply the fair value option for equity securities in this category and the available for sale classification in respect of the majority of debt securities in this category. The investment risk from investments in this category directly impacts the Group's financial statements. Although a proportion of investment return may be allocated to policyholders through policyholder dividends, the Group's accounting policy for insurance and certain investment contract liabilities utilises a net level premium methodology that includes best estimates as at the date of issue for non-guaranteed participation. To the extent investment return from these investments either is not allocated to participating contracts or varies from the best estimates, it will impact the Group's profit before tax.

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

### Debt securities

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

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

Note:

(1) Unless otherwise identified individually.

## 19. FINANCIAL INVESTMENTS (continued)

### Debt securities (continued)

Debt securities by type comprise the following:

US\$m	Rating	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Consolidated investment funds <sup>(3)</sup> FVTPL	Total
		Participating funds FVTPL	Other policyholder and shareholder FVTPL      AFS					
30 November 2016								
<b>Government bonds</b>								
<b>– issued in local currency</b>								
Thailand	A	–	–	11,313	11,313	–	–	11,313
China	AA	1,635	–	6,510	8,145	19	–	8,164
Korea	AA	–	–	4,171	4,171	280	–	4,451
Singapore	AAA	1,552	–	950	2,502	387	–	2,889
Philippines	BBB	–	–	2,527	2,527	68	–	2,595
Malaysia	A	1,185	–	414	1,599	22	–	1,621
United States	AA	16	–	1,587	1,603	2	–	1,605
Indonesia	BB	57	10	387	454	37	–	491
Other <sup>(1)</sup>		–	–	639	639	2	–	641
<b>Subtotal</b>		<b>4,445</b>	<b>10</b>	<b>28,498</b>	<b>32,953</b>	<b>817</b>	<b>–</b>	<b>33,770</b>
<b>Government bonds</b>								
<b>– foreign currency</b>								
AAA		–	–	–	–	3	–	3
AA		25	–	713	738	26	–	764
A		73	–	576	649	17	–	666
BBB		10	28	710	748	126	–	874
Below investment grade		77	29	717	823	50	–	873
<b>Subtotal</b>		<b>185</b>	<b>57</b>	<b>2,716</b>	<b>2,958</b>	<b>222</b>	<b>–</b>	<b>3,180</b>
<b>Government agency</b>								
<b>bonds<sup>(2)</sup></b>								
AAA		1,107	–	782	1,889	105	34	2,028
AA		945	–	5,327	6,272	75	182	6,529
A		898	3	1,245	2,146	26	15	2,187
BBB		220	9	1,245	1,474	6	–	1,480
Below investment grade		30	–	121	151	3	–	154
Not rated		–	–	–	–	8	–	8
<b>Subtotal</b>		<b>3,200</b>	<b>12</b>	<b>8,720</b>	<b>11,932</b>	<b>223</b>	<b>231</b>	<b>12,386</b>

Notes:

- (1) Of the total government bonds issued in local currency listed as “Other” at 30 November 2016, 49 per cent are rated as investment grade and a further 35 per cent are rated BB- and above. The remaining are rated below BB-.
- (2) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.
- (3) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

## 19. FINANCIAL INVESTMENTS (continued)

### Debt securities (continued)

US\$m	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Consolidated investment funds <sup>(3)</sup> FVTPL	Total
	Participating funds FVTPL	Other policyholder and shareholder					
	FVTPL	FVTPL	AFS				
30 November 2016							
<b>Corporate bonds</b>							
AAA	48	–	237	285	4	46	335
AA	573	22	4,087	4,682	21	351	5,054
A	4,863	13	21,654	26,530	426	983	27,939
BBB	4,251	125	20,382	24,758	566	270	25,594
Below investment grade	876	8	3,044	3,928	140	3	4,071
Not rated	–	–	1	1	138	14	153
<b>Subtotal</b>	<b>10,611</b>	<b>168</b>	<b>49,405</b>	<b>60,184</b>	<b>1,295</b>	<b>1,667</b>	<b>63,146</b>
<b>Structured securities<sup>(4)</sup></b>							
AAA	–	–	20	20	–	–	20
AA	13	–	79	92	–	–	92
A	20	20	381	421	–	–	421
BBB	223	–	270	493	1	–	494
Below investment grade	–	50	–	50	–	–	50
Not rated	10	46	3	59	–	–	59
<b>Subtotal</b>	<b>266</b>	<b>116</b>	<b>753</b>	<b>1,135</b>	<b>1</b>	<b>–</b>	<b>1,136</b>
<b>Total<sup>(5)</sup></b>	<b>18,707</b>	<b>363</b>	<b>90,092</b>	<b>109,162</b>	<b>2,558</b>	<b>1,898</b>	<b>113,618</b>

Notes:

(3) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

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

(5) Debt securities of US\$3,964m are restricted due to local regulatory requirements.

## 19. FINANCIAL INVESTMENTS (continued)

### Debt securities (continued)

US\$m	Rating	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Consolidated investment funds <sup>(4)</sup> FVTPL	Total
		Participating funds FVTPL	Other policyholder and shareholder FVTPL	AFS				
30 November 2015								
<b>Government bonds</b>								
<b>– issued in local currency</b>								
Thailand	A	–	–	10,268	10,268	–	–	10,268
China	AA	1,406	–	5,208	6,614	32	–	6,646
Korea	AA	–	–	3,650	3,650	253	–	3,903
Singapore	AAA	1,488	–	1,066	2,554	358	–	2,912
Philippines	BBB	–	–	2,626	2,626	76	–	2,702
Malaysia	A	1,536	–	403	1,939	27	–	1,966
Indonesia	BB	29	7	533	569	32	–	601
Other <sup>(1)</sup>		17	–	643	660	3	–	663
<b>Subtotal</b>		<b>4,476</b>	<b>7</b>	<b>24,397</b>	<b>28,880</b>	<b>781</b>	<b>–</b>	<b>29,661</b>
<b>Government bonds</b>								
<b>– foreign currency<sup>(2)</sup></b>								
AAA		–	–	5	5	5	–	10
AA		26	–	550	576	23	–	599
A		34	2	205	241	6	–	247
BBB		10	80	751	841	49	–	890
Below investment grade		100	113	479	692	21	–	713
<b>Subtotal</b>		<b>170</b>	<b>195</b>	<b>1,990</b>	<b>2,355</b>	<b>104</b>	<b>–</b>	<b>2,459</b>
<b>Government agency</b>								
<b>bonds<sup>(3)</sup></b>								
AAA		1,250	–	974	2,224	84	38	2,346
AA		937	–	4,168	5,105	68	185	5,358
A		792	8	2,483	3,283	26	16	3,325
BBB		223	–	1,095	1,318	4	–	1,322
Below investment grade		18	–	108	126	6	–	132
<b>Subtotal</b>		<b>3,220</b>	<b>8</b>	<b>8,828</b>	<b>12,056</b>	<b>188</b>	<b>239</b>	<b>12,483</b>

#### Notes:

- (1) Of the total government bonds issued in local currency listed as “Other” at 30 November 2015, 58 per cent are rated as investment grade and a further 24 per cent are rated BB- and above. The remaining are rated below BB-.
- (2) The presentation of the table has been adjusted to conform to the current year presentation.
- (3) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.
- (4) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

## 19. FINANCIAL INVESTMENTS (continued)

### Debt securities (continued)

US\$m	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Consolidated investment funds <sup>(4)</sup> FVTPL	Total
	Participating funds	Other policyholder and shareholder					
	FVTPL	FVTPL	AFS				
30 November 2015							
<b>Corporate bonds</b>							
AAA	61	–	168	229	4	47	280
AA	900	8	5,802	6,710	14	306	7,030
A	4,788	28	17,303	22,119	531	993	23,643
BBB	4,218	61	18,694	22,973	561	213	23,747
Below investment grade	927	4	3,224	4,155	109	26	4,290
Not rated	–	–	1	1	46	14	61
<b>Subtotal</b>	<b>10,894</b>	<b>101</b>	<b>45,192</b>	<b>56,187</b>	<b>1,265</b>	<b>1,599</b>	<b>59,051</b>
<b>Structured securities<sup>(5)</sup></b>							
AAA	–	–	11	11	–	–	11
AA	10	19	139	168	–	–	168
A	16	39	197	252	–	5	257
BBB	239	–	172	411	1	–	412
Below investment grade	30	56	–	86	–	–	86
Not rated	1	37	14	52	–	–	52
<b>Subtotal</b>	<b>296</b>	<b>151</b>	<b>533</b>	<b>980</b>	<b>1</b>	<b>5</b>	<b>986</b>
<b>Total<sup>(6)</sup></b>	<b>19,056</b>	<b>462</b>	<b>80,940</b>	<b>100,458</b>	<b>2,339</b>	<b>1,843</b>	<b>104,640</b>

Notes:

(4) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

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

(6) Debt securities of US\$3,354m are restricted due to local regulatory requirements.

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

US\$m	As at 30 November 2016	As at 30 November 2015
<b>Debt securities – FVTPL</b>		
Designated at fair value through profit or loss	<b>23,509</b>	23,700
Held for trading	<b>17</b>	–
<b>Total</b>	<b>23,526</b>	23,700



## 19. FINANCIAL INVESTMENTS (continued)

### Equity securities

Equity securities by type comprise the following:

US\$m	Policyholder and shareholder			Unit-linked FVTPL	Consolidated investment funds <sup>(1)</sup> FVTPL	Total
	Participating funds FVTPL	Other policyholder and shareholder FVTPL	Subtotal			
30 November 2016						
Equity shares	<b>3,705</b>	<b>6,967</b>	<b>10,672</b>	<b>3,608</b>	<b>1</b>	<b>14,281</b>
Interests in investment funds	<b>1,746</b>	<b>2,295</b>	<b>4,041</b>	<b>11,886</b>	<b>3</b>	<b>15,930</b>
<b>Total</b>	<b>5,451</b>	<b>9,262</b>	<b>14,713</b>	<b>15,494</b>	<b>4</b>	<b>30,211</b>

US\$m	Policyholder and shareholder			Unit-linked FVTPL	Consolidated investment funds <sup>(1)</sup> FVTPL	Total
	Participating funds FVTPL	Other policyholder and shareholder FVTPL	Subtotal			
30 November 2015						
Equity shares	3,285	5,484	8,769	3,234	1	12,004
Interests in investment funds	1,630	1,812	3,442	11,710	3	15,155
<b>Total</b>	<b>4,915</b>	<b>7,296</b>	<b>12,211</b>	<b>14,944</b>	<b>4</b>	<b>27,159</b>

Note:

(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

### Debt and equity securities

US\$m	As at 30 November 2016	As at 30 November 2015
<b>Debt securities</b>		
Listed	<b>86,105</b>	76,490
Unlisted	<b>27,513</b>	28,150
<b>Total</b>	<b>113,618</b>	104,640
<b>Equity securities</b>		
Listed	<b>16,394</b>	13,878
Unlisted <sup>(1)</sup>	<b>13,817</b>	13,281
<b>Total</b>	<b>30,211</b>	27,159

Note:

(1) Including US\$13,067m (2015: US\$12,584m) of investment funds which can be redeemed daily.

## 19. FINANCIAL INVESTMENTS (continued)

### Interests in structured entities

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

The Group has consolidated certain investment funds for which the Group provides guarantee on capital or rate of return to the investors and deemed to have control based on an analysis of the guidance in IFRS 10. For these investment funds, the Group has the ability to reduce the guaranteed rates of return, subject to obtaining approvals of applicable regulators. The Group has an obligation to absorb losses in the event that the returns of the funds are insufficient to cover the capital or rate of return guarantee provided to the investors.

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

US\$m	As at 30 November 2016		As at 30 November 2015	
	Investment funds	Structured securities <sup>(1)</sup>	Investment funds	Structured securities <sup>(1)</sup>
Available for sale debt securities	939 <sup>(2)</sup>	753	761 <sup>(2)</sup>	533
Debt securities at fair value through profit or loss	489 <sup>(2)</sup>	383	404 <sup>(2)</sup>	453
Equity securities at fair value through profit or loss	15,930	–	15,155	–
<b>Total</b>	<b>17,358</b>	<b>1,136</b>	16,320	986

Notes:

(1) Structured securities include collateralised debt obligation, mortgage-backed securities and other asset-backed securities.

(2) Balance represents the Group's interests in debt securities issued by real estate investment trusts.

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

In addition, the Group receives management fees and trustee fees in respect of providing trustee, management and administrative services to certain retirement scheme funds and investment funds. These funds are not held and the associated investment risks are not borne by the Group, the Group does not have exposure to loss in these funds.

## 19. FINANCIAL INVESTMENTS (continued)

### Loans and deposits

US\$m	As at 30 November 2016	As at 30 November 2015
Policy loans	<b>2,448</b>	2,383
Mortgage loans on residential real estate	<b>546</b>	538
Mortgage loans on commercial real estate	<b>51</b>	51
Other loans	<b>737</b>	781
Allowance for loan losses	<b>(13)</b>	(14)
<b>Loans</b>	<b>3,769</b>	3,739
Term deposits	<b>1,847</b>	2,035
Promissory notes <sup>(1)</sup>	<b>1,446</b>	1,437
<b>Total</b>	<b>7,062</b>	7,211

Note:

(1) The promissory notes are issued by a government.

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within term deposits and promissory notes is US\$1,638m (2015: US\$1,617m).

Other loans include receivables from reverse repurchase agreements under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. At 30 November 2016, the carrying value of such receivables is US\$224m (2015: US\$155m).

## 20. DERIVATIVE FINANCIAL INSTRUMENTS

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

US\$m	Notional amount	Fair value	
		Assets	Liabilities
30 November 2016			
<b>Foreign exchange contracts</b>			
Cross-currency swaps	7,660	28	(567)
Forwards	1,710	36	(6)
Foreign exchange futures	192	–	–
Currency options	13	–	–
<b>Total foreign exchange contracts</b>	<b>9,575</b>	<b>64</b>	<b>(573)</b>
<b>Interest rate contracts</b>			
Interest rate swaps	1,851	30	(35)
<b>Other</b>			
Warrants and options	1,520	13	(36)
<b>Netting</b>	<b>(192)</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>12,754</b>	<b>107</b>	<b>(644)</b>
30 November 2015			
<b>Foreign exchange contracts</b>			
Cross-currency swaps	7,153	60	(671)
Forwards	1,547	4	(19)
Foreign exchange futures	119	–	–
Currency options	29	–	–
<b>Total foreign exchange contracts</b>	<b>8,848</b>	<b>64</b>	<b>(690)</b>
<b>Interest rate contracts</b>			
Interest rate swaps	629	2	(5)
<b>Other</b>			
Warrants and options	176	7	–
<b>Netting</b>	<b>(119)</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>9,534</b>	<b>73</b>	<b>(695)</b>

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

Of the total derivatives, US\$12m (2015: US\$6m) are listed in exchange or dealer markets and the rest are over-the-counter (OTC) derivatives. OTC derivative contracts are individually negotiated between contracting parties and not cleared through an exchange. OTC derivatives include forwards, swaps and options. Derivatives are subject to various risks including market, liquidity and credit risks, similar to those related to the underlying financial instruments.

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

## **20. DERIVATIVE FINANCIAL INSTRUMENTS** (continued)

### **Foreign exchange contracts**

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

### **Interest rate swaps**

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

### **Other derivatives**

Warrants and options are option agreements that give the owner the right to buy or sell securities at an agreed price and settlement date.

### **Netting adjustment**

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

### **Collateral under derivative transactions**

At 30 November 2016, the Group had posted cash collateral of US\$188m (2015: US\$189m) and pledged debt securities with carrying value of US\$440m (2015: US\$439m) for liabilities and held cash collateral of US\$6m (2015: US\$8m), debt securities collateral with carrying value of US\$5m (2015: US\$2m) for assets in respect of derivative transactions. The Group did not sell or repledge the collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.



## 21. FAIR VALUE MEASUREMENT (continued)

### Fair value of financial instruments (continued)

US\$m	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
30 November 2015						
Financial investments	19					
Loans and deposits		–	–	7,211	7,211	7,222
Debt securities		23,700	80,940	–	104,640	104,640
Equity securities		27,159	–	–	27,159	27,159
Derivative financial instruments	20	73	–	–	73	73
Reinsurance receivables	17	–	–	257	257	257
Other receivables	22	–	–	1,731	1,731	1,731
Accrued investment income	22	–	–	1,350	1,350	1,350
Cash and cash equivalents	24	–	–	1,992	1,992	1,992
<b>Financial assets</b>		<b>50,932</b>	<b>80,940</b>	<b>12,541</b>	<b>144,413</b>	<b>144,424</b>
		Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities						
Investment contract liabilities		26	6,573	543	7,116	7,116
Borrowings		28	–	3,195	3,195	3,217
Obligations under repurchase agreements		29	–	3,085	3,085	3,085
Derivative financial instruments		20	695	–	695	695
Other liabilities		32	1,214	3,443	4,657	4,657
<b>Financial liabilities</b>			<b>8,482</b>	<b>10,266</b>	<b>18,748</b>	<b>18,770</b>

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

Foreign currency exposure, including the net notional amount of foreign currency derivative positions, is shown in note 36 for the Group's key foreign exchange exposures.

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

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

## **21. FAIR VALUE MEASUREMENT** (continued)

### **Fair value measurements on a recurring basis**

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

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

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

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

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

The Group does not have assets or liabilities measured at fair value on a non-recurring basis during the year ended 30 November 2016.

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

### **Determination of fair value**

#### **Loans and receivables**

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

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

#### **Debt securities and equity securities**

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



## **21. FAIR VALUE MEASUREMENT** (continued)

### **Determination of fair value** (continued)

#### **Derivative financial instruments**

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

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

#### **Property held for own use and investment property**

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

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

#### **Cash and cash equivalents**

The carrying amount of cash approximates its fair value.

#### **Reinsurance receivables**

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

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

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

#### **Other assets**

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

## 21. FAIR VALUE MEASUREMENT (continued)

### Determination of fair value (continued)

#### Investment contract liabilities

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

Investment contracts with DPF enable the contract holder to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating business and are measured and classified according to the Group practice for insurance contract liabilities and hence are disclosed within note 25. These are not measured at fair value as there is currently not an agreed definition of fair value for investment and insurance contracts with DPF under IFRS. In the absence of any agreed methodology, it is not possible to provide a range of estimates within which fair value is likely to fall. The IASB is expecting to address this issue in Phase II of its insurance contracts project.

#### Borrowings

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

#### Other liabilities

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

#### Fair value hierarchy for fair value measurement on a recurring basis

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

- **Level 1:** Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Group does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded equities. The Group considers that government debt securities issued by G7 countries (the United States, Canada, France, Germany, Italy, Japan, the United Kingdom) and traded in a dealer market to be Level 1, until they no longer trade with sufficient frequency and volume to be considered actively traded.
- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries, most investment grade corporate bonds, hedge fund investments and derivative contracts.
- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include properties held for own use, investment properties, certain classes of structured securities, certain derivative contracts, private equity and real estate fund investments, and direct private equity investments.

