

**ANNUAL  
REPORT  
2017**

STOCK CODE  
1299

# SHAPING OUR FUTURE

**AIA GROUP LIMITED**  
友邦保險控股有限公司



**HEALTHIER, LONGER,  
BETTER LIVES**

## VISION & PURPOSE

**OUR VISION** is to be the world's pre-eminent life insurance provider. That is our service to our customers and our shareholders.

**OUR PURPOSE** is to play a leadership role in driving economic and social development across the region. That is our service to societies and their people.

## 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, Cambodia, a 97 per cent subsidiary in Sri Lanka, a 49 per cent joint venture in India and a representative office in Myanmar.

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\$216 billion as of 30 November 2017.

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").

### Notes:

- (1) Explanations of certain terms and abbreviations used in this report are set forth in the Glossary.
- (2) Unless otherwise specified, 2016 and 2017 refer to the financial year of the Group, which ends on 30 November of the year indicated.

## KEY MILESTONES

**1919**

AIA put down its corporate roots in Asia when the group founder Mr. Cornelius Vander Starr established an insurance agency in Shanghai.

**1921**

Mr. Cornelius Vander Starr founded Asia Life Insurance Company, his first life insurance enterprise in Shanghai.

**1931**

Mr. Cornelius Vander Starr founded International Assurance Company, Limited (INTASCO), in Shanghai.

INTASCO established branch offices in Hong Kong and Singapore.

**1938**

INTASCO entered Siam, later renamed Thailand.

**1947**

The Philippine American Life and General Insurance Company (Philam Life) was founded in the Philippines.

INTASCO moved its head office to Hong Kong.

**1948**

INTASCO changed its name to American International Assurance Company, Limited.

We entered Malaysia.

**1957**

We registered in Brunei.

**1972**

We formed a subsidiary in Australia.

**1981**

Our New Zealand operations began as a branch of American Life Insurance Company (ALICO).

**1982**

We entered Macau.

**1984**

We entered Indonesia.

**1987**

Korean operations began.

**1990**

Our operations in Taiwan were established as a branch of ALICO.



1919



2010

**1992**

We re-established our presence in China through a branch office in Shanghai, the first foreign-owned life business to receive a licence in the country.

**1998**

We celebrated the return to our former headquarters building on The Bund in Shanghai.

**2000**

We formed a subsidiary in Vietnam.

**2001**

A joint venture in India was established.

## 2009

ALICO Taiwan became our branch office.

Philam Life became our operating subsidiary.

We completed the reorganisation driven by AIG's liquidity crisis in 2008, leading to the positioning of the Company for a public listing.

## 2010

AIA Group Limited successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited, the third-largest IPO ever globally at the time.

## 2014

AIA and Citibank formed a landmark, long-term and exclusive bancassurance partnership that encompasses 11 markets in the Asia-Pacific region.

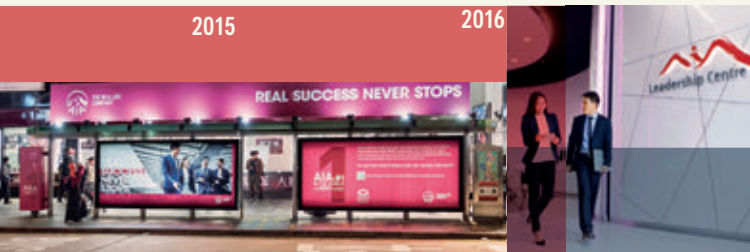
AIA became the Official Shirt Partner of Tottenham Hotspur Football Club to promote the role of sports as a key element of healthy living.

## 2015

AIA became the #1 MDRT company in the world.

2015

2016



## 2011

AIA Group Limited became a constituent stock of the Hang Seng Index.

We launched a sponsored Level 1 American Depository Receipt programme.

## 2013

AIA completed the full integration of the businesses of AIA and ING Malaysia.

We commenced business in Sri Lanka through the acquisition of Aviva NDB Insurance.

We opened a representative office in Myanmar.