## 21. FAIR VALUE MEASUREMENT (continued)

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

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

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

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
30 November 2016				
<b>Recurring fair value measurements</b>				
<b>Non-financial assets</b>				
Property held for own use	–	–	905	905
Investment property	–	–	3,910	3,910
<b>Financial assets</b>				
Available for sale				
Debt securities	24	88,819	1,249	90,092
At fair value through profit or loss				
Debt securities				
Participating funds	–	18,366	341	18,707
Unit-linked and consolidated investment funds	–	4,239	217	4,456
Other policyholder and shareholder	–	223	140	363
Equity securities				
Participating funds	4,856	324	271	5,451
Unit-linked and consolidated investment funds	15,434	64	–	15,498
Other policyholder and shareholder	8,117	728	417	9,262
Derivative financial instruments				
Foreign exchange contracts	–	64	–	64
Interest rate contracts	–	30	–	30
Other contracts	12	1	–	13
<b>Total assets on a recurring fair value measurement basis</b>	<b>28,443</b>	<b>112,858</b>	<b>7,450</b>	<b>148,751</b>
<i>% of Total</i>	<i>19.1</i>	<i>75.9</i>	<i>5.0</i>	<i>100.0</i>
<b>Financial liabilities</b>				
Investment contract liabilities	–	–	6,499	6,499
Derivative financial instruments				
Foreign exchange contracts	–	573	–	573
Interest rate contracts	–	35	–	35
Other contracts	–	36	–	36
Other liabilities	–	1,239	–	1,239
<b>Total liabilities on a recurring fair value measurement basis</b>	<b>–</b>	<b>1,883</b>	<b>6,499</b>	<b>8,382</b>
<i>% of Total</i>	<i>–</i>	<i>22.5</i>	<i>77.5</i>	<i>100.0</i>

## 21. FAIR VALUE MEASUREMENT (continued)

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

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
30 November 2015 – As adjusted				
<b>Recurring fair value measurements</b>				
<b>Non-financial assets</b>				
Investment property	–	–	3,659	3,659
<b>Financial assets</b>				
Available for sale				
Debt securities	–	79,927	1,013	80,940
At fair value through profit or loss				
Debt securities				
Participating funds	–	18,732	324	19,056
Unit-linked and consolidated investment funds	–	3,914	268	4,182
Other policyholder and shareholder	–	287	175	462
Equity securities				
Participating funds	4,537	127	251	4,915
Unit-linked and consolidated investment funds	14,918	26	4	14,948
Other policyholder and shareholder	6,448	429	419	7,296
Derivative financial instruments				
Foreign exchange contracts	–	64	–	64
Interest rate contracts	–	2	–	2
Other contracts	5	2	–	7
<b>Total assets on a recurring fair value measurement basis</b>	<b>25,908</b>	<b>103,510</b>	<b>6,113</b>	<b>135,531</b>
<i>% of Total</i>	<i>19.1</i>	<i>76.4</i>	<i>4.5</i>	<i>100.0</i>
<b>Financial liabilities</b>				
Investment contract liabilities	–	–	6,573	6,573
Derivative financial instruments				
Foreign exchange contracts	–	690	–	690
Interest rate contracts	–	5	–	5
Other liabilities	–	1,214	–	1,214
<b>Total liabilities on a recurring fair value measurement basis</b>	<b>–</b>	<b>1,909</b>	<b>6,573</b>	<b>8,482</b>
<i>% of Total</i>	<i>–</i>	<i>22.5</i>	<i>77.5</i>	<i>100.0</i>

The Group's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the year ended 30 November 2016, the Group transferred US\$241m (2015: US\$29m) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Group transferred US\$463m (2015: US\$985m) of assets from Level 2 to Level 1 during the year ended 30 November 2016.

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

## 21. FAIR VALUE MEASUREMENT (continued)

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

The tables below set out a summary of changes in the Group's Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended 30 November 2016 and 2015. The tables reflect gains and losses, including gains and losses on assets and liabilities categorised as Level 3 as at 30 November 2016 and 2015.

#### Level 3 assets and liabilities

US\$m	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
<b>At 1 December 2015 – As adjusted</b>	<b>415</b>	<b>3,659</b>	<b>1,780</b>	<b>674</b>	<b>–</b>	<b>(6,573)</b>
Net movement on investment contract liabilities	–	–	–	–	–	<b>74</b>
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	<b>(15)</b>	<b>288</b>	<b>5</b>	<b>(45)</b>	–	–
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	<b>506</b>	<b>(35)</b>	<b>(49)</b>	<b>(8)</b>	–	–
Transfer to other assets	–	<b>(40)</b>	–	–	–	–
Transfer from investment property	<b>19</b>	<b>(19)</b>	–	–	–	–
Purchases	<b>3</b>	<b>60</b>	<b>539</b>	<b>119</b>	–	–
Sales	<b>(23)</b>	<b>(3)</b>	<b>(165)</b>	<b>(43)</b>	–	–
Settlements	–	–	<b>(84)</b>	–	–	–
Transfer into Level 3	–	–	–	<b>11</b>	–	–
Transfer out of Level 3	–	–	<b>(79)</b>	<b>(20)</b>	–	–
<b>At 30 November 2016</b>	<b>905</b>	<b>3,910</b>	<b>1,947</b>	<b>688</b>	<b>–</b>	<b>(6,499)</b>
<b>Change in unrealised gains or losses included in the consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return</b>	<b>(15)</b>	<b>288</b>	<b>(25)</b>	<b>(26)</b>	<b>–</b>	<b>–</b>

**21. FAIR VALUE MEASUREMENT** (continued)**Fair value hierarchy for fair value measurement on a recurring basis** (continued)**Level 3 assets and liabilities** (continued)

US\$m	Investment property	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
<b>At 1 December 2014 – As adjusted</b>	3,639	1,578	574	–	(7,315)
Net movement on investment contract liabilities	–	–	–	–	742
Total gains/(losses)					
Reported under investment return and other expenses in the consolidated income statement	73	16	(7)	–	–
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	(94)	(71)	(34)	–	–
Purchases	86	449	170	–	–
Sales	(2)	(57)	(34)	–	–
Settlements	–	(141)	–	–	–
Transfer to property, plant and equipment	(28)	–	–	–	–
Transfer to other assets	(15)	–	–	–	–
Disposal of subsidiary	–	(5)	–	–	–
Transfer into Level 3	–	17	6	–	–
Transfer out of Level 3	–	(6)	(1)	–	–
<b>At 30 November 2015 – As adjusted</b>	<b>3,659</b>	<b>1,780</b>	<b>674</b>	<b>–</b>	<b>(6,573)</b>
<b>Change in unrealised gains or losses included in the consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return</b>	<b>73</b>	<b>(3)</b>	<b>(6)</b>	<b>–</b>	<b>–</b>

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets. Details of the movement in investment contract liabilities are provided in note 26.

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

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

## 21. FAIR VALUE MEASUREMENT (continued)

### Significant unobservable inputs for level 3 fair value measurements

As at 30 November 2016 and 2015, the valuation techniques and applicable unobservable inputs used to measure the Group's Level 3 financial instruments are summarised as follows:

Description	Fair value at 30 November 2016 (US\$m)	Valuation techniques	Unobservable inputs	Range
<b>Debt securities</b>	<b>861</b>	<b>Discounted cash flows</b>	<b>Discount rate for liquidity</b>	<b>4.07% – 17.58%</b>

Description	Fair value at 30 November 2015 (US\$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	809	Discounted cash flows	Discount rate for liquidity	4.30% – 15.61%

Fair value of the Group's properties are determined based on appropriate valuation techniques which may consider among others income projection, value of comparable property and adjustments for factors such as size, location, quality and prospective use. These valuation inputs are deemed unobservable.

### Valuation processes

The Group has the valuation policies, procedures and analyses in place to govern the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. In determining the fair values of financial assets, the Group in general uses third-party pricing providers and, only in rare cases when third-party prices do not exist, will use prices derived from internal models. The Chief Investment Officers of each of the business units are required to review the reasonableness of the prices used and report price exceptions, if any. The Group Investment team analyses reported price exceptions and reviews price challenge responses from third-party pricing providers and provides the final recommendation on the appropriate price to be used. Any changes in valuation policies are reviewed and approved by the Group Pricing Committee (GPC) which is part of the Group's wider financial risk governance processes. Changes in Level 2 and 3 fair values are analysed at each reporting date.

The main Level 3 input used by the Group pertains to the discount rate for the fixed income securities and investment contracts. The unobservable inputs for determining the fair value of these instruments include the obligor's credit spread and/or the liquidity spread. A significant increase/(decrease) in any of the unobservable input may result in a significantly lower/(higher) fair value measurement. The Group has subscriptions to private pricing services for gathering such information. If the information from private pricing services is not available, the Group uses the proxy pricing method based on internally-developed valuation inputs.

## 21. FAIR VALUE MEASUREMENT (continued)

### Fair value for assets and liabilities for which the fair value is disclosed at reporting date

A summary of fair value hierarchy of assets and liabilities not carried at fair value but for which the fair value is disclosed as at 30 November 2016 and 2015 is given below.

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
30 November 2016				
<b>Assets for which the fair value is disclosed</b>				
<b>Financial assets</b>				
Loans and deposits	744	2,817	3,505	7,066
Reinsurance receivables	–	335	–	335
Other receivables	–	1,885	49	1,934
Accrued investment income	73	1,310	–	1,383
Cash and cash equivalents	1,642	–	–	1,642
<b>Total assets for which the fair value is disclosed</b>	<b>2,459</b>	<b>6,347</b>	<b>3,554</b>	<b>12,360</b>
<b>Liabilities for which the fair value is disclosed</b>				
<b>Financial liabilities</b>				
Investment contract liabilities	–	–	529	529
Borrowings	3,478	–	1	3,479
Obligations under repurchase agreements	–	1,984	–	1,984
Other liabilities	312	3,126	46	3,484
<b>Total liabilities for which the fair value is disclosed</b>	<b>3,790</b>	<b>5,110</b>	<b>576</b>	<b>9,476</b>

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
30 November 2015				
<b>Assets for which the fair value is disclosed</b>				
<b>Financial assets</b>				
Loans and deposits	552	3,145	3,525	7,222
Reinsurance receivables	–	257	–	257
Other receivables	–	1,707	24	1,731
Accrued investment income	19	1,331	–	1,350
Cash and cash equivalents	1,992	–	–	1,992
<b>Property held for own use</b>				
Property held for own use (including land)	–	–	1,495	1,495
<b>Total assets for which the fair value is disclosed</b>	<b>2,563</b>	<b>6,440</b>	<b>5,044</b>	<b>14,047</b>
<b>Liabilities for which the fair value is disclosed</b>				
<b>Financial liabilities</b>				
Investment contract liabilities	–	–	543	543
Borrowings	2,894	323	–	3,217
Obligations under repurchase agreements	–	3,085	–	3,085
Other liabilities	412	2,970	61	3,443
<b>Total liabilities for which the fair value is disclosed</b>	<b>3,306</b>	<b>6,378</b>	<b>604</b>	<b>10,288</b>



## 22. OTHER ASSETS

US\$m	As at 30 November 2016	As at 30 November 2015 (As adjusted)
Accrued investment income	<b>1,383</b>	1,350
Pension scheme assets		
Defined benefit pension scheme surpluses	<b>24</b>	26
Insurance receivables due from insurance and investment contract holders	<b>1,004</b>	1,023
Others	<b>1,578</b>	1,277
<b>Total</b>	<b>3,989</b>	3,676

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

## 23. IMPAIRMENT OF FINANCIAL ASSETS

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

### Available for sale debt securities

During the year ended 30 November 2016, impairment losses of US\$22m (2015: nil) were recognised in respect of available for sale debt securities.

The carrying amounts of available for sale debt securities that are individually determined to be impaired at 30 November 2016 was US\$18m (2015: US\$31m).

### Loans and receivables

The Group's primary potential credit risk exposure in respect of loans and receivables arises in respect of policy loans and a portfolio of mortgage loans on residential and commercial real estate (see note 19 Financial investments for further details). The Group's credit exposure on policy loans is mitigated because, if and when the total indebtedness on any policy, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Group has a first lien on all policies which are subject to policy loans.

The carrying amounts of loans and receivables that are individually determined to be impaired at 30 November 2016 was US\$18m (2015: US\$20m).

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

## 24. CASH AND CASH EQUIVALENTS

US\$m	As at 30 November 2016	As at 30 November 2015
Cash	1,120	1,493
Cash equivalents	522	499
<b>Total<sup>(1)</sup></b>	<b>1,642</b>	<b>1,992</b>

Note:

(1) Of cash and cash equivalents, US\$412m (2015: US\$428m) are held to back unit-linked contracts and US\$92m (2015: US\$22m) are held by consolidated investment funds.

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

## 25. INSURANCE CONTRACT LIABILITIES

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

US\$m	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
<b>At beginning of financial year</b>	<b>115,969</b>	113,202
Valuation premiums and deposits	23,962	21,300
Liabilities released for policy termination or other policy benefits paid and related expenses	(13,647)	(13,240)
Fees from account balances	(1,491)	(1,261)
Accretion of interest	3,810	3,624
Foreign exchange movements	(1,733)	(7,859)
Change in net asset values attributable to policyholders	1,434	107
Disposal of a subsidiary	-	(22)
Other movements	(118)	118
<b>At end of financial year</b>	<b>128,186</b>	115,969

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

US\$m	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
Deferred profit	5,761	5,100
Unearned revenue	2,906	2,874
Policyholders' share of participating surplus	6,731	6,447
Liabilities for future policyholder benefits	112,788	101,548
<b>Total</b>	<b>128,186</b>	115,969

## 25. INSURANCE CONTRACT LIABILITIES (continued)

### Business description

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

Type of contract		Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows	Key reportable segments
Traditional participating life assurance with DPF	Participating funds	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities. The timing of dividend and bonus declarations is at the discretion of the insurer. Local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Expenses</li> <li>Mortality</li> <li>Surrenders</li> </ul>	Singapore, China, Malaysia
	Other participating business	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Expenses</li> <li>Mortality</li> <li>Surrenders</li> <li>Morbidity</li> </ul>	Hong Kong, Thailand, Other Markets
Traditional non-participating life assurance		Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	<ul style="list-style-type: none"> <li>Mortality</li> <li>Morbidity</li> <li>Lapses</li> <li>Expenses</li> </ul>	All <sup>(1)</sup>
Accident and health		These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	<ul style="list-style-type: none"> <li>Mortality</li> <li>Morbidity</li> <li>Lapses</li> <li>Expenses</li> </ul>	All <sup>(1)</sup>
Unit-linked		Unit-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitised funds	Benefits are based on the value of the unitised funds and death benefits	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Lapses</li> <li>Expenses</li> <li>Mortality</li> </ul>	All <sup>(1)</sup>
Universal life		The customer pays flexible premiums subject to specified limits accumulated in an account balance which are credited with interest at a rate set by the insurer, and a death benefit which may be varied by the customer	Benefits are based on the account balance and death benefit	<ul style="list-style-type: none"> <li>Investment performance</li> <li>Crediting rates</li> <li>Lapses</li> <li>Expenses</li> <li>Mortality</li> </ul>	All <sup>(1)</sup>

Note:

(1) Other than the Group Corporate Centre segment.

## 25. INSURANCE CONTRACT LIABILITIES (continued)

### Methodology and assumptions

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

Type of contract	Market and credit risk				
	Direct exposure		Indirect exposure	Significant insurance and lapse risks	
	Insurance and investment contract liabilities	Risks associated with related investment portfolio			
Traditional participating life assurance with DPF	Participating funds	<ul style="list-style-type: none"> <li>• Net neutral except for the insurer's share of participating investment performance</li> <li>• Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Net neutral except for the insurer's share of participating investment performance</li> <li>• Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Investment performance subject to smoothing through dividend declarations</li> </ul>	<ul style="list-style-type: none"> <li>• Impact of persistency on future dividends</li> <li>• Mortality</li> </ul>
	Other participating business	<ul style="list-style-type: none"> <li>• Net neutral except for the insurer's share of participating investment performance</li> <li>• Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Net neutral except for the insurer's share of participating investment performance</li> <li>• Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Investment performance subject to smoothing through dividend declarations</li> </ul>	<ul style="list-style-type: none"> <li>• Impact of persistency on future dividends</li> <li>• Mortality</li> <li>• Morbidity</li> </ul>
Traditional non-participating life assurance		<ul style="list-style-type: none"> <li>• Guarantees</li> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Asset-liability mismatch risk</li> <li>• Credit risk</li> </ul>	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>• Mortality</li> <li>• Persistency</li> <li>• Morbidity</li> </ul>
Accident and health		<ul style="list-style-type: none"> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Credit risk</li> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>• Morbidity</li> <li>• Persistency</li> </ul>
Pension		<ul style="list-style-type: none"> <li>• Net neutral</li> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Net neutral</li> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Performance-related investment management fees</li> </ul>	<ul style="list-style-type: none"> <li>• Persistency</li> </ul>
Unit-linked		<ul style="list-style-type: none"> <li>• Net neutral</li> </ul>	<ul style="list-style-type: none"> <li>• Net neutral</li> </ul>	<ul style="list-style-type: none"> <li>• Performance-related investment management fees</li> </ul>	<ul style="list-style-type: none"> <li>• Persistency</li> <li>• Mortality</li> </ul>
Universal life		<ul style="list-style-type: none"> <li>• Guarantees</li> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Investment performance</li> <li>• Credit risk</li> <li>• Asset-liability mismatch risk</li> </ul>	<ul style="list-style-type: none"> <li>• Spread between earned rate and crediting rate to policyholders</li> </ul>	<ul style="list-style-type: none"> <li>• Mortality</li> <li>• Persistency</li> <li>• Withdrawals</li> </ul>

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

## 25. INSURANCE CONTRACT LIABILITIES (continued)

### Methodology and assumptions (continued)

#### Valuation interest rates

As at 30 November 2016 and 2015, the ranges of applicable valuation interest rates for traditional insurance contracts, which vary by territory, year of issuance and products, within the first 20 years are as follows:

	As at 30 November 2016	As at 30 November 2015
Hong Kong	<b>3.50% – 7.50%</b>	3.50% – 7.50%
Thailand	<b>3.25% – 9.00%</b>	3.25% – 9.00%
Singapore	<b>2.00% – 7.00%</b>	2.00% – 7.00%
Malaysia	<b>3.70% – 5.43%</b>	3.70% – 8.90%
China	<b>2.75% – 7.00%</b>	2.75% – 7.00%
Korea	<b>2.85% – 6.50%</b>	3.08% – 6.50%
Philippines	<b>2.20% – 9.20%</b>	2.20% – 9.20%
Indonesia	<b>3.02% – 9.00%</b>	3.10% – 10.80%
Vietnam	<b>5.07% – 12.25%</b>	5.07% – 12.25%
Australia	<b>3.40% – 7.11%</b>	3.83% – 7.11%
New Zealand	<b>2.97% – 5.75%</b>	3.83% – 5.75%
Taiwan	<b>1.75% – 6.50%</b>	1.75% – 6.50%
Sri Lanka	<b>7.10% – 10.78%</b>	7.95% – 11.00%

## 26. INVESTMENT CONTRACT LIABILITIES

US\$m	Year ended 30 November 2016	Year ended 30 November 2015
<b>At beginning of financial year</b>	<b>7,116</b>	7,937
Effect of foreign exchange movements	<b>(56)</b>	(170)
Investment contract benefits	<b>245</b>	(336)
Fees charged	<b>(138)</b>	(189)
Net withdrawals and other movements	<b>(139)</b>	(126)
<b>At end of financial year<sup>(1)</sup></b>	<b>7,028</b>	7,116

Note:

(1) Of investment contract liabilities, US\$558m (2015: US\$636m) represents deferred fee income.

## 27. EFFECT OF CHANGES IN ASSUMPTIONS AND ESTIMATES

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

US\$m	As at 30 November 2016	As at 30 November 2015
<b>(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax</b>		
0.5 pps increase in investment return	<b>20</b>	18
0.5 pps decrease in investment return	<b>(27)</b>	(17)
10% increase in expenses	<b>(7)</b>	(5)
10% increase in mortality rates	<b>(36)</b>	(27)
10% increase in lapse/discontinuance rates	<b>(22)</b>	(18)

Future policy benefits for traditional life insurance policies (including investment contracts with DPF) are calculated using a net level premium valuation method with reference to best estimate assumptions set at policy inception date unless a deficiency arises on liability adequacy testing. There is not any impact of the above assumption sensitivities on the carrying amount of traditional life insurance liabilities as the sensitivities presented would not have triggered a liability adequacy adjustment. During the years presented there were not any effect of changes in assumptions and estimates on the Group's traditional life products.

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

The impact of changes in assumptions on the valuation of insurance and investment contracts with DPF was US\$20m increase in profit (2015: US\$8m increase).