## 2016

The AIA Leadership Centre opened in Bangkok.

AIA became the world's #1 MDRT company for two consecutive years.

We increased AIA Group's stake in Tata AIA Life Insurance Company Limited, a joint venture in India, from 26 per cent to 49 per cent.

# 2017

## AIA OPENS FOR BUSINESS IN CAMBODIA

AIA was granted an insurance licence and commenced business in Cambodia.

## AIA FURTHER EXTENDS LEADERSHIP POSITION IN THE AUSTRALIAN AND NEW ZEALAND LIFE INSURANCE MARKETS

AIA reached an agreement with the Commonwealth Bank of Australia (CBA) to acquire CBA's life insurance business in Australia and life and health insurance businesses in New Zealand. AIA also entered into 20-year strategic bancassurance partnerships with CBA in both markets.

## AIA NAMED #1 MDRT COMPANY IN THE WORLD FOR THIRD YEAR RUNNING

AIA became the only multinational company in the world to have achieved the largest number of MDRT members for three consecutive years.

2017



## AIA PARTNERS WITH BANGKOK BANK

AIA agreed a strategic long-term bancassurance partnership with Bangkok Bank, in keeping with our strategic priority of partnering with leading financial institutions across the Asia-Pacific region.

## AIA APPOINTS DAVID BECKHAM AS GLOBAL AMBASSADOR

AIA appointed David Beckham as our Global Ambassador in support of our goal to help people live healthier, longer, better lives.

## AIA PRESENTS THE HONG KONG OBSERVATION WHEEL AND THE AIA VITALITY PARK

In December 2017, AIA became the exclusive Principal Sponsor of the Hong Kong Observation Wheel and also enhanced the site by an adjoining, newly created AIA Vitality Park.

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## AIA AT-A-GLANCE

We have a diversified business across the Asia-Pacific region. Our long experience in the region allows us to tailor our strategies to the culture, demographics and insurance needs of each market in which we operate.

DRIVING ECONOMIC  
AND SOCIAL  
DEVELOPMENT  
ACROSS ASIA SINCE  
1919



PRESENCE  
IN  
**18**  
MARKETS

HONG KONG	INDONESIA
MACAU	NEW ZEALAND
THAILAND	THE PHILIPPINES
SINGAPORE	SRI LANKA
BRUNEI	TAIWAN
MALAYSIA	VIETNAM
CHINA	INDIA
KOREA	MYANMAR
AUSTRALIA	CAMBODIA

A photograph of three business professionals in a meeting. A man in a dark suit and red tie is on the left, gesturing with his hand. A woman is in the center, and another man in a dark suit is on the right, also gesturing.

**NO.1 WORLDWIDE  
FOR MDRT MEMBERS**

the only multinational company to top the table for three consecutive years

A photograph of a man in a dark suit and blue tie giving a thumbs up gesture. A woman is partially visible behind him.


**THE LARGEST  
LISTED COMPANY  
ON THE HONG KONG  
STOCK EXCHANGE**

which is incorporated and headquartered in Hong Kong

A photograph of a woman in a black athletic top running on a path. She is wearing a smartwatch and has a focused expression.

**2<sup>ND</sup> LARGEST  
LIFE INSURER IN  
THE WORLD**

The only international life insurer headquartered and listed in Hong Kong and **100% FOCUSED ON ASIA-PACIFIC**

A photograph of a woman in a black athletic top running on a path. She is wearing a smartwatch and has a focused expression.

Serving the holders of more than

**30 MILLION**

individual policies and over

**16 MILLION  
PARTICIPATING  
MEMBERS**

of group insurance schemes

A photograph of a woman and a young girl sitting on a couch. The woman is smiling and high-fiving the girl, who is also smiling.