## 28. BORROWINGS

US\$m	As at 30 November 2016	As at 30 November 2015
Bank and other loans	1	323
Medium term notes	3,459	2,872
<b>Total</b>	<b>3,460</b>	<b>3,195</b>

At 30 November 2016 and 2015, the Group did not have assets pledged as security with respect to amounts disclosed as bank loans above. Interest expense on borrowings is shown in note 9. Further information relating to interest rates and the maturity profile of borrowings is presented in note 36.

The following table summarises the Group's outstanding medium term notes at 30 November 2016:

Issue date	Nominal amount	Interest rate	Tenor
13 March 2013 <sup>(1)</sup>	US\$500m	1.750%	5 years
13 March 2013 <sup>(1)</sup>	US\$500m	3.125%	10 years
11 March 2014 <sup>(1)</sup>	US\$500m	2.250%	5 years
11 March 2014 <sup>(1)</sup>	US\$500m	4.875%	30 years
11 March 2015 <sup>(1)</sup>	US\$750m	3.200%	10 years
16 March 2016 <sup>(1)</sup>	US\$750m	4.500%	30 years

Note:

(1) These medium term notes are listed on The Stock Exchange of Hong Kong Limited.

The net proceeds from issuance during the year ended 30 November 2016 are used for general corporate purposes.

The Group has access to an aggregate of US\$2,050m unsecured committed credit facilities, which includes a US\$300m revolving three-year credit facility expiring in 2019 and a US\$1,750m five-year credit facility expiring in 2021. The credit facilities will be used for general corporate purposes. There were nil outstanding borrowings under these credit facilities as of 30 November 2016 (2015: nil).

## 29. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

The securities related to these agreements are not de-recognised from the Group's consolidated statement of financial position, but are retained within the appropriate financial asset classification. During the term of the repurchase agreements, the Group is restricted from selling or pledging the transferred debt securities. The following table specifies the amounts included within financial investments subject to repurchase agreements which do not qualify for de-recognition at each year end:

US\$m	As at 30 November 2016	As at 30 November 2015
Debt securities – AFS	2,045	2,522
Debt securities – FVTPL	98	677
<b>Total</b>	<b>2,143</b>	<b>3,199</b>

## 29. OBLIGATIONS UNDER REPURCHASE AGREEMENTS (continued)

### Collateral

At 30 November 2016, the Group had pledged debt securities with carrying value of US\$6m (2015: US\$7m). Cash collateral of US\$1m (2015: US\$8m) were held based on the market value of the securities transferred. In the absence of default, the Group does not sell or repledge the debt securities collateral received and they are not recognised in the consolidated statement of financial position.

The Group did not have any securities lending transactions outstanding as at 30 November 2016 and 2015.

At 30 November 2016, the obligations under repurchase agreements were US\$1,984m (2015: US\$3,085m).

## 30. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### Offsetting, enforceable master netting agreements and similar agreements

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

US\$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount	
				Financial instruments	Cash collateral received		
30 November 2016							
Financial assets:							
	Derivative assets	107	–	107	(5)	(6)	96
	Reverse repurchase agreements	224	–	224	(224)	–	–
	<b>Total</b>	<b>331</b>	<b>–</b>	<b>331</b>	<b>(229)</b>	<b>(6)</b>	<b>96</b>

US\$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount	
				Financial instruments	Cash collateral received		
30 November 2015							
Financial assets:							
	Derivative assets	73	–	73	(2)	(8)	63
	Reverse repurchase agreements	155	–	155	(155)	–	–
	<b>Total</b>	<b>228</b>	<b>–</b>	<b>228</b>	<b>(157)</b>	<b>(8)</b>	<b>63</b>



### 30. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

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

US\$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
30 November 2016						
Financial liabilities:						
Derivative liabilities	644	–	644	(440)	(188)	16
Repurchase agreements	1,984	–	1,984	(1,984)	–	–
<b>Total</b>	<b>2,628</b>	<b>–</b>	<b>2,628</b>	<b>(2,424)</b>	<b>(188)</b>	<b>16</b>

US\$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
30 November 2015						
Financial liabilities:						
Derivative liabilities	695	–	695	(439)	(189)	67
Repurchase agreements	3,085	–	3,085	(3,085)	–	–
<b>Total</b>	<b>3,780</b>	<b>–</b>	<b>3,780</b>	<b>(3,524)</b>	<b>(189)</b>	<b>67</b>

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

### 31. PROVISIONS

US\$m	Employee benefits	Other	Total
<b>At 1 December 2014</b>	124	89	213
Charged to the consolidated income statement	8	89	97
Charged to other comprehensive income	12	–	12
Exchange differences	(9)	(4)	(13)
Released during the year	(2)	(5)	(7)
Utilised during the year	(19)	(40)	(59)
Other movements	3	(1)	2
<b>At 30 November 2015</b>	<b>117</b>	<b>128</b>	<b>245</b>
Charged to the consolidated income statement	<b>11</b>	<b>52</b>	<b>63</b>
Charged to other comprehensive income	<b>22</b>	<b>–</b>	<b>22</b>
Released during the year	<b>–</b>	<b>(18)</b>	<b>(18)</b>
Utilised during the year	<b>(3)</b>	<b>(54)</b>	<b>(57)</b>
Other movements	<b>(2)</b>	<b>–</b>	<b>(2)</b>
<b>At 30 November 2016</b>	<b>145</b>	<b>108</b>	<b>253</b>

#### Other provisions

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

### 32. OTHER LIABILITIES

US\$m	As at 30 November 2016	As at 30 November 2015
Trade and other payables	<b>2,980</b>	3,032
Third-party interests in consolidated investment funds	<b>1,239</b>	1,214
Reinsurance payables	<b>504</b>	411
<b>Total</b>	<b>4,723</b>	4,657

Third-party interests in consolidated investment funds consist of third-party unit holders' interests in consolidated investment funds which are reflected as a liability since they can be put back to the Group for cash.

Trade and other payables are generally expected to be settled within 12 months after the end of the reporting period. The realisation of third-party interests in investment funds cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds held to back insurance and investment contract liabilities and are subject to market risk and the actions of third-party investors.

### 33. SHARE CAPITAL AND RESERVES

#### Share capital

	As at 30 November 2016		As at 30 November 2015	
	Million shares	US\$m	Million shares	US\$m
<b>At beginning of the financial year</b>	<b>12,048</b>	<b>13,971</b>	12,045	13,962
Shares issued under share option scheme and agency share purchase plan	<b>8</b>	<b>27</b>	3	9
<b>At end of the financial year</b>	<b>12,056</b>	<b>13,998</b>	12,048	13,971

The Company issued 7,174,665 shares under share option scheme (2015: 2,190,404 shares) and 927,042 shares under agency share purchase plan (2015: 1,041,690 shares) during the year ended 30 November 2016.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the year ended 30 November 2016 with the exception of 16,849,376 shares (2015: 16,867,524 shares) of the Company purchased by and 276,401 shares (2015: 204,295 shares) of the Company sold by the employee share-based trusts. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

During the year ended 30 November 2016, 13,664,506 shares (2015: 14,734,751 shares) were transferred to eligible directors, officers and employees of the Group from the employee share-based trusts under share-based compensation plans as a result of vesting. As at 30 November 2016, 78,056,013 shares (2015: 75,147,538 shares) of the Company were held by the employee share-based trusts.

#### Reserves

##### Fair value reserve

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

##### Foreign currency translation reserve

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

##### Employee share-based trusts

Trusts have been established to acquire shares of the Company for distribution to participants in future periods through the share-based compensation plans. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts".

##### Property revaluation reserve

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

##### Other reserves

Other reserves mainly include the impact of merger accounting for business combinations under common control and share-based compensation.

### 34. NON-CONTROLLING INTERESTS

US\$m	As at 30 November 2016	As at 30 November 2015 (As adjusted)
Equity shares in subsidiaries	<b>59</b>	59
Share of earnings	<b>257</b>	221
Share of other reserves	<b>10</b>	23
<b>Total</b>	<b>326</b>	303

### 35. GROUP CAPITAL STRUCTURE

#### Capital Management Approach

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

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

#### Regulatory Solvency

The Group is in compliance with the solvency and capital adequacy requirements applied by its regulators. The Group's primary insurance regulator at the AIA Company Limited (AIA Co.) and AIA International Limited (AIA International) levels is the Hong Kong Office of the Commissioner of Insurance (HKOCI), which requires that AIA Co. and AIA International meet the solvency margin requirements of the Hong Kong Insurance Companies Ordinance (HKICO). The HKICO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. AIA has given a revised undertaking to the HKOCI to maintain an excess of assets over liabilities for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement (previously 150%) in each of AIA Co. and AIA International. For clarity there is no change in the undertaking in respect of the Hong Kong business or the Hong Kong statutory minimum solvency margin requirement for AIA.

The capital positions of the Group's two principal operating companies as of 30 November 2016 and 2015 are as follows:

US\$m	30 November 2016			30 November 2015		
	Total available capital	Regulatory minimum capital	Solvency ratio	Total available capital	Regulatory minimum capital	Solvency ratio
AIA Co.	<b>6,699</b>	<b>1,659</b>	<b>404%</b>	6,761	1,579	428%
AIA International	<b>6,237</b>	<b>2,072</b>	<b>301%</b>	6,388	1,794	356%

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

The Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries and their parent entity operate and, in relation to subsidiaries, in which they are incorporated. The various regulators overseeing the Group actively monitor our local solvency positions. AIA Co. and AIA International submit annual filings to the HKOCI of their solvency margin position based on their annual audited financial statements, and the Group's other operating units perform similar annual filings with their respective local regulators.

### **35. GROUP CAPITAL STRUCTURE** (continued)

#### **Regulatory Solvency** (continued)

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

#### **Capital and Regulatory Orders Specific to the Group**

As of 30 November 2016, the requirements and restrictions summarised below may be considered material to the Group and remain in effect unless otherwise stated.

#### **Hong Kong Office of the Commissioner of Insurance**

AIA Group Limited has given to the Insurance Authority an undertaking that AIA Group Limited will:

- (i) ensure that (a) each of AIA Co. and AIA International will at all times maintain an excess of assets over liabilities of not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of the Hong Kong branch and no less than 100% of the Hong Kong statutory minimum solvency margin requirement (previously 150%) for branches other than Hong Kong (“minimum amount”); (b) it will not withdraw capital or transfer any funds or assets out of AIA Co. or AIA International that will cause the solvency ratio to fall below the minimum amounts specified in (a), except with, in either case, the prior written consent of the Insurance Authority; and (c) should the solvency ratio of either AIA Co. or AIA International fall below the respective minimum amounts, AIA Group Limited will take steps as soon as possible to restore it to at least the respective minimum amounts in a manner acceptable to the Insurance Authority;
- (ii) notify the Insurance Authority in writing as soon as the Company becomes aware of any person (a) becoming a controller (within the meaning of Section 9(1)(c)(ii) of the HKICO) of AIA Co. and AIA International through the acquisition of our shares traded on the HKSE; or (b) ceasing to be a controller (within the meaning of Section 9(1)(c)(ii) of the HKICO) of AIA Co. and AIA International through the disposal of our shares traded on the HKSE;
- (iii) be subject to the supervision of the Insurance Authority and AIA Group Limited will be required to continually comply with the Insurance Authority’s guidance on the “fit and proper” standards of a controller pursuant to Section 8(2) of the HKICO. The Insurance Authority is empowered by the HKICO to raise objection if it appears to it that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company’s financial resources; the viability of a holding company’s business plan for its insurance subsidiaries which are regulated by the Insurance Authority; the clarity of the Group’s legal, managerial and operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors or controllers is subject to receivership, administration, liquidation or other similar proceedings or failed to satisfy any judgement debt under a court order or the subject of any criminal convictions or in breach of any statutory or regulatory requirements; the soundness of the Group’s corporate governance; the soundness of the Group’s risk management framework; the receipt of information from its insurance subsidiaries which are regulated by the Insurance Authority to ensure that they are managed in compliance with applicable laws, rules and regulation; and its role in overseeing and managing the operations of its insurance subsidiaries which are regulated by the Insurance Authority; and
- (iv) fulfil all enhancements or improvements to the guidance referred to in subparagraph (iii) above, as well as administrative measures issued from time to time by the Insurance Authority or requirements that may be prescribed by the Insurance Authority in accordance with the HKICO, regulations under the HKICO or guidance notes issued by the Insurance Authority from time to time.

## **36. RISK MANAGEMENT**

### **Risk management framework**

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

### **Insurance risk**

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

### **Lapse**

The rate of policy termination deviating from the Group's expectation.

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

### **Expense**

The risk of the cost of selling new business and of administering the in-force book exceeding the assumptions made in pricing.

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

### **Morbidity and Mortality**

The occurrence and/or amounts of medical/death claims are higher than the assumptions made in pricing or reserving.

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

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

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

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

## **36. RISK MANAGEMENT** (continued)

### **Investment and financial risks**

#### **Credit risk**

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

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

#### **Interest rate risk**

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

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

### 36. RISK MANAGEMENT (continued)

#### Investment and financial risks (continued)

##### Exposure to interest rate risk

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

US\$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 2016				
Financial assets				
Loans and deposits	1,108	5,929	25	7,062
Other receivables	164	–	1,569	1,733
Debt securities	7,342	106,276	–	113,618
Equity securities	–	–	30,211	30,211
Reinsurance receivables	–	–	335	335
Accrued investment income	–	–	1,383	1,383
Cash and cash equivalents	1,456	–	186	1,642
Derivative financial instruments	–	–	107	107
<b>Total financial assets</b>	<b>10,070</b>	<b>112,205</b>	<b>33,816</b>	<b>156,091</b>
Financial liabilities				
Investment contract liabilities	–	–	7,028	7,028
Borrowings	–	3,459	1	3,460
Obligations under repurchase agreements	1,984	–	–	1,984
Other liabilities	–	–	4,723	4,723
Derivative financial instruments	–	–	644	644
<b>Total financial liabilities</b>	<b>1,984</b>	<b>3,459</b>	<b>12,396</b>	<b>17,839</b>



### 36. RISK MANAGEMENT (continued)

#### Investment and financial risks (continued)

##### Exposure to interest rate risk (continued)

US\$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 2015				
Financial assets				
Loans and deposits	1,009	6,170	32	7,211
Other receivables	183	–	1,458	1,641
Debt securities	7,680	96,960	–	104,640
Equity securities	–	–	27,159	27,159
Reinsurance receivables	–	–	257	257
Accrued investment income	–	–	1,350	1,350
Cash and cash equivalents	1,826	–	166	1,992
Derivative financial instruments	–	–	73	73
<b>Total financial assets</b>	<b>10,698</b>	<b>103,130</b>	<b>30,495</b>	<b>144,323</b>
Financial liabilities				
Investment contract liabilities	–	–	7,116	7,116
Borrowings	472	2,723	–	3,195
Obligations under repurchase agreements	3,085	–	–	3,085
Other liabilities	15	–	4,642	4,657
Derivative financial instruments	–	–	695	695
<b>Total financial liabilities</b>	<b>3,572</b>	<b>2,723</b>	<b>12,453</b>	<b>18,748</b>

##### Equity price risk

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

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

### 36. RISK MANAGEMENT (continued)

#### Investment and financial risks (continued)

##### Equity price risk (continued)

##### Sensitivity analysis

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in note 27. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices, the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support unit-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholders' participation ratios described in note 2.

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

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

	30 November 2016			30 November 2015		
	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)	Impact on profit before tax <sup>(1)</sup>	Impact on total equity (before the effects of taxation) <sup>(1)</sup>	Impact on allocated equity (before the effects of taxation)
US\$m						
<b>Equity price risk</b>						
10 per cent increase in equity prices	<b>995</b>	<b>995</b>	<b>995</b>	792	792	792
10 per cent decrease in equity prices	<b>(995)</b>	<b>(995)</b>	<b>(995)</b>	(792)	(792)	(792)
<b>Interest rate risk</b>						
+ 50 basis points shift in yield curves	<b>(204)</b>	<b>(4,699)</b>	<b>(204)</b>	(123)	(3,937)	(123)
- 50 basis points shift in yield curves	<b>219</b>	<b>5,179</b>	<b>219</b>	135	4,315	135

Note:

(1) Impact on profit before tax and total equity (before the effects of taxation) of interest rate risk have been adjusted to conform to the current year basis.

### 36. RISK MANAGEMENT (continued)

#### Investment and financial risks (continued)

##### Foreign exchange rate risk

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

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

##### Foreign exchange rate net exposure

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
30 November 2016						
Equity analysed by original currency	20,429	2,208	2,902	(2,786)	1,939	4,098
Net notional amounts of currency derivative positions	(7,104)	601	2,010	2,861	(187)	(122)
<b>Currency exposure</b>	<b>13,325</b>	<b>2,809</b>	<b>4,912</b>	<b>75</b>	<b>1,752</b>	<b>3,976</b>
<b>5% strengthening of original currency</b>						
Impact on profit before tax	169	11	(7)	35	(6)	14
Impact on other comprehensive income	(184)	99	252	(31)	94	185
<b>Impact on total equity</b>	<b>(15)</b>	<b>110</b>	<b>245</b>	<b>4</b>	<b>88</b>	<b>199</b>
<b>5% strengthening of the US dollar</b>						
Impact on profit before tax	169	21	(6)	(20)	7	(10)
Impact on other comprehensive income	(184)	(131)	(239)	16	(95)	(189)
<b>Impact on total equity</b>	<b>(15)</b>	<b>(110)</b>	<b>(245)</b>	<b>(4)</b>	<b>(88)</b>	<b>(199)</b>
US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
30 November 2015 – As adjusted						
Equity analysed by original currency	18,958	2,070	2,281	(2,789)	1,913	3,539
Net notional amounts of currency derivative positions	(6,617)	601	1,818	2,698	(177)	(21)
<b>Currency exposure</b>	<b>12,341</b>	<b>2,671</b>	<b>4,099</b>	<b>(91)</b>	<b>1,736</b>	<b>3,518</b>
<b>5% strengthening of original currency</b>						
Impact on profit before tax	134	10	5	25	(7)	21
Impact on other comprehensive income	(157)	98	200	(30)	94	155
<b>Impact on total equity</b>	<b>(23)</b>	<b>108</b>	<b>205</b>	<b>(5)</b>	<b>87</b>	<b>176</b>
<b>5% strengthening of the US dollar</b>						
Impact on profit before tax	134	24	(4)	(10)	9	(15)
Impact on other comprehensive income	(157)	(132)	(201)	15	(96)	(161)
<b>Impact on total equity</b>	<b>(23)</b>	<b>(108)</b>	<b>(205)</b>	<b>5</b>	<b>(87)</b>	<b>(176)</b>

### 36. RISK MANAGEMENT (continued)

#### Investment and financial risks (continued)

##### Liquidity risk

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

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

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

US\$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
30 November 2016						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	6,866	818	1,095	298	2,204	2,451
Other receivables	1,676	1,558	78	6	–	34
Debt securities	109,162	3,098	16,341	28,291	61,432	–
Equity securities	14,713	–	–	–	–	14,713
Reinsurance receivables	335	335	–	–	–	–
Accrued investment income	1,341	1,333	1	–	–	7
Cash and cash equivalents	1,137	1,137	–	–	–	–
Derivative financial instruments	104	53	12	26	13	–
<b>Subtotal</b>	<b>135,334</b>	<b>8,332</b>	<b>17,527</b>	<b>28,621</b>	<b>63,649</b>	<b>17,205</b>
Financial assets (Unit-linked contracts and consolidated investment funds)	20,757	–	–	–	–	20,757
<b>Total</b>	<b>156,091</b>	<b>8,332</b>	<b>17,527</b>	<b>28,621</b>	<b>63,649</b>	<b>37,962</b>
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)						
	95,007	2,725	9,799	10,529	71,954	–
Borrowings	3,460	–	998 <sup>(1)</sup>	1,241	1,221	–
Obligations under repurchase agreements	1,984	1,984	–	–	–	–
Other liabilities	3,379	2,354	47	2	13	963
Derivative financial instruments	642	93	208	313	28	–
<b>Subtotal</b>	<b>104,472</b>	<b>7,156</b>	<b>11,052</b>	<b>12,085</b>	<b>73,216</b>	<b>963</b>
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	20,743	–	–	–	–	20,743
<b>Total</b>	<b>125,215</b>	<b>7,156</b>	<b>11,052</b>	<b>12,085</b>	<b>73,216</b>	<b>21,706</b>

Note:

(1) Includes amounts of US\$498m falling due after 2 years through 5 years.

### 36. RISK MANAGEMENT (continued)

#### Investment and financial risks (continued)

##### Liquidity risk (continued)

US\$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
30 November 2015 – As adjusted						
Financial assets (Policyholders and shareholder investments)						
Loans and deposits	7,000	784	1,344	445	2,112	2,315
Other receivables	1,613	1,511	48	2	1	51
Debt securities	100,458	3,369	14,869	27,174	55,046	–
Equity securities	12,211	–	–	–	–	12,211
Reinsurance receivables	257	257	–	–	–	–
Accrued investment income	1,309	1,300	1	–	–	8
Cash and cash equivalents	1,542	1,542	–	–	–	–
Derivative financial instruments	70	41	22	6	1	–
<b>Subtotal</b>	<b>124,460</b>	<b>8,804</b>	<b>16,284</b>	<b>27,627</b>	<b>57,160</b>	<b>14,585</b>
Financial assets (Unit-linked contracts and consolidated investment funds)	19,863	–	–	–	–	19,863
<b>Total</b>	<b>144,323</b>	<b>8,804</b>	<b>16,284</b>	<b>27,627</b>	<b>57,160</b>	<b>34,448</b>
Financial and insurance contract liabilities (Policyholders and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)						
	85,996	2,643	9,439	10,432	63,482	–
Borrowings	3,195	150	1,318 <sup>(2)</sup>	1,240	487	–
Obligations under repurchase agreements	3,085	3,085	–	–	–	–
Other liabilities	3,320	2,399	32	2	21	866
Derivative financial instruments	695	28	259	398	10	–
<b>Subtotal</b>	<b>96,291</b>	<b>8,305</b>	<b>11,048</b>	<b>12,072</b>	<b>64,000</b>	<b>866</b>
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	19,849	–	–	–	–	19,849
<b>Total</b>	<b>116,140</b>	<b>8,305</b>	<b>11,048</b>	<b>12,072</b>	<b>64,000</b>	<b>20,715</b>

##### Notes:

(1) The presentation of the above table has been adjusted to conform to current year presentation.

(2) Includes amounts of US\$995m falling due after 2 years through 5 years.

## **37. EMPLOYEE BENEFITS**

### **Defined benefit plans**

The Group operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong, Singapore, Malaysia, Thailand, Taiwan, Indonesia, Korea, the Philippines, Sri Lanka and Vietnam. The latest independent actuarial valuations of the plans were at 30 November 2016 and were prepared by credentialed actuaries. All the actuaries are qualified members of professional actuarial organisations to render the actuarial opinions. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 33 per cent (2015: 41 per cent) covered by the plan assets held by the trustees. The fair value of plan assets as at year end at the date of valuation was US\$62m (2015: US\$63m). The total expenses relating to these plans recognised in the consolidated income statement was US\$11m (2015: US\$8m).

### **Defined contribution plans**

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was US\$67m (2015: US\$60m). Employees and the employer are required to make monthly contributions equal to 1 per cent to 22 per cent of the employees' monthly basic salaries, depending on years of service and subject to any applicable caps of monthly relevant income in different jurisdictions. For defined contribution pension plans with vesting conditions, any forfeited contributions by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions are used by the employer to reduce any future contributions. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

## **38. SHARE-BASED COMPENSATION**

### **Share-based compensation plans**

During the year ended 30 November 2016, the Group made further awards of share options, restricted share units (RSUs) and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Group under the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme) and the Employee Share Purchase Plan (ESPP). In addition, the Group made further awards of restricted stock subscription units (RSSUs) to eligible agents under the Agency Share Purchase Plan (ASPP).

### **RSU Scheme**

Under the RSU Scheme, the vesting of the awarded RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. RSU awards are vested either entirely after a specific period of time or in tranches over the vesting period. For RSU awards that are vested in tranches, each vesting tranche is accounted for as a separate award for the 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 participants at the end of the vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares. Except in jurisdictions where restrictions apply, the awarded RSUs are expected to be settled in equity; awards that the Group has the legal or constructive obligation to settle in cash are insignificant to the Group. The maximum number of shares that can be awarded under this scheme is 301,100,000 (2015: 301,100,000), representing approximately 2.5 per cent (2015: 2.5 per cent) of the number of shares in issue at 30 November 2016.

### 38. SHARE-BASED COMPENSATION (continued)

#### Share-based compensation plans (continued)

##### RSU Scheme (continued)

	Year ended 30 November 2016	Year ended 30 November 2015
Number of shares		
<b>Restricted Share Units</b>		
Outstanding at beginning of financial year	<b>53,650,778</b>	58,590,419
Awarded	<b>18,964,022</b>	17,933,566
Forfeited	<b>(10,150,721)</b>	(8,785,462)
Vested	<b>(13,126,777)</b>	(14,087,745)
Outstanding at end of financial year	<b>49,337,302</b>	53,650,778

##### SO Scheme

The objectives of the SO Scheme are to align eligible participants' interests with those of the shareholders of the Company by allowing eligible participants to share in the value created at the point they exercise their options. Share option (SO) awards are vested either entirely after a specific period of time or in tranches over the vesting period approximately three to five years, during which, the eligible participants are required to remain in employment with the Group. For SO awards vested in tranches, each vesting tranche is accounted for as a separate award for the purposes of recognising the expense over the vesting period. The awarded share options expire 10 years from the date of grant and each share option entitles the eligible participant to subscribe for one ordinary share. Except in jurisdictions where restrictions apply, the awarded share options are expected to be settled in equity; awards that the Group has the legal or constructive obligation to settle in cash are insignificant to the Group. The total number of shares under options that can be awarded under the scheme is 301,100,000 (2015: 301,100,000), representing approximately 2.5 per cent (2015: 2.5 per cent) of the number of shares in issue at 30 November 2016.

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

	Year ended 30 November 2016		Year ended 30 November 2015	
	Number of share options	Weighted average exercise price (HK\$)	Number of share options	Weighted average exercise price (HK\$)
<b>Share options</b>				
Outstanding at beginning of financial year	<b>40,458,104</b>	<b>33.29</b>	37,105,919	30.67
Awarded	<b>9,550,232</b>	<b>41.90</b>	5,937,871	47.73
Exercised	<b>(7,174,665)</b>	<b>28.58</b>	(2,190,404)	27.68
Forfeited or expired	<b>(1,252,638)</b>	<b>39.91</b>	(395,282)	35.48
Outstanding at end of financial year	<b>41,581,033</b>	<b>35.88</b>	40,458,104	33.29
Share options exercisable at end of financial year	<b>20,592,646</b>	<b>29.44</b>	17,817,979	27.71

At the date the share option was exercised, the weighted average share price of the Company was HK\$49.43 for the year ended 30 November 2016 (2015: HK\$48.32).

### 38. SHARE-BASED COMPENSATION (continued)

#### Share-based compensation plans (continued)

##### SO Scheme (continued)

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

	Year ended 30 November 2016		Year ended 30 November 2015	
	Number of share options outstanding	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
<b>Range of exercise price</b>				
HK\$26 – HK\$35	<b>20,575,507</b>	<b>5.14</b>	28,008,527	6.09
HK\$36 – HK\$45	<b>15,489,143</b>	<b>8.48</b>	6,550,428	8.27
HK\$46 – HK\$55	<b>5,516,383</b>	<b>8.28</b>	5,899,149	9.28
Outstanding at end of financial year	<b>41,581,033</b>	<b>6.80</b>	40,458,104	6.91

##### ESPP

Under the plan, eligible employees of the Group can purchase ordinary shares of the Company with qualified employee contributions and the Company will award one matching restricted stock purchase unit to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the Group. The level of qualified employee contribution is limited to not more than 8 per cent of the annual basic salary subject to a maximum of HK\$117,000 per annum. The awarded matching restricted stock purchase units are expected to be settled in equity. For the year ended 30 November 2016, eligible employees paid US\$14m (2015: US\$12m) to purchase 2,436,497 ordinary shares (2015: 1,962,088 ordinary shares) of the Company.

##### ASPP

The structure of the ASPP generally follows that of the ESPP, the key difference being that the eligible agents are required to pay a subscription price of US\$1 to subscribe for each new share in the Company at the end of the vesting period. Under the plan, eligible agents of the Group can purchase ordinary shares of the Company with qualified agent contributions and the Company will award one matching restricted stock subscription unit to them at the end of the vesting period for each two shares purchased through the qualified agent contributions (agent contribution shares). Each restricted stock subscription unit entitles eligible agents to subscribe for one new share of the Company. Agent contribution shares are purchased from the open market. During the vesting period, the eligible agents must hold the contribution shares purchased during the plan cycle and maintain their agent contracts with the Group. The awarded matching restricted stock subscription units are expected to be settled in equity. The level of qualified agent contribution is subject to a maximum of US\$15,000 per annum. For the year ended 30 November 2016, eligible agents paid US\$17m (2015: US\$14m) to purchase 2,792,549 ordinary shares (2015: 2,361,838 ordinary shares) of the Company.

##### Valuation methodology

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



### 38. SHARE-BASED COMPENSATION (continued)

#### Valuation methodology (continued)

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

	Year ended 30 November 2016			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
<b>Assumptions</b>				
Risk-free interest rate	1.25%	0.50% – 0.74%*	0.47% – 0.88%	0.91%
Volatility	20%	20%	20%	20%
Dividend yield	1.8%	1.8%	1.2% – 1.8%	1.8%
Exercise price (HK\$)	41.90	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	8.03	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK\$)	7.74	34.35	44.20	34.92
	Year ended 30 November 2015			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
<b>Assumptions</b>				
Risk-free interest rate	1.61%	0.56% – 0.80%*	0.44% – 0.90%	0.85%
Volatility	20%	20%	20% – 25%	20%
Dividend yield	1.2%	1.2%	1.2%	1.2%
Exercise price (HK\$)	47.73	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.94	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK\$)	10.15	39.27	41.67	35.98

\* Applicable to RSU with market conditions.

The weighted average share price for share option valuation for awards made during the year ended 30 November 2016 is HK\$41.60 (2015: HK\$47.15). The total fair value of share options awarded during the year ended 30 November 2016 is US\$10m (2015: US\$8m).

#### Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards made under the RSU Scheme, SO Scheme, ESPP and ASPP by the Group for the year ended 30 November 2016 is US\$84m (2015: US\$79m).

### 39. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

#### Directors' remuneration

The Executive Director receives compensation in the form of salaries, bonuses, contributions to pension schemes, long-term incentives, housing and other allowances, and benefits in kind subject to applicable laws, rules and regulations. Bonuses and long-term incentives represent the variable components in the Executive Director's compensation and are linked to the performance of the Group and the Executive Director. Details of share-based payment schemes are described in note 38.

US\$	Director's fees	Salaries, allowances and benefits in kind <sup>(1)</sup>	Bonuses	Share-based payments <sup>(2)</sup>	Pension scheme contribution	Other benefits	Inducement fees	Total
Year ended 30 November 2016								
<i>Executive Director</i>								
	–	2,212,482	4,636,000	8,107,671	137,417	–	–	15,093,570
	<b>–</b>	<b>2,212,482</b>	<b>4,636,000</b>	<b>8,107,671</b>	<b>137,417</b>	<b>–</b>	<b>–</b>	<b>15,093,570</b>

Notes:

- (1) It includes non-cash benefits for housing, medical and life insurance, children's education, club and professional membership, company car and perquisites.
- (2) Include SOs and RSUs awarded based upon the fair value at grant date assuming maximum performance levels are achieved.
- (3) Mr. Mark Edward Tucker receives his remuneration exclusively for his role as Group Chief Executive and President and receives no separate fees for his role as director of the Company or for acting as a director of any subsidiary of the Company.

US\$	Director's fees	Salaries, allowances and benefits in kind <sup>(1)</sup>	Bonuses	Share-based payments <sup>(2)</sup>	Pension scheme contribution	Other benefits	Inducement fees	Total
Year ended 30 November 2015								
<i>Executive Director</i>								
	–	2,130,577	4,414,600	8,343,876	105,833	–	–	14,994,886
	<b>–</b>	<b>2,130,577</b>	<b>4,414,600</b>	<b>8,343,876</b>	<b>105,833</b>	<b>–</b>	<b>–</b>	<b>14,994,886</b>

Notes:

- (1) It includes non-cash benefits for housing, medical and life insurance, children's education, club and professional membership, company car and perquisites.
- (2) Include SOs and RSUs awarded based upon the fair value at grant date assuming maximum performance levels are achieved.
- (3) Mr. Mark Edward Tucker receives his remuneration exclusively for his role as Group Chief Executive and President and receives no separate fees for his role as director of the Company or for acting as a director of any subsidiary of the Company.

### 39. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

#### Directors' remuneration (continued)

The remuneration of Non-executive Director and Independent Non-executive Directors of the Company at 30 November 2016 and 2015 are included in the tables below:

US\$	Director's fees <sup>(1)</sup>	Salaries, allowances and benefits in kind <sup>(2)</sup>	Bonuses	Share-based payments	Pension scheme contribution	Other benefits	Inducement fees	Total
Year ended 30 November 2016								
<i>Non-executive Director</i>								
Mr. Edmund Sze-Wing Tse	<b>571,230</b>	<b>97,289</b>	-	-	-	-	-	<b>668,519</b>
<i>Independent Non-executive Directors</i>								
Mr. Jack Chak-Kwong So	<b>260,000</b>	-	-	-	-	-	-	<b>260,000</b>
Mr. Chung-Kong Chow	<b>220,000</b>	-	-	-	-	-	-	<b>220,000</b>
Mr. John Barrie Harrison	<b>260,000</b>	-	-	-	-	-	-	<b>260,000</b>
Mr. George Yong-Boon Yeo	<b>245,000</b>	-	-	-	-	-	-	<b>245,000</b>
Mr. Mohamed Azman Yahya	<b>205,000</b>	-	-	-	-	-	-	<b>205,000</b>
Professor Lawrence Juen-Yee Lau	<b>205,000</b>	-	-	-	-	-	-	<b>205,000</b>
Ms. Swee-Lian Teo	<b>205,000</b>	-	-	-	-	-	-	<b>205,000</b>
Dr. Narongchai Akrasanee <sup>(3)</sup>	<b>188,566</b>	-	-	-	-	-	-	<b>188,566</b>
<b>Total</b>	<b>2,359,796</b>	<b>97,289</b>	-	-	-	-	-	<b>2,457,085</b>

Notes:

- (1) All the directors receive the fees for their role as a director of the Company and not for acting as a director of any subsidiary of the Company.
- (2) It includes non-cash benefits for housing, club membership and medical insurance and company car.
- (3) Dr. Narongchai Akrasanee was appointed as Independent Non-executive Director of the Company on 15 January 2016.

### 39. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

#### Directors' remuneration (continued)

US\$	Director's fees <sup>(1)</sup>	Salaries, allowances and benefits in kind <sup>(2)</sup>	Bonuses	Share-based payments	Pension scheme contribution	Other benefits	Inducement fees	Total
Year ended 30 November 2015								
<i>Non-executive Director</i>								
Mr. Edmund Sze-Wing Tse <sup>(3)</sup>	573,388	95,383	–	–	–	–	–	668,771
<i>Independent Non-executive Directors</i>								
Mr. Jack Chak-Kwong So	220,000	–	–	–	–	–	–	220,000
Mr. Chung-Kong Chow	205,000	–	–	–	–	–	–	205,000
Mr. John Barrie Harrison	235,000	–	–	–	–	–	–	235,000
Mr. George Yong-Boon Yeo	210,000	–	–	–	–	–	–	210,000
Mr. Mohamed Azman Yahya	185,000	–	–	–	–	–	–	185,000
Professor Lawrence Juen-Yee Lau	190,000	–	–	–	–	–	–	190,000
Ms. Swee-Lian Teo <sup>(4)</sup>	56,740	–	–	–	–	–	–	56,740
<b>Total</b>	<b>1,875,128</b>	<b>95,383</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,970,511</b>

#### Notes:

- (1) Save as disclosed below, all the directors receive the fees for their role as a director of the Company and not for acting as a director of any subsidiary of the Company.
- (2) It includes non-cash benefits for housing, club membership, medical insurance and company car.
- (3) US\$22,388 which represents remuneration to Mr. Edmund Sze-Wing Tse in respect of his services as director of a subsidiary of the Company is included in his fees.
- (4) Ms. Swee-Lian Teo was appointed as Independent Non-executive Director of the Company on 14 August 2015.

#### Remuneration of five highest-paid individuals

The aggregate remuneration of the five highest-paid individuals employed by the Group in each of the years ended 30 November 2016 and 2015 is presented in the table below.

US\$	Director's fees	Salaries, allowances and benefits in kind <sup>(1)</sup>	Bonuses	Share-based payments <sup>(2)</sup>	Pension scheme contribution	Other benefits	Inducement fees	Total
<b>Year ended</b>								
<b>30 November 2016</b>	<b>– 6,148,230</b>	<b>10,114,000</b>	<b>15,870,944</b>	<b>299,748</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>32,432,922</b>
30 November 2015	– 7,214,483	8,937,600	16,712,069	262,242	–	–	–	33,126,394

#### Notes:

- (1) 2016 and 2015 non-cash benefits include housing, medical and life insurance, medical check-up, children's education, club and professional membership, company car and perquisites.
- (2) Include SOs and RSUs awarded to the five highest-paid individuals based upon the fair value at grant date assuming maximum performance levels are achieved.

### 39. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

#### Remuneration of five highest-paid individuals (continued)

The emoluments of the five individuals with the highest emoluments are within the following bands:

HK\$	Year ended 30 November 2016	Year ended 30 November 2015
28,000,001 to 28,500,000	–	1
30,000,001 to 30,500,000	1	–
33,000,001 to 33,500,000	1	–
33,500,001 to 34,000,000	–	1
34,500,001 to 35,000,000	1	–
36,000,001 to 36,500,000	1	–
38,000,001 to 38,500,000	–	1
40,000,001 to 40,500,000	–	1
116,000,001 to 116,500,000	–	1
117,000,001 to 117,500,000	1	–

#### Key management personnel remuneration

Key management personnel have been identified as the members of the Group's Executive Committee.

US\$	Year ended 30 November 2016	Year ended 30 November 2015
<b>Key management compensation and other expenses</b>		
Salaries and other short-term employee benefits	<b>26,994,421</b>	25,821,543
Post-employment benefits – defined contribution	<b>568,687</b>	501,124
Share-based payments <sup>(1)</sup>	<b>21,144,940</b>	23,076,292
<b>Total</b>	<b>48,708,048</b>	49,398,959

Note:

(1) Include SOs and RSUs awarded to the key management personnel based upon the fair value at grant date assuming maximum performance levels are achieved.

The emoluments of the key management personnel are within the following bands:

US\$	Year ended 30 November 2016	Year ended 30 November 2015
Below 1,000,000	2	1
1,000,001 to 2,000,000	1	4
2,000,001 to 3,000,000	3	2
3,000,001 to 4,000,000	3	2
4,000,001 to 5,000,000	3	2
5,000,001 to 6,000,000	–	1
Over 7,000,000	1	1

#### 40. RELATED PARTY TRANSACTIONS

Remuneration of directors and key management personnel is disclosed in note 39.