**13 MILLION  
BENEFIT PAYMENTS**

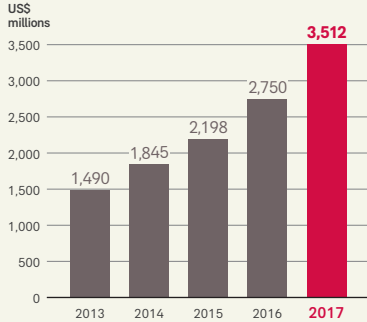
are made during 2017, helping customers and their families to cope with challenges at different life stages

A photograph of a young girl in pink pajamas sitting on a bed, reaching out to a young boy in blue patterned pajamas who is lying on the bed. A teddy bear is on the bed between them.

Provides protection to people across the region with total sum assured of over  
**US\$ 1 TRILLION**

# 2017 RESULTS AT-A-GLANCE\*

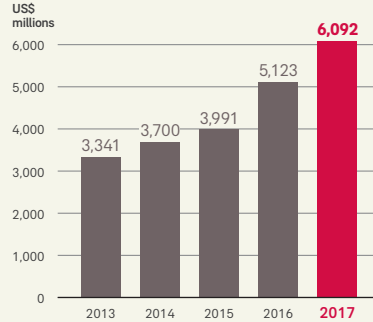
## VALUE OF NEW BUSINESS (VONB)<sup>(1)</sup>



**+28%**  
YoY (CER)

**+28%**  
YoY (AER)

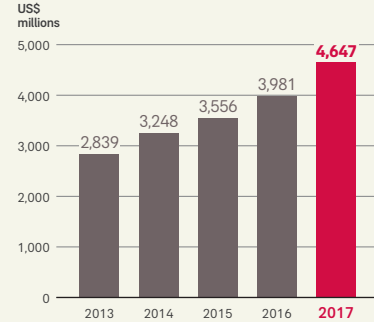
## ANNUALISED NEW PREMIUMS (ANP)<sup>(2)</sup>



**+19%**  
YoY (CER)

**+19%**  
YoY (AER)

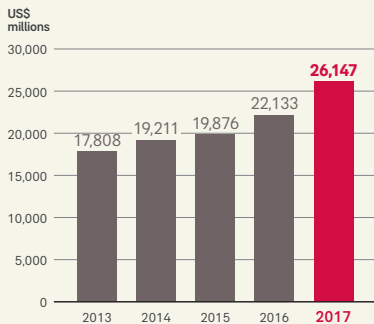
## OPERATING PROFIT AFTER TAX (OPAT)<sup>(3)</sup>



**+16%**  
YoY (CER)

**+17%**  
YoY (AER)

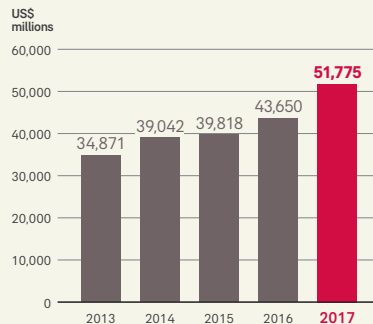
## TOTAL WEIGHTED PREMIUM INCOME (TWPI)<sup>(4)</sup>



**+18%**  
YoY (CER)

**+18%**  
YoY (AER)

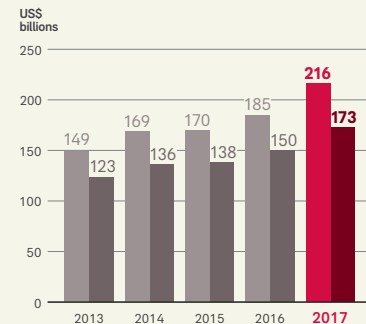
## EV EQUITY<sup>(5)</sup>



**+15%**  
YoY (CER)

**+19%**  
YoY (AER)

## TOTAL ASSETS AND TOTAL LIABILITIES



**+17%**  
TOTAL ASSETS

**+16%**  
TOTAL LIABILITIES

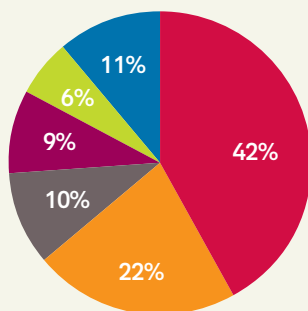
Note:

\* Percentages shown indicate changes in 2017 compared with 2016.

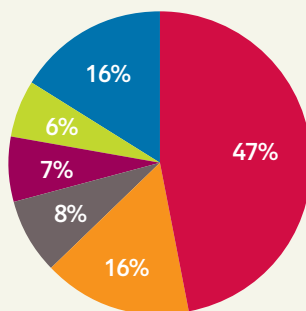


# 2017 BREAKDOWN BY MARKET SEGMENT

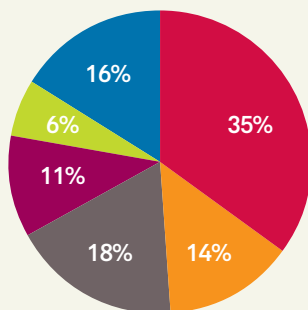
**VALUE OF NEW BUSINESS (VONB)<sup>(1)(6)</sup>**



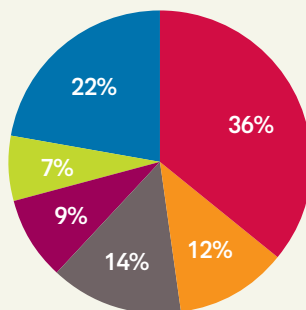
**ANNUALISED NEW PREMIUMS (ANP)<sup>(2)</sup>**



**OPERATING PROFIT AFTER TAX (OPAT)<sup>(3)</sup>**



**TOTAL WEIGHTED PREMIUM INCOME (TWPI)<sup>(4)</sup>**



**Notes:**

- (1) Value of new business (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.
- (2) Annualised new premiums (ANP) is a measure of new business activity that is calculated as the sum of 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded.
- (3) Operating profit after tax (OPAT) is shown after non-controlling interests.
- (4) Total weighted premium income (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.
- (5) Embedded value (EV) is 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. EV Equity is the total of embedded value, goodwill and other intangible assets.
- (6) Based on local statutory basis and before unallocated Group Office expenses, VONB by segment includes pension business.
- (7) 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.

## CHAIRMAN'S STATEMENT

I am pleased to report that 2017 was once again a very successful year for AIA.

Over the course of the year, the global economy experienced one of the strongest periods of concerted growth in the last decade. This was especially evident in the Asia-Pacific region, where growth accelerated for many of the region's largest economies. Amidst this combined positive macroeconomic and capital markets backdrop, AIA delivered another excellent operating performance, achieving strong results across all of our main financial metrics.

Value of new business (VONB) reached US\$3,512 million, a 28 per cent increase compared with 2016. IFRS operating profit after tax grew by 16 per cent to US\$4,647 million and EV Equity was up 15 per cent over the year to US\$51,775 million.

AIA's ability to finance strong new business growth, while progressively growing shareholder dividends, clearly demonstrates the Group's financial strength and flexibility. This is underpinned by our disciplined approach to the financial management of our balance sheet taking into consideration the capital required to fund our growth. As at 30 November 2017, the solvency ratio for our principal regulated operating company AIA Co. remained strong at 443 per cent.

The Board of Directors has recommended a final dividend of 74.38 Hong Kong cents per share, subject to shareholders' approval at the Company's forthcoming AGM, which represents an increase of 17 per cent on the higher base established in 2016. This brings the total dividend for 2017 to 100.00 Hong Kong cents per share, which follows AIA's established prudent, sustainable and progressive dividend policy. This increase reflects the strength of our financial results and the Board's confidence in the Group's prospects.

AIA's consistent strong performance since our IPO could only have been achieved with the enduring confidence that our customers and shareholders have continued to place in AIA. On behalf of the entire Board, I would like to thank our highly-valued stakeholders for their ongoing trust and support.