#### 41. COMMITMENTS AND CONTINGENCIES

##### Commitments under operating leases

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

US\$m	As at 30 November 2016	As at 30 November 2015
<b>Properties and others expiring</b>		
Not later than one year	<b>120</b>	97
Later than one and not later than five years	<b>178</b>	121
Later than five years	<b>94</b>	42
<b>Total</b>	<b>392</b>	260

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

##### Investment and capital commitments

US\$m	As at 30 November 2016	As at 30 November 2015
Not later than one year	<b>682</b>	523
Later than one and not later than five years	<b>10</b>	3
<b>Total</b>	<b>692</b>	526

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

##### Contingencies

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

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

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. The Group is exposed to the risk of losses in the event of the failure of the retrocessionaire, a subsidiary of American International Group, Inc., to honour its outstanding obligations which is mitigated by a trust agreement. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US\$616m at 30 November 2016 (2015: US\$684m). The liabilities and related reinsurance assets, which totalled US\$3m (2015: US\$4m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

## 42. SUBSIDIARIES

The principal subsidiary companies which materially contribute to the net income of the Group or hold a material element of its assets and liabilities are:

Name of entity	Place of incorporation and operation	Principal activity	Issued share capital	As at 30 November 2016		As at 30 November 2015	
				Group's interest %	NCI's interest %	Group's interest %	NCI's interest %
AIA Company Limited <sup>(1)</sup>	Hong Kong	Insurance	1,151,049,861 ordinary shares for US\$5,962,084,000 issued share capital	100%	–	100%	–
AIA International Limited	Bermuda	Insurance	3,000,000 ordinary shares of US\$1.20 each	100%	–	100%	–
AIA Australia Limited	Australia	Insurance	112,068,300 ordinary shares of A\$193,872,800 issued share capital	100%	–	100%	–
AIA Pension and Trustee Co. Ltd.	British Virgin Islands	Trusteeship	19,500,000 ordinary shares of US\$1 each	100%	–	100%	–
AIA Bhd.	Malaysia	Insurance	767,438,174 ordinary shares of RM1 each	100%	–	100%	–
AIA Singapore Private Limited	Singapore	Insurance	1,374,000,001 ordinary shares of S\$1 each	100%	–	100%	–
PT. AIA Financial	Indonesia	Insurance	477,711,032 ordinary shares of Rp1,000 each	100%	–	100%	–
The Philippine American Life and General Insurance (PHILAM LIFE) Company	Philippines	Insurance	199,560,671 ordinary shares of PHP10 each and 439,329 treasury shares	100%	–	100%	–
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND1,264,300,000,000	100%	–	100%	–
AIA Insurance Lanka PLC	Sri Lanka	Insurance	Contributed capital of LKR511,921,836	97.16%	2.84%	97.16%	2.84%
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 ordinary shares of US\$1 each	90%	10%	90%	10%
BPI-Philam Life Assurance Corporation	Philippines	Insurance	749,993,979 ordinary shares of PHP1 each and 6,000 treasury shares	51%	49%	51%	49%
AIA Reinsurance Limited	Bermuda	Reinsurance	250,000 common shares of US\$1 each	100%	–	100%	–

Notes:

(1) The Company's subsidiary.

(2) All of the above subsidiaries are audited by PricewaterhouseCoopers.

All subsidiaries are unlisted except AIA Insurance Lanka PLC which is listed on the Main Board of the Colombo Stock Exchange.

### 43. CHANGE IN GROUP COMPOSITION

On 25 April 2016, the Group increased its shareholding of Tata AIA Life Insurance Company Limited from 26 per cent to 49 per cent.

### 44. EVENTS AFTER THE REPORTING PERIOD

On 24 February 2017, a Committee appointed by the Board of Directors proposed a final dividend of 63.75 Hong Kong cents per share (2015: 51.00 Hong Kong cents per share).

### 45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

US\$m	As at 30 November 2016	As at 30 November 2015
<b>Assets</b>		
Investment in subsidiaries	<b>15,745</b>	15,742
Deposits	–	45
Available for sale – debt securities	<b>1,544</b>	736
Loans to/amounts due from subsidiaries	<b>2,903</b>	2,945
Other assets	<b>44</b>	13
Cash and cash equivalents	<b>4</b>	358
<b>Total assets</b>	<b>20,240</b>	19,839
<b>Liabilities</b>		
Borrowings	<b>3,777</b>	3,070
Other liabilities	<b>70</b>	201
<b>Total liabilities</b>	<b>3,847</b>	3,271
<b>Equity</b>		
Share capital	<b>13,998</b>	13,971
Employee share-based trusts	<b>(351)</b>	(321)
Other reserves	<b>185</b>	155
Retained earnings	<b>2,620</b>	2,785
Amounts reflected in other comprehensive income	<b>(59)</b>	(22)
<b>Total equity</b>	<b>16,393</b>	16,568
<b>Total liabilities and equity</b>	<b>20,240</b>	19,839

Note:

(1) The financial information of the Company should be read in conjunction with the consolidated financial statements of the Group.



#### 46. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

US\$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
<b>Balance at 1 December 2015</b>	<b>13,971</b>	<b>(321)</b>	<b>155</b>	<b>2,785</b>	<b>(22)</b>	<b>16,568</b>
Net profit	–	–	–	959	–	959
Cash flow hedges	–	–	–	–	(1)	(1)
Fair value losses on available for sale financial assets	–	–	–	–	(10)	(10)
Fair value gains on available for sale financial assets transferred to income on disposal	–	–	–	–	(26)	(26)
Dividends	–	–	–	(1,124)	–	(1,124)
Shares issued under share option scheme and agency share purchase plan	27	–	–	–	–	27
Share-based compensation	–	–	86	–	–	86
Purchase of shares held by employee share-based trusts	–	(86)	–	–	–	(86)
Transfer of vested shares from employee share-based trusts	–	56	(56)	–	–	–
<b>Balance at 30 November 2016</b>	<b>13,998</b>	<b>(351)</b>	<b>185</b>	<b>2,620</b>	<b>(59)</b>	<b>16,393</b>

US\$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
<b>Balance at 1 December 2014</b>	13,962	(286)	139	2,102	4	15,921
Net profit	–	–	–	1,497	–	1,497
Cash flow hedges	–	–	–	–	5	5
Fair value losses on available for sale financial assets	–	–	–	–	(31)	(31)
Dividends	–	–	–	(814)	–	(814)
Shares issued under share option scheme and agency share purchase plan	9	–	–	–	–	9
Share-based compensation	–	–	79	–	–	79
Purchase of shares held by employee share-based trusts	–	(98)	–	–	–	(98)
Transfer of vested shares from employee share-based trusts	–	63	(63)	–	–	–
<b>Balance at 30 November 2015</b>	<b>13,971</b>	<b>(321)</b>	<b>155</b>	<b>2,785</b>	<b>(22)</b>	<b>16,568</b>

#### **47. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES**

With effect from 1 December 2015, the Group revised its accounting policies as follows:

- Property held for own use is carried at fair value at last valuation date less accumulated depreciation. Previously, property held for own use was carried at historical cost less accumulated depreciation. When an asset is adjusted for the latest fair value, any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset. The movement of fair values is generally recognised in other comprehensive income. When such properties are sold, the amounts accumulated in other comprehensive income are transferred to retained earnings. The revised accounting policy is applied prospectively from the date of adoption, resulting in increase of US\$450m and US\$259m in total assets and total equity, respectively, as of 1 December 2015.

Property held for own use is valued by independent professional valuation firm at least annually to ensure that fair value of the revalued asset does not differ materially from its carrying value. Changes in fair values are recognised in other comprehensive income and reported in the consolidated statement of financial position as property revaluation reserve.

In conjunction with the revised real estate accounting policies, depreciation expense for property held for own use is presented as 'other expenses' for IFRS reporting and this presentation change will be applied retrospectively. Operating leasehold land relating to property held for own use will continue to be carried at cost less accumulated amortisation and impairment losses (if any) and be reported as part of 'other assets' on the consolidated statement of financial position.

- Investment property, including land and buildings, is initially recognised at cost with changes in fair values in subsequent periods recognised in the consolidated income statement. Operating leasehold land relating to investment properties is reclassified from 'other assets' to 'investment properties' accordingly on the consolidated statement of financial position. The revised accounting policy has been applied retrospectively.

The Group believes measuring property held for own use and investment property in accordance with the revised accounting policies (based on guidance in IAS 16, Property, Plant and Equipment, and IAS 40, Investment Property, respectively) provide reliable and more relevant information to the users of the financial statements than that measured based on cost model under the previous accounting policy.

#### 47. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

The tables below show the quantitative effect of the adoption of these revised accounting policies on the consolidated financial statements. The quantitative effect of the adoption of these revised accounting policies in other financial periods is provided in note 48 of 2015 annual financial statements.

##### (a) Consolidated Income Statement

US\$m	Year ended 30 November 2015 (As previously reported)	Reclassifications	Retrospective adjustments for IAS 40	Year ended 30 November 2015 (As adjusted)
<b>Revenue</b>				
Premiums and fee income	19,781	–	–	19,781
Premiums ceded to reinsurers	(1,165)	–	–	(1,165)
Net premiums and fee income	18,616	–	–	18,616
Investment return	4,462	–	73	4,535
Other operating revenue	196	–	–	196
<b>Total revenue</b>	<b>23,274</b>	<b>–</b>	<b>73</b>	<b>23,347</b>
<b>Expenses</b>				
Insurance and investment contract benefits	16,134	–	2	16,136
Insurance and investment contract benefits ceded	(942)	–	–	(942)
<b>Net insurance and investment contract benefits</b>	<b>15,192</b>	<b>–</b>	<b>2</b>	<b>15,194</b>
Commission and other acquisition expenses	2,468	–	–	2,468
Operating expenses	1,658	(20)	–	1,638
Finance costs	152	–	–	152
Other expenses	454	20	(26)	448
<b>Total expenses</b>	<b>19,924</b>	<b>–</b>	<b>(24)</b>	<b>19,900</b>
<b>Profit before share of profit from associates and joint venture</b>	<b>3,350</b>	<b>–</b>	<b>97</b>	<b>3,447</b>
Share of profit from associates and joint venture	–	–	–	–
<b>Profit before tax</b>	<b>3,350</b>	<b>–</b>	<b>97</b>	<b>3,447</b>
Income tax expense attributable to policyholders' returns	(33)	–	–	(33)
<b>Profit before tax attributable to shareholders' profits</b>	<b>3,317</b>	<b>–</b>	<b>97</b>	<b>3,414</b>
Tax expense	(636)	–	(19)	(655)
Tax attributable to policyholders' returns	33	–	–	33
Tax expense attributable to shareholders' profits	(603)	–	(19)	(622)
<b>Net profit</b>	<b>2,714</b>	<b>–</b>	<b>78</b>	<b>2,792</b>
<i>Net profit attributable to:</i>				
<b>Shareholders of AIA Group Limited</b>	<b>2,691</b>	<b>–</b>	<b>74</b>	<b>2,765</b>
Non-controlling interests	23	–	4	27
<b>Earnings per share (US\$)</b>				
Basic	0.22	–	0.01	0.23
Diluted	0.22	–	0.01	0.23

## 47. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

### (b) Consolidated Statement of Financial Position

US\$m	As at 1 December 2014 (As previously reported)	Reclassifications	Retrospective adjustments for IAS 40	As at 1 December 2014 (As adjusted)
<b>Assets</b>				
Intangible assets	2,152	–	–	2,152
Investments in associates and joint venture	131	–	–	131
Property, plant and equipment	541	–	57	598
Investment property	1,384	264	1,991	3,639
Reinsurance assets	1,657	–	–	1,657
Deferred acquisition and origination costs	16,593	–	–	16,593
<b>Financial investments:</b>				
Loans and deposits	7,654	–	–	7,654
Available for sale				
Debt securities	77,744	–	–	77,744
At fair value through profit or loss				
Debt securities	24,319	–	–	24,319
Equity securities	28,827	–	–	28,827
Derivative financial instruments	265	–	–	265
	138,809	–	–	138,809
Deferred tax assets	10	–	–	10
Current tax recoverable	54	–	–	54
Other assets	3,753	(264)	22	3,511
Cash and cash equivalents	1,835	–	–	1,835
<b>Total assets</b>	<b>166,919</b>	<b>–</b>	<b>2,070</b>	<b>168,989</b>
<b>Liabilities</b>				
Insurance contract liabilities	113,097	–	105	113,202
Investment contract liabilities	7,937	–	–	7,937
Borrowings	2,934	–	–	2,934
Obligations under securities lending and repurchase agreements	3,753	–	–	3,753
Derivative financial instruments	211	–	–	211
Provisions	213	–	–	213
Deferred tax liabilities	3,079	–	143	3,222
Current tax liabilities	198	–	–	198
Other liabilities	4,542	–	–	4,542
<b>Total liabilities</b>	<b>135,964</b>	<b>–</b>	<b>248</b>	<b>136,212</b>
<b>Equity</b>				
Share capital	13,962	–	–	13,962
Employee share-based trusts	(286)	–	–	(286)
Other reserves	(11,994)	–	–	(11,994)
Retained earnings	22,831	–	1,512	24,343
Fair value reserve	6,076	–	–	6,076
Foreign currency translation reserve	227	–	7	234
Property revaluation reserve	–	–	142	142
Others	(10)	–	–	(10)
Amounts reflected in other comprehensive income	6,293	–	149	6,442
<i>Total equity attributable to:</i>				
<b>Shareholders of AIA Group Limited</b>	30,806	–	1,661	32,467
Non-controlling interests	149	–	161	310
<b>Total equity</b>	<b>30,955</b>	<b>–</b>	<b>1,822</b>	<b>32,777</b>
<b>Total liabilities and equity</b>	<b>166,919</b>	<b>–</b>	<b>2,070</b>	<b>168,989</b>

## 47. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

### (b) Consolidated Statement of Financial Position (continued)

US\$m	As at 30 November 2015 (As previously reported)	Reclassifications	Retrospective adjustments for IAS 40	As at 30 November 2015 (As adjusted)
<b>Assets</b>				
Intangible assets	1,834	–	–	1,834
Investments in associates and joint venture	137	–	–	137
Property, plant and equipment	500	–	79	579
Investment property	1,386	244	2,029	3,659
Reinsurance assets	1,652	–	–	1,652
Deferred acquisition and origination costs	17,092	–	–	17,092
<b>Financial investments:</b>				
Loans and deposits	7,211	–	–	7,211
Available for sale				
Debt securities	80,940	–	–	80,940
At fair value through profit or loss				
Debt securities	23,700	–	–	23,700
Equity securities	27,159	–	–	27,159
Derivative financial instruments	73	–	–	73
	139,083	–	–	139,083
Deferred tax assets	9	–	–	9
Current tax recoverable	45	–	–	45
Other assets	3,892	(244)	28	3,676
Cash and cash equivalents	1,992	–	–	1,992
<b>Total assets</b>	<b>167,622</b>	<b>–</b>	<b>2,136</b>	<b>169,758</b>
<b>Liabilities</b>				
Insurance contract liabilities	115,870	–	99	115,969
Investment contract liabilities	7,116	–	–	7,116
Borrowings	3,195	–	–	3,195
Obligations under repurchase agreements	3,085	–	–	3,085
Derivative financial instruments	695	–	–	695
Provisions	245	–	–	245
Deferred tax liabilities	2,954	–	155	3,109
Current tax liabilities	265	–	–	265
Other liabilities	4,657	–	–	4,657
<b>Total liabilities</b>	<b>138,082</b>	<b>–</b>	<b>254</b>	<b>138,336</b>
<b>Equity</b>				
Share capital	13,971	–	–	13,971
Employee share-based trusts	(321)	–	–	(321)
Other reserves	(11,978)	–	–	(11,978)
Retained earnings	24,708	–	1,586	26,294
Fair value reserve	4,414	–	–	4,414
Foreign currency translation reserve	(1,381)	–	(8)	(1,389)
Property revaluation reserve	–	–	140	140
Others	(12)	–	–	(12)
Amounts reflected in other comprehensive income	3,021	–	132	3,153
<i>Total equity attributable to:</i>				
<b>Shareholders of AIA Group Limited</b>	<b>29,401</b>	<b>–</b>	<b>1,718</b>	<b>31,119</b>
Non-controlling interests	139	–	164	303
<b>Total equity</b>	<b>29,540</b>	<b>–</b>	<b>1,882</b>	<b>31,422</b>
<b>Total liabilities and equity</b>	<b>167,622</b>	<b>–</b>	<b>2,136</b>	<b>169,758</b>

#### 48. OPERATING PROFIT BASED UPON LONG-TERM INVESTMENT RETURNS

For the financial year ended 30 November 2016, the Group has revised its definition of operating profit to include among others the expected long-term investment returns for equities and real estate. The revised definition is as follows:

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management purposes, the Group evaluates its results and its operating segments using a financial performance measure referred to as "operating profit". Operating profit includes among others the expected long-term investment returns for investments in equities and real estate based on the assumptions applied by the Group in the Supplementary Embedded Value Information.

The Group defines operating profit after tax as net profit excluding the following non-operating items:

- short-term fluctuations between expected and actual investment returns related to equities and real estate;
- other investment return (including short-term fluctuations due to market factors); and
- other significant items that management considers to be non-operating income and expenses.

The Group considers that the revised presentation of operating profit enhances the understanding and comparability of its performance and that of its operating segments. The Group considers that trends can be more clearly identified without the fluctuating effects of these non-operating items, many of which are largely dependent on market factors.

Operating profit is provided as additional information to assist in the comparison of business trends in different reporting periods on a consistent basis and enhance overall understanding of financial performance.

The table below set out the impacts of including the expected long-term investment returns in operating profit in the year ended 30 November 2015.

The impacts of the adoption of revised definition of operating profit in other financial periods are provided in note 49 of 2015 annual financial statements.

US\$m	Year ended 30 November 2015 (As previously reported)	Impact of change in preparation basis	Year ended 30 November 2015 (As adjusted)
<b>Operating profit before tax</b>	3,884	436	4,320
Tax on operating profit before tax	(655)	(80)	(735)
<b>Operating profit after tax</b>	<b>3,229</b>	<b>356</b>	<b>3,585</b>
<i>Operating profit after tax attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>	3,209	347	3,556
Non-controlling interests	20	9	29
<b>Operating profit after tax per share (US\$)</b>			
Basic	0.27	0.03	0.30
Diluted	0.27	0.03	0.30

# Willis Towers Watson

### **WILLIS TOWERS WATSON REPORT ON THE REVIEW OF THE SUPPLEMENTARY EMBEDDED VALUE INFORMATION**

AIA Group Limited (the “Company”) and its subsidiaries (together, “AIA” or the “Group”) have prepared supplementary embedded value results (EV Results) for the year ended 30 November 2016 (the Period). These EV Results, together with a description of the methodology and assumptions that have been used, are shown in the Supplementary Embedded Value Information section of this report.

Towers Watson Hong Kong Limited (trading as Willis Towers Watson), has been engaged to review the Group’s EV Results and prior year comparisons. The opinion set out below is made solely to the Company and, to the fullest extent permitted by applicable law, Willis Towers Watson does not accept nor assume any responsibility, duty of care or liability to any third party for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion.

### **SCOPE OF WORK**

Our scope of work covered:

- A review of the methodology used to calculate the embedded value and the equity attributable to shareholders of the Company on the embedded value basis as at 30 November 2016, and the value of new business for the year ended 30 November 2016;
- A review of the economic and operating assumptions used to calculate the embedded value as at 30 November 2016 and the value of new business for the year ended 30 November 2016; and
- A review of the results of AIA’s calculation of the EV Results.

In carrying out our review, we have relied on data and information provided by the Group.

### **OPINION**

We have concluded that:

- The methodology used to calculate the embedded value and value of new business is consistent with recent industry practice for publicly listed companies in Hong Kong as regards traditional embedded value calculations based on discounted values of projected deterministic after-tax cash flows. This methodology makes an overall allowance for risk for the Group through the use of risk discount rates which incorporate risk margins and vary by Business Unit, together with an explicit allowance for the cost of holding required capital;
- The economic assumptions are internally consistent and have been set with regard to current economic conditions; and
- The operating assumptions have been set with appropriate regard to past, current and expected future experience, taking into account the nature of the business conducted by each Business Unit.

We have performed a number of high-level checks on the models, processes and the results of the calculations, and have confirmed that no issues have been discovered that have a material impact on the disclosed embedded value and the equity attributable to shareholders of the Company on the embedded value basis as at 30 November 2016, the value of new business for the year ended 30 November 2016, the analysis of movement in embedded value for the year ended 30 November 2016, and the sensitivity analysis.

**Willis Towers Watson**

24 February 2017

**CAUTIONARY STATEMENTS CONCERNING SUPPLEMENTARY EMBEDDED VALUE INFORMATION**

This report includes non-IFRS financial measures and should not be viewed as a substitute for IFRS financial measures.

The results shown in this report are not intended to represent an opinion of market value and should not be interpreted in that manner. This report does not purport to encompass all of the many factors that may bear upon a market value.

The results shown in this report are based on a series of assumptions as to the future. It should be recognised that actual future results may differ from those shown, on account of changes in the operating and economic environments and natural variations in experience. The results shown are presented at the valuation dates stated in this report and no warranty is given by the Group that future experience after these valuation dates will be in line with the assumptions made.



## 1. HIGHLIGHTS

The embedded value (EV) is a measure of the value of shareholders' interests in the earnings distributable from assets allocated to the in-force business after allowance for the aggregate risks in that business. The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB). This methodology makes implicit allowance for all sources of risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and for the economic cost of capital, through the use of a risk discount rate. The equity attributable to shareholders of the Company on the embedded value basis (EV Equity) is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company. More details of the EV Results, methodology and assumptions are covered in later sections of this report.

### Summary of Key Metrics<sup>(1)</sup> (US\$ millions)

	As at 30 November 2016	As at 30 November 2015	Growth CER	Growth AER
<b>Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)</b>	<b>43,650</b>	39,818	11%	10%
<b>Embedded value (EV)</b>	<b>42,114</b>	38,198	12%	10%
<b>Adjusted net worth (ANW)</b>	<b>16,544</b>	15,189	11%	9%
<b>Value of in-force business (VIF)</b>	<b>25,570</b>	23,009	12%	11%
	<b>Year ended 30 November 2016</b>	Year ended 30 November 2015	YoY CER	YoY AER
<b>Value of new business (VONB)<sup>(2)</sup></b>	<b>2,750</b>	2,198	28%	25%
<b>Annualised new premiums (ANP)<sup>(2)</sup></b>	<b>5,123</b>	3,991	31%	28%
<b>VONB margin<sup>(2)</sup></b>	<b>52.8%</b>	54.0%	(1.3)pps	(1.2)pps

Notes:

- (1) The results are after adjustments to reflect additional Hong Kong reserving and capital requirements and the present value of future after-tax unallocated Group Office expenses.
- (2) VONB includes pension business. ANP and VONB margin exclude pension business.

## 2. EV RESULTS

### 2.1 Embedded Value by Business Unit

The EV as at 30 November 2016 is presented consistently with the segment information in the IFRS financial statements. Section 4.1 of this report contains a full list of the entities included in this report and the mapping of these entities to Business Units for the purpose of this report.

#### Summary of EV by Business Unit (US\$ millions)

Business Unit <sup>(1)</sup>	As at 30 November 2016				As at 30 November 2015	
	ANW <sup>(2)</sup>	VIF before CoC <sup>(3)</sup>	CoC <sup>(3)</sup>	VIF after CoC <sup>(3)</sup>	EV	EV
AIA Hong Kong	4,685	9,731	622	9,109	<b>13,794</b>	12,655
AIA Thailand	3,880	3,488	656	2,832	<b>6,712</b>	6,660
AIA Singapore	2,084	3,286	424	2,862	<b>4,946</b>	4,489
AIA Malaysia	1,071	1,229	184	1,045	<b>2,116</b>	2,129
AIA China	2,732	2,753	–	2,753	<b>5,485</b>	5,041
Other Markets	4,252	2,827	1,020	1,807	<b>6,059</b>	5,802
Group Corporate Centre	7,273	(177)	(1)	(176)	<b>7,097</b>	5,971
<b>Subtotal</b>	<b>25,977</b>	<b>23,137</b>	<b>2,905</b>	<b>20,232</b>	<b>46,209</b>	<b>42,747</b>
Adjustment to reflect additional Hong Kong reserving and capital requirements <sup>(4)</sup>	(9,433)	6,294	(8)	6,302	<b>(3,131)</b>	(3,805)
After-tax value of unallocated Group Office expenses	–	(964)	–	(964)	<b>(964)</b>	(744)
<b>Total</b>	<b>16,544</b>	<b>28,467</b>	<b>2,897</b>	<b>25,570</b>	<b>42,114</b>	<b>38,198</b>

#### Notes:

- (1) For the year ended 30 November 2016, AIA Korea is no longer disclosed separately as a reportable segment and is now included as part of the Other Markets segment. Prior year comparatives have been adjusted accordingly to conform to current year presentation.
- (2) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS financial statements.
- (3) CoC refers to the cost arising from holding the required capital as described in Section 4.2 of this report.
- (4) Adjustment to EV for the branches of AIA Co. and AIA International, as described in Section 4.4 of this report.

## 2. EV RESULTS (continued)

### 2.2 Reconciliation of ANW to IFRS Equity

#### Derivation of the Group ANW from IFRS equity (US\$ millions)

	As at 30 November 2016	As at 30 November 2015 <sup>(1)</sup> (As adjusted)
<b>IFRS equity attributable to shareholders of the Company</b>	<b>34,984</b>	31,119
Elimination of IFRS deferred acquisition and origination costs assets	<b>(18,898)</b>	(17,092)
Difference between IFRS policy liabilities and local statutory policy liabilities (for entities included in the EV Results)	<b>9,646</b>	10,201
Difference between net IFRS policy liabilities and local statutory policy liabilities (for entities included in the EV Results)	<b>(9,252)</b>	(6,891)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	<b>336</b>	545
Elimination of intangible assets	<b>(1,743)</b>	(1,834)
Recognition of deferred tax impacts of the above adjustments	<b>1,602</b>	1,404
Recognition of non-controlling interests impacts of the above adjustments	<b>50</b>	52
<b>Group ANW (local statutory basis)</b>	<b>25,977</b>	24,395
Adjustment to reflect additional Hong Kong reserving requirements, net of tax	<b>(9,433)</b>	(9,206)
<b>Group ANW (after additional Hong Kong reserving requirements)</b>	<b>16,544</b>	15,189

Note:

(1) Amounts have been adjusted to reflect changes in accounting policies under IFRS in the Group's financial statements.

### 2.3 Breakdown of ANW

The breakdown of the ANW for the Group between the required capital, as defined in Section 4.6 of this report, and the free surplus, which is the ANW in excess of the required capital, is set out below:

#### Free surplus and required capital for the Group (US\$ millions)

	As at 30 November 2016		As at 30 November 2015	
	Local statutory basis	Hong Kong basis <sup>(1), (2)</sup>	Local statutory basis	Hong Kong basis <sup>(1)</sup>
Free surplus	<b>19,089</b>	<b>9,782</b>	17,557	7,528
Required capital	<b>6,888</b>	<b>6,762</b>	6,838	7,661
<b>ANW</b>	<b>25,977</b>	<b>16,544</b>	24,395	15,189

Notes:

(1) Hong Kong basis for branches of AIA Co. and AIA International and local statutory basis for subsidiaries of AIA Co. and AIA International.

(2) AIA has given a revised undertaking to the HKOCI to maintain an excess of assets over liabilities for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement (previously 150%) in each of AIA Co. and AIA International. For clarity there is no change in the undertaking in respect of the Hong Kong business or the Hong Kong statutory minimum solvency margin requirement for AIA. This has been reflected in the calculation of the consolidated EV Results.

The Company's subsidiaries, AIA Co. and AIA International, are both subject to Hong Kong regulatory capital requirements. The business written in the branches of AIA Co. and AIA International is subject to both the local reserving and capital requirements in the relevant territory and the Hong Kong reserving and capital requirements applicable to AIA Co. and AIA International at the entity level. At 30 November 2016, the more onerous reserving and capital basis overall for both AIA Co. and AIA International was the Hong Kong basis.

## 2. EV RESULTS (continued)

### 2.4 Earnings Profile

The table below shows how the after-tax distributable earnings from the assets backing the statutory reserves and required capital of the in-force business of the Group are projected to emerge over future years. The projected values reflect the Hong Kong reserving and capital requirements for the branches of AIA Co. and AIA International.

#### Profile of projected after-tax distributable earnings for the Group's in-force business (US\$ millions)

Financial year	As at 30 November 2016	
	Undiscounted	Discounted
2017 – 2021	15,490	13,012
2022 – 2026	12,214	6,833
2027 – 2031	11,795	4,532
2032 – 2036	11,278	2,956
2037 and thereafter	81,710	4,999
<b>Total</b>	<b>132,487</b>	<b>32,332</b>

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US\$32,332 million (2015: US\$30,670 million) plus the free surplus of US\$9,782 million (2015: US\$7,528 million) shown in Section 2.3 of this report is equal to the EV of US\$42,114 million (2015: US\$38,198 million) shown in Section 2.1 of this report.

## 2. EV RESULTS (continued)

### 2.5 Value of New Business

The VONB for the Group for the year ended 30 November 2016 is summarised in the table below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. Results are presented consistently with the segment information in the IFRS financial statements. Section 4.1 of this report contains a full list of the entities included in this report and the mapping of these entities to Business Units for the purpose of this report.

The Group VONB for the year ended 30 November 2016 was US\$2,750 million, an increase of US\$552 million, or 25 per cent on actual exchange rates, from US\$2,198 million for the year ended 30 November 2015.

#### Summary of VONB by Business Unit (US\$ millions)

Business Unit <sup>(1)</sup>	Year ended 30 November 2016			Year ended 30 November 2015
	VONB before CoC <sup>(2)</sup>	CoC <sup>(2)</sup>	VONB after CoC <sup>(2), (3)</sup>	VONB after CoC <sup>(2), (3)</sup>
AIA Hong Kong	1,464	303	<b>1,161</b>	820
AIA Thailand	427	43	<b>384</b>	395
AIA Singapore	355	39	<b>316</b>	341
AIA Malaysia	217	19	<b>198</b>	172
AIA China	592	56	<b>536</b>	366
Other Markets	385	64	<b>321</b>	296
<b>Total before unallocated Group Office expenses (local statutory basis)</b>	<b>3,440</b>	<b>524</b>	<b>2,916</b>	2,390
Adjustment to reflect additional Hong Kong reserving and capital requirements <sup>(4)</sup>	(60)	(23)	<b>(37)</b>	(72)
<b>Total before unallocated Group Office expenses (after additional Hong Kong reserving and capital requirements)</b>	<b>3,380</b>	<b>501</b>	<b>2,879</b>	2,318
After-tax value of unallocated Group Office expenses	(129)	–	<b>(129)</b>	(120)
<b>Total</b>	<b>3,251</b>	<b>501</b>	<b>2,750</b>	2,198

#### Notes:

- (1) For the year ended 30 November 2016, AIA Korea is no longer disclosed separately as a reportable segment and is now included as part of the Other Markets segment. Prior year comparatives have been adjusted accordingly to conform to current year presentation.
- (2) CoC refers to the cost arising from holding the required capital as described in Section 4.2 of this report.
- (3) VONB for the Group is calculated before deducting the amount attributable to non-controlling interests. The amounts of VONB attributable to non-controlling interests for the year ended 30 November 2016 and 30 November 2015 were US\$19 million and US\$21 million respectively.
- (4) Adjustment to VONB for the branches of AIA Co. and AIA International, as described in Section 4.4 of this report.

## 2. EV RESULTS (continued)

### 2.5 Value of New Business (continued)

The table below shows the VONB margin for the Group. The VONB margin is defined as VONB, excluding pension business, expressed as a percentage of ANP. The VONB for pension business is excluded from the margin calculation to be consistent with the definition of ANP.

The Group VONB margin for the year ended 30 November 2016 was 52.8 per cent compared with 54.0 per cent for the year ended 30 November 2015.

#### Summary of VONB Margin by Business Unit (US\$ millions)

Business Unit <sup>(1)</sup>	Year ended 30 November 2016		Year ended 30 November 2015	
	VONB Excluding Pension	ANP <sup>(2)</sup>	VONB Margin <sup>(2)</sup>	VONB Margin <sup>(2)</sup>
AIA Hong Kong	1,120	2,294	<b>48.8%</b>	62.0%
AIA Thailand	384	471	<b>81.5%</b>	75.8%
AIA Singapore	316	427	<b>74.1%</b>	72.4%
AIA Malaysia	195	341	<b>57.1%</b>	57.9%
AIA China	536	621	<b>86.4%</b>	83.5%
Other Markets	319	969	<b>32.9%</b>	29.4%
<b>Total before unallocated Group Office expenses (local statutory basis)</b>	<b>2,870</b>	<b>5,123</b>	<b>56.0%</b>	58.9%
Adjustment to reflect additional Hong Kong reserving and capital requirements <sup>(3)</sup>	(37)	–		
<b>Total before unallocated Group Office expenses (after additional Hong Kong reserving and capital requirements)</b>	<b>2,833</b>	<b>5,123</b>	<b>55.3%</b>	57.0%
After-tax value of unallocated Group Office expenses	(129)	–		
<b>Total</b>	<b>2,704</b>	<b>5,123</b>	<b>52.8%</b>	54.0%

Notes:

- (1) For the year ended 30 November 2016, AIA Korea is no longer disclosed separately as a reportable segment and is now included as part of the Other Markets segment. Prior year comparatives have been adjusted accordingly to conform to current year presentation.
- (2) ANP and VONB margin exclude pension business.
- (3) Adjustment to VONB for the branches of AIA Co. and AIA International, as described in Section 4.4 of this report.

## 2. EV RESULTS (continued)

### 2.5 Value of New Business (continued)

The table below shows the breakdown of the VONB, ANP and VONB margin for the Group by quarter for business written in the year ended 30 November 2016. For comparison purposes, the quarterly VONB, ANP and VONB margin for business written in the year ended 30 November 2015 are also shown in the same table.

#### Summary of VONB, ANP and VONB Margin by quarter for the Group (US\$ millions)

Quarter	VONB after CoC <sup>(1), (2)</sup>	ANP <sup>(2)</sup>	VONB Margin <sup>(2)</sup>
<b>Values for 2016</b>			
3 months ended 29 February 2016	<b>578</b>	<b>1,103</b>	<b>51.6%</b>
3 months ended 31 May 2016	<b>682</b>	<b>1,252</b>	<b>53.7%</b>
3 months ended 31 August 2016	<b>689</b>	<b>1,333</b>	<b>50.7%</b>
3 months ended 30 November 2016	<b>801</b>	<b>1,435</b>	<b>54.8%</b>
<b>Values for 2015</b>			
3 months ended 28 February 2015	425	895	46.8%
3 months ended 31 May 2015	534	983	53.4%
3 months ended 31 August 2015	552	936	57.6%
3 months ended 30 November 2015	687	1,177	57.2%

Notes:

(1) CoC refers to the cost arising from holding the required capital as described in Section 4.2 of this report.

(2) VONB includes pension business. ANP and VONB margin exclude pension business.

### 2.6 Analysis of EV Movement

#### Analysis of movement in EV (US\$ millions)

	Year ended 30 November 2016			Year ended 30 November 2015	YoY AER
	ANW	VIF	EV	EV	EV
<b>Opening EV</b>	15,189	23,009	<b>38,198</b>	37,153	3%
Value of new business	(695)	3,445	<b>2,750</b>	2,198	25%
Expected return on EV	3,440	(586)	<b>2,854</b>	2,698	6%
Operating experience variances	303	62	<b>365</b>	274	33%
Operating assumption changes	26	3	<b>29</b>	(26)	n/m
Finance costs on medium term notes	(111)	–	<b>(111)</b>	(76)	46%
<b>EV operating profit</b>	2,963	2,924	<b>5,887</b>	5,068	16%
Investment return variances	(67)	30	<b>(37)</b>	(1,804)	(98)%
Effect of changes in economic assumptions	6	(242)	<b>(236)</b>	145	n/m
Other non-operating variances	(142)	120	<b>(22)</b>	369	n/m
<b>Total EV profit</b>	2,760	2,832	<b>5,592</b>	3,778	48%
Dividends	(1,124)	–	<b>(1,124)</b>	(814)	38%
Other capital movements	(5)	–	<b>(5)</b>	(12)	(58)%
Effect of changes in exchange rates	(276)	(271)	<b>(547)</b>	(1,907)	(71)%
<b>Closing EV</b>	<b>16,544</b>	<b>25,570</b>	<b>42,114</b>	38,198	10%

## **2. EV RESULTS** (continued)

### **2.6 Analysis of EV Movement** (continued)

EV operating profit grew by 16 per cent on actual exchange rates to US\$5,887 million (2015: US\$5,068 million) compared with 2015. The growth reflected a combination of a higher VONB of US\$2,750 million (2015: US\$2,198 million) and a higher expected return on EV of US\$2,854 million (2015: US\$2,698 million). Overall operating experience variances and operating assumption changes were again positive at US\$394 million (2015: US\$248 million). Finance costs from the medium term notes were US\$111 million (2015: US\$76 million).

The VONB is calculated at the point of sale for business written during the Period before deducting the amount attributable to non-controlling interests. The expected return on EV is the expected change in the EV over the Period plus the expected return on the VONB from the point of sale to 30 November 2016 less the VONB attributable to non-controlling interests. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the Period and that expected based on the operating assumptions.

The main operating experience variances, net of tax, were US\$365 million (2015: US\$274 million), reflecting:

- Expense variances of US\$12 million (2015: US\$16 million);
- Mortality and morbidity claims variances of US\$200 million (2015: US\$164 million); and
- Persistency and other variances of US\$153 million (2015: US\$94 million) including US\$215 million in relation to non-recurring reinsurance actions.

The effect of changes to operating assumptions during the Period was US\$29 million (2015: US\$(26) million).

The EV profit of US\$5,592 million (2015: US\$3,778 million) is the total of EV operating profit, investment return variances, the effect of changes in economic assumptions and other non-operating variances.

The investment return variances arise from the impact of differences between the actual investment returns in the Period and the expected investment returns. This includes the impact on the EV of changes in the market values and market yields on existing fixed income assets, and the impact on the EV of changes in the economic assumptions used in the statutory reserving bases for the Group. Investment return variances amounted to US\$(37) million (2015: US\$(1,804) million) from the net effect of short-term capital market movements on the Group's investment portfolio and statutory reserves compared with the expected positions.

The effect of changes in economic assumptions amounted to US\$(236) million (2015: US\$145 million).

Other non-operating variances amounted to US\$(22) million (2015: US\$369 million) which includes the net effect of changes in regulatory capital requirements and taxation, comprising the revised undertaking to the HKOCI and the replacement of business tax with VAT in China as previously reported, and others including modelling enhancements.

The Group paid total shareholder dividends of US\$1,124 million (2015: US\$814 million). Other capital movements reduced EV by US\$5 million (2015: US\$12 million).

Foreign exchange movements were US\$(547) million (2015: US\$(1,907) million).



## 2. EV RESULTS (continued)

### 2.7 EV Equity

The EV Equity grew to US\$43,650 million at 30 November 2016, an increase of 10 per cent on actual exchange rates from US\$39,818 million as at 30 November 2015.

#### Derivation of EV Equity from EV (US\$ millions)

	As at 30 November 2016	As at 30 November 2015	Change CER	Change AER
EV	<b>42,114</b>	38,198	12%	10%
Goodwill and other intangible assets <sup>(1)</sup>	<b>1,536</b>	1,620	(3)%	(5)%
<b>EV Equity</b>	<b>43,650</b>	39,818	11%	10%

Note:

(1) Consistent with the IFRS financial statements, net of tax, amounts attributable to participating funds and non-controlling interests.

## 3. SENSITIVITY ANALYSIS

The EV as at 30 November 2016 and the VONB for the year ended 30 November 2016 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5 of this report.

The sensitivities analysed were:

- Risk discount rates 200 basis points per annum higher than the central assumptions;
- Risk discount rates 200 basis points per annum lower than the central assumptions;
- Interest rates 50 basis points per annum higher than the central assumptions;
- Interest rates 50 basis points per annum lower than the central assumptions;
- The presentation currency (as explained below) appreciated by 5 per cent;
- The presentation currency depreciated by 5 per cent;
- Lapse and premium discontinuance rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Lapse and premium discontinuance rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Mortality/morbidity rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Mortality/morbidity rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Maintenance expenses 10 per cent lower (i.e. 90 per cent of the central assumptions); and
- Expense inflation set to 0 per cent.