One of the priorities for the Chairman and the Board is effective succession planning. I am very pleased with the appointment of Ng Keng Hooi as Group Chief Executive and President in June 2017, following the retirement of Mark Tucker. Keng Hooi is a proven leader with first-class strategic vision and a deep understanding of the Asia-Pacific region. In the months following Keng Hooi's appointment, we welcomed six new members to the Group's Executive Committee, five of whom were internal promotions. These appointments and the continued delivery of strong results throughout this period of change are a clear testament to the Group's incredible depth of leadership talent, which is a distinct competitive strength for AIA.

Another important focus of the Board is to ensure that AIA continues to uphold the highest standards of corporate governance and risk management. The Board strives to maintain these standards by providing oversight of the Group's governance framework and risk management activities, and by holding regular external reviews of our relevant principles and practices. These activities are vital for maintaining our stakeholders' confidence in AIA. All of the non-executive directors of the Board are independent and have extensive leadership experience in the public and private sectors. I am privileged to work alongside these well-respected individuals.



Mr. Edmund Sze-Wing Tse  
Independent Non-executive Chairman

I would like to conclude by expressing the Board's deepest appreciation for the focus and commitment demonstrated by AIA's employees, agents and partners across the Group. Special thanks are due to our Group Chief Executive and President Ng Keng Hooi and his team for their excellent leadership, which has been instrumental in sustaining the success of AIA and enabling the Group to achieve these outstanding results. The Board would also like to recognise AIA's former Group Chief Executive and President, Mark Tucker, for his strong leadership and his substantial and lasting contribution to the Company.

We remain committed to playing a leadership role in driving economic and social development across the Asia-Pacific region. We look to build sustainable relationships with our customers, which will enable the Group to continue its consistent track record of long-term value creation for shareholders.

Edmund Sze-Wing Tse  
Independent Non-executive Chairman  
27 February 2018

## GROUP CHIEF EXECUTIVE AND PRESIDENT'S REPORT

I am pleased to report that AIA has delivered another strong set of results in 2017 and we have continued to make significant progress in delivering our strategic objectives. Our consistent track record of value creation has been built collectively by the dedication of our exceptional teams throughout the region and their focus on meeting the diverse needs of our customers and our partners.

Value of new business (VONB) grew by 28 per cent, IFRS operating profit after tax (OPAT) increased by 16 per cent and underlying free surplus generation grew by 13 per cent. Embedded Value Equity exceeded US\$50 billion for the first time, up by 15 per cent to US\$51,775 million, all on constant exchange rates.

The Board has recommended an increase of 17 per cent in the 2017 final dividend from the higher base established in 2016, reflecting AIA's strong financial performance and the Board's confidence in the Group's prospects.

AIA operates in some of the most dynamic and attractive life insurance markets in the world. The primary drivers of growth for those markets and AIA's business in the region remain as powerful and resilient as ever. Asia's economic expansion over the last decade, driven by the rapid urbanisation of large and growing populations, has led to increased levels of participation in the labour force and rising affluence. As larger numbers of households begin to cross higher-income thresholds, this leads to a significant step change in the need for protection and long-term savings products from these newly-affluent consumers. AIA is ideally placed to meet this fast-growing need.

These demographic trends are also giving rise to significant social and economic challenges. Ageing populations require greater access to healthcare and present a rapidly growing burden on state pensions. Given the increasing prevalence of lifestyle-related diseases, ageing populations and medical cost inflation, social welfare and healthcare provision in the markets where we operate remain at relatively limited levels.

Private insurance will therefore play an increasingly critical role in addressing the shortfall in protection cover needed to safeguard the population against early mortality, disability and growing out-of-pocket medical costs – the “protection gap”. Weakening family support networks, inefficient savings in the form of short-term deposits and insufficient provision for retirement, combined with increasing longevity, are also creating a substantial and growing “retirement savings gap”.

As a result, the needs and expectations of Asian consumers are changing rapidly. Personal health, wellness and the need for financial support into old age are increasingly front of mind. The key to meeting these needs is developing products and professional financial advice that are relevant, personalised and reflect an individual's needs and lifestyle.

Our leadership position in health and protection integrated with wellness and long-term savings is at the forefront of these developments and will continue to be our primary focus. AIA's unparalleled distribution capabilities, financial strength and product innovation place us in a unique and privileged position to help safeguard the financial security of consumers across the Asia-Pacific region.

AIA has delivered another strong set of results in 2017 and we have continued to make significant progress in delivering our strategic objectives.



Mr. Ng Keng Hooi  
Group Chief Executive and President

## 2017 PERFORMANCE HIGHLIGHTS (ON A CONSTANT EXCHANGE RATE BASIS)

Our strategy of meeting the long-term protection and savings needs of our customers in **Hong Kong** continued to deliver excellent results with 34 per cent growth in VONB and a 23 per cent increase in OPAT in 2017. VONB growth was broad-based across our main distribution channels and customer segments, led by an exceptionally strong performance in the first half of the year from the retail IFA channel, as previously highlighted. Our agency channel in Hong Kong continued to deliver excellent results throughout the year driven by the success of our Premier Agency strategy.

**China** delivered 60 per cent growth in VONB and a 39 per cent increase in OPAT in 2017. AIA's differentiated approach to training, recruitment and career development, aided by digital tools, continues to be a distinct competitive advantage and has transformed our agency force. Our agents are better able to serve the needs of the rapidly growing middle class in China through offering professional financial advice. This allows us to access the opportunities for growth in the Chinese life insurance market and sets AIA apart in the industry – both with our customers and our new recruits.

**Singapore** delivered a stronger second-half performance with positive VONB growth from our strategic focus on growing Premier Agency, developing profitable partnership distribution and sustaining our leadership position in group insurance.

AIA's operation in **Thailand** continued to transform our market-leading agency by recruiting the next generation of full-time agents. While VONB reduced in line with the first half performance, we saw strong progress in our Financial Adviser programme. This combines selective recruitment of young, highly educated candidates with best-in-class training, and is running in parallel with the reductions we are making in the numbers of less productive agents.

**Malaysia** delivered 16 per cent growth in VONB driven by our multi-channel distribution and our focus on improving the protection coverage of our customers. Our Takaful business in Malaysia also continued to make good progress and, since our launch three years ago, AIA is now a leading provider in this market.

**Other Markets** VONB grew by 27 per cent including strong performances from Australia and New Zealand, Korea, the Philippines, Sri Lanka, Taiwan and Vietnam. All markets in the segment delivered positive VONB growth in the year.

Our performance in 2017 is another clear demonstration of the benefits of AIA's diversified growth portfolio across geographical markets, products and distribution channels and the tremendous potential for profitable growth in the Asia-Pacific region.

## GROUP-WIDE OVERVIEW

### DISTRIBUTION

AIA was one of the first life insurers to introduce agency distribution in Asia and this remains our core distribution channel. Our agents provide us with an unparalleled ability to deliver professional face-to-face financial advice to our millions of customers across the region. Agency distribution accounted for approximately 70 per cent of the Group's total VONB with growth of 28 per cent to US\$2,541 million in 2017.

We remain committed to the disciplined execution of our Premier Agency strategy. Through our ongoing work of attracting quality recruits and enhancing their productivity, we aim to develop the next generation of Premier Agents. Million Dollar Round Table (MDRT) is an internationally recognised standard for financial planners, and in 2017, AIA became the only company to be ranked number one in the world for MDRT members for three consecutive years.

Partnership distribution, which includes bancassurance, broker and direct partnerships, remains a strategic priority for AIA and continued to deliver strong profitable growth. In 2017, the Group's VONB from partnership distribution exceeded US\$1 billion for the first time, growing by 27 per cent to US\$1,113 million. Over the course of the year, we also signed a number of new strategic partnership agreements with leading financial institutions in the region while continuing to deliver strong results from our existing partnerships.

We provide our agents and distribution partners with state-of-the-art digital tools that are designed to significantly enhance their professionalism and productivity. We believe that AIA is one of the few life insurers to have demonstrated success in leveraging technology to enable and improve distribution through our proprietary iPoS and iMO platforms. We have the capabilities and opportunities to keep innovating and adopting new digital technology that will allow AIA to further enhance customer experience and engagement. In the second half of the year, we launched the next major phase of iMO, our interactive Mobile Office platform. By significantly expanding our functionality beyond the sales modules in iPoS, iMO represents a major step change in support for our agents and distribution partners, spanning all of their daily activities including online recruitment, training and digital leads generation.