The EV as at 30 November 2016 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 30 November 2016); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 30 November 2016).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 30 November 2016 and the values of debt instruments held at 30 November 2016 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

### 3. SENSITIVITY ANALYSIS (continued)

The EV Results of each entity in Section 4.1 of this report are measured in the currency of the primary economic environment in which that entity operates (the functional currency) and presented in US dollars (the presentation currency). In order to provide sensitivity results for EV and VONB of the impact of foreign currency movements to the translation from functional currencies, a change of 5 per cent to the presentation currency is included. This sensitivity does not include the impact of currency movements on the translation of transactions denominated in a foreign currency of an entity into its functional currency (including any impacts on VIF).

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 30 November 2016 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For each of the remaining sensitivity analyses, the statutory reserving bases as at 30 November 2016 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

#### Sensitivity of EV as at 30 November 2016 (US\$ millions)

Scenario	EV
Central value	42,114
200 bps increase in risk discount rates	36,921
200 bps decrease in risk discount rates	50,203
10% increase in equity prices	42,839
10% decrease in equity prices	41,380
50 bps increase in interest rates	42,262
50 bps decrease in interest rates	41,736
5% appreciation in the presentation currency	41,033
5% depreciation in the presentation currency	43,195
10% increase in lapse/discontinuance rates	41,436
10% decrease in lapse/discontinuance rates	42,906
10% increase in mortality/morbidity rates	38,669
10% decrease in mortality/morbidity rates	45,576
10% decrease in maintenance expenses	42,637
Expense inflation set to 0%	42,664

### 3. SENSITIVITY ANALYSIS (continued)

Sensitivity of VONB for the year ended 30 November 2016 (US\$ millions)

Scenario	VONB
Central value	2,750
200 bps increase in risk discount rates	1,954
200 bps decrease in risk discount rates	4,174
50 bps increase in interest rates	2,927
50 bps decrease in interest rates	2,524
5% appreciation in the presentation currency	2,668
5% depreciation in the presentation currency	2,832
10% increase in lapse rates	2,616
10% decrease in lapse rates	2,900
10% increase in mortality/morbidity rates	2,414
10% decrease in mortality/morbidity rates	3,078
10% decrease in maintenance expenses	2,834
Expense inflation set to 0%	2,806

### 4. METHODOLOGY

#### 4.1 Entities Included in This Report

The Group operates through a number of subsidiaries and branches. Its two main operating subsidiaries are AIA Company Limited (AIA Co.), a subsidiary of the Company, and AIA International Limited (AIA International), a subsidiary of AIA Co. Furthermore, AIA Co. has branches located in Brunei, China and Thailand and AIA International has branches located in Hong Kong, Korea, Macau, New Zealand and Taiwan.

The following is a full list of the entities and their mapping to Business Units included in this report.

- AIA Australia refers to AIA Australia Limited, a subsidiary of AIA Co.;
- AIA China refers to the China branches of AIA Co.;
- AIA Hong Kong refers to the total of the following three entities:
  - the Hong Kong and Macau branches of AIA International;
  - the Hong Kong and Macau business written by AIA Co.; and
  - AIA Pension and Trustee Co. Ltd., a subsidiary of AIA Co.
- AIA Indonesia refers to PT. AIA Financial, a subsidiary of AIA International;
- AIA Korea refers to the Korea branch of AIA International;
- AIA Malaysia refers to AIA Bhd., a subsidiary of AIA Co. and AIA PUBLIC Takaful Bhd., a 70 per cent owned subsidiary of AIA Co.;
- AIA New Zealand refers to the New Zealand branch of AIA International;
- Philam Life refers to The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co. and its 51 per cent owned subsidiary BPI-Philam Life Assurance Corporation;
- AIA Singapore refers to AIA Singapore Private Limited, a subsidiary of AIA Co., and the Brunei branch of AIA Co.;
- AIA Sri Lanka refers to AIA Insurance Lanka PLC, a 97.16 per cent owned subsidiary of AIA Co.;
- AIA Taiwan refers to the Taiwan branch of AIA International;
- AIA Thailand refers to the Thailand branches of AIA Co.; and
- AIA Vietnam refers to AIA (Vietnam) Life Insurance Company Limited, a subsidiary of AIA International.

## **4. METHODOLOGY** (continued)

### **4.1 Entities Included in This Report** (continued)

On 25 April 2016, the Group increased its shareholding of Tata AIA Life Insurance Company Limited (Tata AIA) from 26 per cent to 49 per cent. The financial results from Tata AIA are accounted for using the equity method and have been included in the Group ANW presented in this report. For clarity, the Group's ANP and VONB exclude any contribution from Tata AIA.

Results are presented consistently with the segment information in the IFRS financial statements. The summary of the EV of the Group by Business Unit in this report also includes a segment for "Group Corporate Centre" results. The results shown for this segment consist of the ANW for the Group's corporate functions and the present value of remittance taxes payable on distributable profits to Hong Kong. The ANW has been derived as the IFRS equity for this segment plus mark-to-market adjustments less the value of excluded intangible assets. For the VONB, "Other Markets" includes the present value of allowance for remittance taxes payable on distributable profits to Hong Kong.

### **4.2 Embedded Value and Value of New Business**

The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and VONB. This methodology makes implicit allowance for all sources of risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and for the economic cost of capital, through the use of a risk discount rate. Typically, the higher the risk discount rate, the greater the allowance for these factors. This is a common methodology used by life insurance companies in Asia currently. Alternative valuation methodologies and approaches continue to emerge and may be considered by AIA.

The business included in the VIF and VONB calculations includes all life business written by the Business Units of the Group, plus other lines of business which may not be classified as life business but have similar characteristics. These include accident and health, group and pension businesses. The projected in-force business included in the VIF also incorporates expected renewals on short-term business with a term of one year or less.

The EV is the sum of the ANW and VIF. The ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of the Group, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of the Company. The market value of investment property and property held for own use that is used to determine the ANW is based on the fair value disclosed in the Group's IFRS financial statements as at the valuation date. It is the Group's policy to obtain external property valuations annually except in the case of a discrete event occurring in the interim that has a significant impact on the fair value of the properties.

The VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in a participating fund, there is no associated cost of capital included in the VIF or VONB.

EV Equity is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company.

The VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business. The VONB for the Group is calculated based on assumptions applicable at the point of measurement and before deducting the amount attributable to non-controlling interests. The VONB attributable to non-controlling interests was US\$19 million for the year ended 30 November 2016 (2015: US\$21 million).

A deduction has been made from the EV and VONB for the present value of future after-tax unallocated Group Office expenses, representing the expenses incurred by the Group Office which are not allocated to the Business Units. These unallocated Group Office expenses have been allocated to acquisition and maintenance activities, and a deduction made from the VONB and VIF respectively.

## **4. METHODOLOGY** (continued)

### **4.3 Definition of New Business**

New business includes the sale of new contracts during the period, additional single premium payments on recurrent single premium contracts and increments to existing contracts where these are not variations allowed for in the calculation of the VIF. The VONB also includes the present value of cash flows associated with new policies written during the reporting period but subsequently terminated before the valuation date.

For group renewable business including group yearly renewable term business, new business is composed of new schemes set up during the period plus any premium payable on existing schemes that exceeds the prior year's premiums. For individually significant group cases, the VONB is calculated over each premium rate guarantee period entered upon contract inception or renewal.

For short-term accident and health business with a term of one year or less, renewals of existing contracts are not considered new business, and the value of expected renewals on this business is included in the VIF.

For pension business, sales of new contracts during the period and any new contributions, including assets transferred in, are considered as new business for the calculation of the VONB.

New business volumes shown in this report are measured using annualised new premiums (ANP), which is an internal measure of new business sales.

### **4.4 Consolidation of Branches of AIA Co. and AIA International**

The Group's subsidiaries, AIA Co. and AIA International, are both Hong Kong-regulated entities. AIA operates in a number of territories as branches of these entities. Therefore, the business written in these branches is subject to the local reserving and capital requirements in the relevant territory and the Hong Kong reserving and capital requirements applicable to AIA Co. and AIA International at the entity level.

For these branches, the EV Results shown in Section 2 of this report have been calculated reflecting the more onerous of the Hong Kong and branch level local regulatory reserving and capital requirements. This was done because the ultimate distribution of profits to shareholders of the Company from AIA Co. and AIA International will depend on both the Hong Kong and the local regulatory reserving and capital requirements. At the end of November 2016, the overall more onerous reserving and capital basis for both AIA Co. and AIA International was the Hong Kong regulatory basis. This impact is shown as a Group-level adjustment to the EV and VONB. The EV and VONB for each Business Unit reflect only the local reserving and capital requirements, as discussed in Section 4.6 of this report.

### **4.5 Valuation of Future Statutory Losses**

For certain lines of business, projected future statutory profits are negative due to the local statutory reserves being insufficient to meet the value of future policyholder cash flows. Within a traditional embedded value framework, there are a number of acceptable methods for determining the value of a combination of positive and negative statutory profits for different lines of business.

For the purposes of this valuation, future projected statutory losses have been valued by discounting them at the risk discount rate for the relevant Business Unit, with any negative VIF eliminated for each reported segment by reducing the ANW and EV. This has been done because the allowance for risk in the range of selected risk discount rates for each Business Unit has been set taking into account the presence of any such business lines with projected statutory losses. Also, the currently overall more onerous Hong Kong regulatory reserving and capital requirements for the branches of AIA Co. and AIA International have the effect of reducing the level of any future projected statutory losses for these Business Units. Based on the assumptions described in Section 5 of this report, and allowing for the Hong Kong statutory reserving and capital requirements for the branches of AIA Co. and AIA International, the overall projected annual distributable profits from the current in-force business and the assets backing the required capital of the Group are positive over the remaining lifetime of the business. Therefore, it is not considered necessary to change the discounting approach described above.

## 4. METHODOLOGY (continued)

### 4.6 Required Capital

Each of the Business Units has a regulatory requirement to hold shareholder capital in addition to the assets backing the insurance liabilities. The Group's assumed levels of required capital for each Business Unit are set out in the table below. Further, the consolidated EV Results for the Group have been calculated reflecting the overall more onerous of the Hong Kong and branch level local regulatory reserving and capital requirements for AIA Co. and AIA International.

#### Required Capital by Business Unit

Business Unit	Required Capital
AIA Australia	100% of regulatory capital adequacy requirement
AIA China	100% of required capital as specified under the CAA EV assessment guidance <sup>(1)</sup>
AIA Hong Kong	150% of required minimum solvency margin <sup>(2)</sup>
AIA Indonesia	120% of regulatory Risk-Based Capital requirement
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
AIA New Zealand	100% of local regulatory requirement
Philam Life	100% of regulatory Risk-Based Capital requirement
AIA Singapore	180% of regulatory Risk-Based Capital requirement
AIA Sri Lanka	120% of regulatory Risk-Based Capital requirement <sup>(3)</sup>
AIA Taiwan	250% of regulatory Risk-Based Capital requirement
AIA Thailand	140% of regulatory Risk-Based Capital requirement
AIA Vietnam	100% of required minimum solvency margin

Notes:

- (1) On 22 November 2016, the China Association of Actuaries (CAA) issued new guidance for embedded value calculations. The new guidance has been applied to the EV calculations for AIA China as of 30 November 2016. Consistent with prior reporting periods, VONB is calculated as at the point of sale and therefore has not reflected the new guidance within the reported VONB for AIA China in 2016. The additional Hong Kong reserving and capital requirements continue to apply and therefore there is no material impact of this change to the Group's overall EV results.
- (2) The required minimum solvency margin for AIA Hong Kong is unchanged under the revised undertaking to the HKOCI.
- (3) The Insurance Board of Sri Lanka has implemented the Risk-Based Capital requirement, effective 1 January 2016. The new requirements were applied from 1 December 2015 in EV and VONB calculations.

## 5. ASSUMPTIONS

### 5.1 Introduction

This section summarises the assumptions used by the Group to determine the EV as at 30 November 2016 and the VONB for the year ended 30 November 2016 and highlights certain differences in assumptions between the EV as at 30 November 2015 and the EV as at 30 November 2016.

### 5.2 Economic Assumptions

#### Investment returns

The Group has set the assumed long-term future returns for fixed income assets to reflect its view of expected returns having regard to estimates of long-term forward rates from yields available on government bonds and current bond yields. In determining returns on fixed income assets the Group allows for the risk of default, and this allowance varies by the credit rating of the underlying asset.

Where long-term views of investment return assumptions differ from current market yields on existing fixed income assets such that there would be a significant impact on value, an adjustment was made to make allowance for the current market yields. In these cases, in calculating the VIF, adjustments have been made to the investment return assumptions such that the investment returns on existing fixed income assets were set consistently with the current market yield on these assets for their full remaining term, to be consistent with the valuation of the assets backing the policy liabilities.

## 5. ASSUMPTIONS (continued)

### 5.2 Economic Assumptions (continued)

#### Investment returns (continued)

The Group has set the equity return and property return assumptions by reference to the return on 10-year government bonds, allowing for an internal assessment of risk premia that vary by asset class and by territory.

For each Business Unit, the non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major asset classes.

For unit-linked business, fund growth assumptions have been determined based on actual asset mix within the funds at the valuation date and expected long-term returns for major asset classes.

#### Risk discount rates

The risk discount rates for each Business Unit can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make allowance for the risk profile of the business.

The Group has generally set the risk discount rates to be equal to the estimated cost of equity capital for each Business Unit within the Group. The cost of equity capital is derived using an estimated long-term risk-free interest rate, an equity risk premium and a market risk factor. In some cases, adjustments have been made to reflect territorial or Business Unit-specific factors.

The table below summarises the current market 10-year government bond yields referenced in EV calculations.

Business Unit	Current market 10-year government bond yields referenced in EV calculations (%)	
	As at 30 Nov 2016	As at 30 Nov 2015
AIA Australia	<b>2.72</b>	2.86
AIA China	<b>2.95</b>	3.12
AIA Hong Kong <sup>(1)</sup>	<b>2.38</b>	2.21
AIA Indonesia	<b>8.14</b>	8.61
AIA Korea	<b>2.15</b>	2.25
AIA Malaysia	<b>4.41</b>	4.20
AIA New Zealand	<b>3.13</b>	3.54
Philam Life	<b>4.52</b>	4.07
AIA Singapore	<b>2.30</b>	2.51
AIA Sri Lanka	<b>14.11</b>	10.33
AIA Taiwan	<b>1.12</b>	1.15
AIA Thailand	<b>2.69</b>	2.74
AIA Vietnam	<b>6.30</b>	7.10

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond yields shown above are those of US dollar-denominated bonds.

## 5. ASSUMPTIONS (continued)

### 5.2 Economic Assumptions (continued)

#### Risk discount rates (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The same risk discount rates were used for all the EV Results shown in Section 1 and Section 2 of this report. In particular, for the branches of AIA Co. and AIA International, the consolidated EV Results reflecting the Hong Kong reserving and capital requirements were calculated using the branch-specific risk discount rates shown in the table below. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. Note that VONB results were calculated based on start-of-quarter economic assumptions consistent with the measurement at the point of sale. The investment returns shown are gross of tax and investment expenses.

Business Unit	Risk discount rates assumed in EV calculations (%)		Long-term investment returns assumed in EV calculations (%)			
	As at 30 Nov 2016	As at 30 Nov 2015	10-year government bonds		Local equities	
			As at 30 Nov 2016	As at 30 Nov 2015	As at 30 Nov 2016	As at 30 Nov 2015
AIA Australia	<b>7.35</b>	7.75	<b>3.00</b>	3.40	<b>7.50</b>	7.50
AIA China	<b>9.55</b>	9.75	<b>3.50</b>	3.70	<b>9.30</b>	9.50
AIA Hong Kong <sup>(1)</sup>	<b>7.00</b>	7.00	<b>2.50</b>	2.50	<b>7.60</b>	7.55
AIA Indonesia	<b>13.50</b>	13.50	<b>8.00</b>	8.00	<b>12.50</b>	12.80
AIA Korea	<b>8.60</b>	9.10	<b>2.70</b>	3.20	<b>7.20</b>	7.20
AIA Malaysia	<b>8.75</b>	8.75	<b>4.20</b>	4.20	<b>8.80</b>	8.75
AIA New Zealand	<b>7.75</b>	8.25	<b>3.50</b>	4.00	<b>n/a<sup>(2)</sup></b>	n/a <sup>(2)</sup>
Philam Life	<b>11.00</b>	10.50	<b>4.50</b>	4.00	<b>9.70</b>	9.20
AIA Singapore	<b>6.90</b>	6.90	<b>2.50</b>	2.50	<b>7.00</b>	7.00
AIA Sri Lanka	<b>15.70</b>	15.70	<b>10.00</b>	10.00	<b>12.00</b>	11.70
AIA Taiwan	<b>7.85</b>	7.85	<b>1.60</b>	1.60	<b>6.60</b>	6.60
AIA Thailand	<b>8.60</b>	8.80	<b>3.20</b>	3.40	<b>9.00</b>	9.20
AIA Vietnam	<b>12.80</b>	13.80	<b>7.00</b>	8.00	<b>12.30</b>	13.80

Notes:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond assumptions shown above are those of US dollar-denominated bonds.

(2) The assumed asset allocations do not include equities.

### 5.3 Persistency

Persistency covers the assumptions required, where relevant, for policy lapse (including surrender), premium persistency, premium holidays, partial withdrawals and retirement rates for pension products.

Assumptions have been developed by each of the Business Units based on their recent historical experience, and their best estimate expectations of current and expected future experience. Persistency assumptions vary by policy year and product type with different rates for regular and single premium products.

Where experience for a particular product was not credible enough to allow any meaningful analysis to be performed, experience for similar products was used as a basis for future persistency experience assumptions.

In the case of surrenders, the valuation assumes that current surrender value bases will continue to apply in the future.



## 5. ASSUMPTIONS (continued)

### 5.4 Expenses

The expense assumptions have been set based on the most recent expense analysis. The purpose of the expense analysis is to allocate total expenses between acquisition and maintenance activities, and then to allocate these acquisition and maintenance expenses to various product categories to derive unit cost assumptions.

Where the expenses associated with certain activities have been identified as being one-off, these expenses have been excluded from the expense analysis.

Expense assumptions have been determined for acquisition and maintenance activities, split by product type, and unit costs expressed as a percentage of premiums, sum assured and an amount per policy. Where relevant, expense assumptions have been calculated per distribution channel.

Expense assumptions do not make allowance for any anticipated future expense savings as a result of any strategic initiatives aimed at improving policy administration and claims handling efficiency.

Assumptions for commission rates and other sales-related payments have been set in line with actual experience.

#### Group Office expenses

Group Office expense assumptions have been set, after excluding non-recurring expenses, based on actual acquisition and maintenance expenses in the year ended 30 November 2016. The Group Office acquisition expenses have been deducted from the VONB. The present value of the projected future Group Office maintenance expenses has been deducted from the Group EV. The maintenance expense assumptions in the VONB also allow for the allocation of Group Office expenses.

### 5.5 Expense Inflation

The assumed expense inflation rates are based on expectations of long-term consumer price and salary inflation.

#### Expense inflation assumptions by Business Unit (%)

Business Unit	As at 30 November 2016	As at 30 November 2015
AIA Australia	3.0	3.25
AIA China	2.0	2.0
AIA Hong Kong	2.0	2.0
AIA Indonesia	6.0	6.0
AIA Korea	3.5	3.5
AIA Malaysia	3.0	3.0
AIA New Zealand	2.5	2.5
Philam Life	3.5	3.5
AIA Singapore	2.0	2.0
AIA Sri Lanka	6.5	6.5
AIA Taiwan	1.2	1.2
AIA Thailand	2.0	2.0
AIA Vietnam	5.0	5.0

Unallocated Group Office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

## **5. ASSUMPTIONS** (continued)

### **5.6 Mortality**

Assumptions have been developed by each Business Unit based on their recent historical experience, and their expectations of current and expected future experience. Where historical experience is not credible, reference has been made to pricing assumptions supplemented by market data, where available.

Mortality assumptions have been expressed as a percentage of either standard industry experience tables or, where experience is sufficiently credible, as a percentage of tables that have been developed internally by the Group.

For products that are exposed to longevity risk, an allowance has been made for expected improvements in mortality; otherwise no allowance has been made for mortality improvements.

### **5.7 Morbidity**

Assumptions have been developed by each Business Unit based on their recent historical experience, and their expectations of current and expected future experience. Morbidity rate assumptions have been expressed as a percentage of standard industry experience tables or as expected claims ratios.

### **5.8 Reinsurance**

Reinsurance assumptions have been developed by each Business Unit based on the reinsurance arrangements in force as at the valuation date and the recent historical and expected future experience.

### **5.9 Policyholder Dividends, Profit Sharing and Interest Crediting**

The projected policyholder dividends, profit sharing and interest crediting assumptions set by each Business Unit that have been used in calculating the EV Results presented in this report, reflect contractual and regulatory requirements, policyholders' reasonable expectations (where clearly defined) and each Business Unit's best estimate of future policies, strategies and operations consistent with the investment return assumptions used in the EV Results.

Participating fund surpluses have been assumed to be distributed between policyholders and shareholders via future final bonuses or at the end of the projection period so that there are no residual assets at the end of the projection period.

## 5. ASSUMPTIONS (continued)

### 5.10 Taxation

The projections of distributable earnings underlying the values presented in this report are net of corporate income tax, based on current taxation legislation and corporate income tax rates. The projected amount of tax payable in any year allows, where relevant, for the benefits arising from any tax loss carried forward.

The local corporate income tax rates used by each Business Unit are set out below:

#### Local corporate income tax rates by Business Unit (%)

Business Unit	As at 30 November 2016	As at 30 November 2015
AIA Australia	30.0	30.0
AIA China	25.0	25.0
AIA Hong Kong	16.5	16.5
AIA Indonesia	25.0	25.0
AIA Korea	24.2	24.2
AIA Malaysia <sup>(1)</sup>	24.0	25.0 for assessment year 2015; 24.0 thereafter
AIA New Zealand	28.0	28.0
Philam Life	30.0	30.0
AIA Singapore	17.0	17.0
AIA Sri Lanka	28.0	28.0
AIA Taiwan	17.0	17.0
AIA Thailand <sup>(2)</sup>	20.0	20.0
AIA Vietnam	20.0	22.0 for assessment year 2015; 20.0 thereafter

#### Notes:

- (1) The Malaysian Government announced a corporate income tax rate change in the Federal Government Budget 2014 which became effective from assessment year 2016 onward.
- (2) The Government of Thailand announced in the Royal Gazette on 4 March 2016 a change in corporate income tax rate from 30 per cent to 20 per cent from assessment year 2016 onward. This change had been approved by the cabinet of the Government of Thailand in October 2015. The reported EV has been determined using this revised corporate income tax rate from assessment year 2015 onward. For clarity, VONB for the 2015 financial year was reported at the point of sale during the 2015 financial year and was therefore determined assuming the higher 30 per cent corporate income tax rate from assessment year 2016 onward.

The tax assumptions used in the valuation reflect the local corporate income tax rates set out above. Where applicable, tax payable on investment income has been reflected in projected investment returns.

The EV of the Group as at 30 November 2016 is calculated after deducting any remittance taxes payable on the anticipated distribution of both the ANW and VIF.

Where territories have an imputation credit system in place, e.g. Australia, no allowance has been made for the value of the imputation credits in the results shown in this report.

On 24 March 2016, the Ministry of Finance of the People's Republic of China released a VAT reform for insurance companies, effective from 1 May 2016, replacing the existing business tax system. The VAT change has been assumed to apply to the projected cash flows from 1 May 2016 in both EV and VONB calculations.

### 5.11 Statutory Valuation Bases

The projection of regulatory liabilities at future points in time assumes the continuation of the reserving methodologies used to value policyholder liabilities as at the valuation date.

On 22 November 2016, the CAA issued new guidance for embedded value calculations. The new guidance has been applied to the EV calculations for AIA China as of 30 November 2016. Consistent with prior reporting periods, VONB is calculated as at the point of sale and therefore has not reflected the new guidance within the reported VONB for AIA China in 2016.

## **5. ASSUMPTIONS** (continued)

### **5.12 Product Charges**

Management fees and product charges reflected in the VIF and VONB have been assumed to follow existing scales.

### **5.13 Foreign Exchange**

The EV as at 30 November 2016 and 30 November 2015 have been translated into US dollars using exchange rates as at each valuation date. The VONB results shown in this report have been translated into US dollars using the corresponding average exchange rates for each quarter. The other components of the EV profit shown in the analysis of movement in EV have been translated using average exchange rates for the period.

## **6. EVENTS AFTER THE REPORTING PERIOD**

On 22 December 2016, the Financial Supervisory Commission of Taiwan published the updated instruction for the Risk-Based Capital calculation, effective 1 January 2017. The impact is not expected to be material.

On 28 December 2016, the Insurance Commission of the Republic of the Philippines announced changes to the valuation standards and Risk-Based Capital Framework, effective 1 January 2017. The impact of these changes is not expected to be significant.

The Bermuda Monetary Authority announced changes in 2016 to the Bermuda Statutory Reporting Regime that will first apply to AIA's financial year ending 30 November 2017.

On 24 February 2017, a Committee appointed by the Board of Directors proposed a final dividend of 63.75 Hong Kong cents per share (2015: 51.00 Hong Kong cents per share).

## INFORMATION FOR SHAREHOLDERS

### REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 30 November 2016, including the accounting principles and practices adopted by the Group.

### COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company complied with all applicable code provisions of the Corporate Governance Code throughout the year ended 30 November 2016.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save for the purchase of 16,849,376 shares and sale of 276,401 forfeited shares of the Company under the Restricted Share Unit Scheme and the Employee Share Purchase Plan at a total consideration of approximately US\$88 million and US\$2 million respectively, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 30 November 2016. These purchases and sales were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled. Please refer to note 38 to the financial statements for details.

### EVENTS AFTER THE REPORTING PERIOD

Details of significant events after the year ended 30 November 2016 are set out in note 44 to the financial statements.

### PUBLICATION OF CERTAIN FINANCIAL AND OTHER DATA PURSUANT TO LOCAL REGULATORY REQUIREMENTS

The Company and its subsidiaries or their respective branches are subject to local regulatory oversight in each of the countries or jurisdictions in which they operate. In a number of these jurisdictions, local insurance and other regulations require the publication of certain financial and other data primarily for policyholders' information and prudential supervisory purposes. Such local statutory data is often produced pursuant to regulations that are not designed with the protection or requirements of public shareholders as a primary objective.

The Company uses IFRS to prepare its consolidated financial information. The local statutory data may be prepared on bases different from IFRS and may be substantially different from the Company's IFRS financial information.

**Accordingly, our shareholders and potential investors are advised that the local statutory data should not be relied on for an assessment of the Company's financial performance.**

### FINAL DIVIDEND

The Board has recommended a final dividend of 63.75 Hong Kong cents per share (2015: 51.00 Hong Kong cents per share) for the year ended 30 November 2016. If approved, the proposed final dividend together with the interim dividend will represent a total dividend of 85.65 Hong Kong cents per share (2015: 69.72 Hong Kong cents per share) for the year ended 30 November 2016.

Subject to shareholders' approval at the AGM, the final dividend will be payable on Wednesday, 31 May 2017 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 17 May 2017.

### CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

The register of members of the Company will be closed from Wednesday, 10 May 2017 to Friday, 12 May 2017, both dates inclusive, during which period, no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 9 May 2017.

In order to qualify for the entitlement of the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 17 May 2017.

### **ANNUAL GENERAL MEETING**

The AGM will be held at 11:00 a.m. Hong Kong time on Friday, 12 May 2017 at the Grand Ballroom, 2/F, New World Millennium Hong Kong Hotel, 72 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong. Notice of the AGM will be published on the website of the Hong Kong Stock Exchange and the Company's website.

Details of voting results at the AGM can be found on the website of the Hong Kong Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) and the Company's website at [www.aia.com](http://www.aia.com) on Friday, 12 May 2017.

### **FORWARD-LOOKING STATEMENTS**

This document may contain certain forward-looking statements relating to the Group that are based on the beliefs of the Group's management as well as assumptions made by and information currently available to the Group's management. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to the Group's business prospects, future developments, trends and conditions in the industry and geographical markets in which the Group operates, its strategies, plans, objectives and goals, its ability to control costs, statements relating to prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

When used in this document, the words "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "will", "would" and similar expressions, as they relate to the Group or the Group's management, are intended to identify forward-looking statements. These forward-looking statements reflect the Group's views as of the date hereof with respect to future events and are not a guarantee of future performance or developments. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. Actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including any changes in the laws, rules and regulations relating to any aspects of the Group's business operations, general economic, market and business conditions, including capital market developments, changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, the actions and developments of the Group's competitors and the effects of competition in the insurance industry on the demand for, and price of, the Group's products and services, various business opportunities that the Group may or may not pursue, changes in population growth and other demographic trends, including mortality, morbidity and longevity rates, persistency levels, the Group's ability to identify, measure, monitor and control risks in the Group's business, including its ability to manage and adapt its overall risk profile and risk management practices, its ability to properly price its products and services and establish reserves for future policy benefits and claims, seasonal fluctuations and factors beyond the Group's control. Subject to the requirements of the Listing Rules, the Group does not intend to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, forward-looking events and circumstances discussed in this document might not occur in the way the Group expects, or at all. Accordingly, you should not place reliance on any forward-looking information or statements. All forward-looking statements in this document are qualified by reference to the cautionary statements set forth in this section.

By Order of the Board  
**Mark Edward Tucker**  
*Executive Director*  
*Group Chief Executive and President*

Hong Kong, 24 February 2017

As at the date of this announcement, the Board of Directors of the Company comprises:

*Non-executive Chairman and Non-executive Director:*

Mr. Edmund Sze-Wing Tse

*Executive Director, Group Chief Executive and President:*

Mr. Mark Edward Tucker

*Independent Non-executive Directors:*

Mr. Jack Chak-Kwong So, Mr. Chung-Kong Chow, Mr. John Barrie Harrison, Mr. George Yong-Boon Yeo, Mr. Mohamed Azman Yahya, Professor Lawrence Juen-Yee Lau, Ms. Swee-Lian Teo and Dr. Narongchai Akrasanee

## GLOSSARY

active agent	An agent who sells at least one policy per month.
active market	<p>A market in which all the following conditions exist:</p> <ul style="list-style-type: none"><li>• the items traded within the market are homogeneous;</li><li>• willing buyers and sellers can normally be found at any time; and</li><li>• prices are available to the public.</li></ul> <p>A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.</p>
adjusted net worth or ANW	ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of AIA, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of AIA Group Limited.
AER	Actual exchange rates.
AGM	2017 Annual General Meeting of the Company to be held at 11:00 a.m. Hong Kong time on Friday, 12 May 2017.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA Co.	AIA Company Limited, a subsidiary of the Company.
AIA International	AIA International Limited, a subsidiary of AIA Co.
AIA Vitality	A science-backed wellness programme that provides participants with the knowledge, tools and motivation to help them achieve their personal health goals. The programme is a partnership between AIA and Discovery Limited, a specialist insurer headquartered in South Africa.
amortised cost	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.
annualised new premiums or ANP	ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within AIA. ANP excludes new business of pension business, personal lines and motor insurance.
ASPP	Agency Share Purchase Plan adopted by the Company on 23 February 2012 to enable eligible agents to acquire shares of the Company.



available for sale (AFS) financial assets	Financial assets that may be sold before maturity and that are used to back insurance and investment contract liabilities and shareholders' equity, and which are not managed on a fair value basis. Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value recorded in other comprehensive income.
bancassurance	The distribution of insurance products through banks or other financial institutions.
CER	Constant exchange rates. Change on constant exchange rates is calculated using constant average exchange rates for the current year and for the prior year other than for balance sheet items that use constant exchange rates as at the end of the current year and as at the end of the prior year.
consolidated investment funds	Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds.
Corporate Governance Code	Corporate Governance Code set out in Appendix 14 to the Listing Rules.
Cost of capital or CoC	CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing the required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in participating funds, there is no associated cost of capital included in the VIF or VONB.
deferred acquisition costs or DAC	DAC are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed to the consolidated income statement on a systematic basis over the life of the policy. DAC assets are tested for recoverability at least annually.
deferred origination costs or DOC	Origination costs are expenses which are incurred in connection with the origination of new investment contracts or the renewal of existing investment contracts. For contracts that involve the provision of investment management services, these include commissions and other incremental expenses directly related to the issue of each new contract. Origination costs on contracts with investment management services are deferred and recognised as an asset in the consolidated statement of financial position and expensed to the consolidated income statement on a systematic basis in line with the revenue generated by the investment management services provided. Such assets are tested for recoverability.
embedded value or EV	An actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business.
EPS	Earnings per share.

equity attributable to shareholders of the Company on the embedded value basis or EV Equity	EV Equity is the total of embedded value, goodwill and other intangible assets attributable to shareholders of the Company.
ESPP	Employee Share Purchase Plan adopted by the Company on 25 July 2011 to enable eligible employees to acquire shares of the Company.
ExCo	The Executive Committee of the Group.
fair value through profit or loss or FVTPL	Financial assets that are held to back unit-linked contracts and participating funds or financial assets and liabilities that are held for trading. A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year.
first half	The six months from 1 December to 31 May.
first year premiums	First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold.
free surplus	ANW in excess of the required capital.
group insurance	An insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf.
Group Office	Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions.
HKFRS	Hong Kong Financial Reporting Standards.
HKOCI	Hong Kong Office of the Commissioner of Insurance.
Hong Kong	The Hong Kong Special Administrative Region of the PRC; in the context of our reportable segments, Hong Kong includes Macau.
Hong Kong Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time.
Hong Kong Insurance Companies Ordinance or HKICO	Insurance Companies Ordinance (Chapter 41 of the Laws of Hong Kong), as amended from time to time. It provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong. The objectives of the HKICO are to protect the interests of the insuring public and to promote the general stability of the insurance industry.
Hong Kong Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited.

IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
IFA	Independent financial adviser.
IFRS	Standards and interpretations adopted by the International Accounting Standards Board (IASB) comprising: <ul style="list-style-type: none"> <li>• International Financial Reporting Standards;</li> <li>• International Accounting Standards; and</li> <li>• Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC).</li> </ul>
interactive Mobile Office or iMO	iMO is a mobile office platform with a comprehensive suite of applications that allow agents and agency leaders to manage their daily activities from lead generation, sales productivity and recruitment activity through to development training and customer analytics.
interactive Point of Sale or iPoS	iPoS is a secure, mobile point-of-sale technology that features a paperless sales process from the completion of the customer's financial-needs analysis to proposal generation with electronic biometric signature of life insurance applications on tablet devices.
investment experience	Realised and unrealised investment gains and losses recognised in the consolidated income statement.
investment income	Investment income comprises interest income, dividend income and rental income.
investment return	Investment return consists of investment income plus investment experience.
IPO	Initial Public Offering.
lapse risk	The rate of policy termination deviating from the Group's expectation. Lapse risk is taken into account in formulating projections of future premium revenues, for example when testing for liability adequacy and the recoverability of deferred acquisition and origination costs.
liability adequacy testing	An assessment of whether the carrying amount of an insurance liability needs to be increased or the carrying amount of related deferred acquisition and origination costs or related intangible assets decreased based on a review of future cash flows.
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
Million Dollar Round Table or MDRT	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.

net funds to Group Corporate Centre	In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable segments by the Group Corporate Centre segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.
n/a	Not available.
n/m	Not meaningful.
operating profit after tax or OPAT	The operating profit is determined using expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment returns for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment returns are based on the assumptions applied by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.
operating return on EV or ROEV	Operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value.
operating return on shareholders' allocated equity or ROE	Operating return on shareholders' allocated equity is calculated as operating profit after tax attributable to shareholders of the Company, expressed as a percentage of the simple average of opening and closing shareholders' allocated equity.
OTC	Over-the-counter.
participating funds	Participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The Group may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits.
participating policies	Participating policies are contracts with DPF. Participating policies may either be written within participating funds or may be written within the Company's general account, whereby the investment performance is determined for a group of assets or contracts, or by reference to the Company's overall investment performance and other factors. The latter is referred to by the Group as "other participating business". Whether participating policies are written within a separate participating fund or not largely depends on matters of local practice and regulation.
persistence	The percentage of insurance policies remaining in force from month to month in the past 12 months, as measured by premiums.
Philam Life	The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co.; in the context of the Supplementary Embedded Value Information, Philam Life includes BPI-Philam Life Assurance Corporation.

policyholder and shareholder investments	Investments other than those held to back unit-linked contracts as well as assets from consolidated investment funds.
pps	Percentage points.
PRC	The People's Republic of China.
protection gap	The difference between the resources needed and resources available to maintain dependants' living standards after the death of the primary wage-earner.
puttable liabilities	A puttable financial instrument is one in which the holder of the instrument has the right to put the instrument back to the issuer for cash (or another financial asset). Units in investment funds such as mutual funds and open-ended investment companies are typically puttable instruments. As these can be put back to the issuer for cash, the non-controlling interests in any such funds which have to be consolidated by AIA are treated as financial liabilities.
regulatory minimum capital	Net assets held to meet the minimum solvency margin requirement set by the HKICO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.
renewal premiums	Premiums receivable in subsequent years of a recurring premium policy.
rider	A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premiums.
Risk-Based Capital or RBC	RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.
RMF	Risk Management Framework.
RSPUs	Restricted stock purchase units.
RSSUs	Restricted stock subscription units.
RSU Scheme	Restricted Share Unit Scheme.
second half	The six months from 1 June to 30 November.
share(s)	For the Company, shall mean ordinary share(s) in the capital of the Company.
shareholders' allocated equity	Shareholders' allocated equity is total equity attributable to shareholders of the Company less fair value reserve.
Singapore	The Republic of Singapore; in the context of our reportable segments, Singapore includes Brunei.
single premium	A single payment that covers the entire cost of an insurance policy.

SME	Small-and-medium sized enterprise.
SO Scheme	Share Option Scheme.
solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
solvency ratio	The ratio of the total available capital to the regulatory minimum capital applicable to the insurer pursuant to relevant regulations.
takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Tata AIA	Tata AIA Life Insurance Company Limited.
the Company	AIA Group Limited.
total weighted premium income or TWPI	TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded. As such it provides an indication of AIA's longer-term business volumes as it smoothes the peaks and troughs in single premiums.
unit-linked investments	Financial investments held to back unit-linked contracts.
unit-linked products	Unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges.
universal life	A type of insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account balance which are credited with interest at a rate either set by the insurer or reflecting returns on a pool of matching assets. The customer may vary the death benefit and the contract may permit the policyholder to withdraw the account balance, typically subject to a surrender charge.
value of business acquired or VOBA	VOBA in respect of a portfolio of long-term insurance and investment contracts acquired is recognised as an asset, calculated using discounted cash flow techniques, reflecting all future cash flows expected to be realised from the portfolio. VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the additional value of the business acquired. The carrying value of VOBA is reviewed annually for impairment and any impairment is charged to the consolidated income statement.

value of in-force business or VIF	VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business.
value of new business or VONB	VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding the required capital in excess of regulatory reserves to support this business. VONB for AIA is stated after adjustments to reflect additional Hong Kong reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB by market is stated before adjustments to reflect additional Hong Kong reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
VONB margin	VONB excluding pension business, expressed as a percentage of ANP. VONB margin for AIA is stated after adjustments to reflect additional Hong Kong reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB margin by market is stated before adjustments to reflect additional Hong Kong reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
working capital	Working capital comprises debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. These liquid assets are available to invest in building the Group's business operations.