### **STRATEGIC PARTNERSHIPS**

Our focus continues to be on capturing the significant opportunities we have for organic growth by investing capital in new business that offers attractive rates of return. In addition, our scale and presence across the Asia-Pacific region places us in a strong position to take advantage of value-enhancing inorganic opportunities as they arise. We rigorously evaluate these opportunities against strict financial and strategic criteria, and we announced a number of transactions in 2017 that will materially extend our distribution reach across the region.

In September 2017, we announced the acquisition of the life insurance business in Australia and life and health insurance businesses in New Zealand of Commonwealth Bank of Australia (CBA), along with new 20-year strategic bancassurance distribution agreements in both markets. The transaction, subject to securing all necessary regulatory and governmental approvals, is expected to be accretive to earnings in the first year following completion and the partnership agreements are expected to deliver a range of important benefits to AIA and our stakeholders. Upon completion of this transaction, AIA will become the leading life insurer in the profitable individual life protection markets of both Australia and New Zealand. It will add to AIA's strength in individual and group insurance in these markets by materially expanding and strengthening AIA's distribution capabilities and customer reach to CBA's combined base of 13 million customers.

We also announced a new 15-year strategic bancassurance partnership in October 2017 with Bangkok Bank, the largest bank in Thailand. This partnership is a significant opportunity for AIA to broaden our regional bancassurance presence and reinforce our market leadership position in Thailand.

Earlier in the year, we extended our partnership with Bank Central Asia (BCA) in Indonesia by a further 10 years and, in December 2017, we announced a 15-year extension to our exclusive regional bancassurance agreement with Public Bank that extends the existing partnership to 2037.

We also entered into a new strategic partnership with SK Group, one of the largest business conglomerates in Korea, through a long-term marketing and technology development agreement with SK Holdings, the holding company for the leading telecommunications service provider in Korea, SK Telecom. Our partnership creates strategic cooperation across a number of initiatives, including the offer of AIA Vitality and related propositions to SK Telecom's over 30 million customers.

Our new and extended agreements reflect AIA's market-leading reputation for partnership distribution capabilities and expand our distribution reach to create additional new business growth opportunities while delivering attractive returns on capital.

### **BRAND AND MARKETING**

AIA has one of the most recognised and trusted brands in Asia, built over our long history in the region. Our brand promise of helping our customers live healthier, longer, better lives is one that resonates with the rapidly evolving needs, lifestyles and expectations of Asian consumers. This clear theme influences every aspect of our proposition for customers, refining the way we align benefits to customers' needs and influencing the quality of our service.

AIA continues to transform from product provider to partner. This provides a strong basis for developing deep, long-term relationships with our customers. There are enormous opportunities in evolving life and health insurance, moving from a transaction-based model to one where we work with our customers, helping prevent the onset of illness by encouraging changes in lifestyle. AIA Vitality, the first science-based comprehensive wellness programme in the Asia-Pacific region, is at the heart of this transformation and continues to gain traction. This innovative programme is now available in 10 of our markets, and the number of full Vitality members has trebled in 2017 as we offered a wide range of healthy lifestyle initiatives aimed at engaging local communities and promoted healthy living throughout the year.

We extended our partnership with the English Premier League Football Club, Tottenham Hotspur, for a further five years as the lead shirt sponsor of the club and we also appointed David Beckham as AIA's Global Ambassador in 2017. David is one of the most recognised individuals in the world and his sporting reputation is well-aligned with AIA's established brand promise and promotion of healthy lifestyles through active participation in sport.

### **TECHNOLOGY AND OPERATIONS**

New technology is a critical enabler underpinning our transformation to be a partner to our customers. We have made substantial investments in digital technology during the year that will make a material difference to how we do business with our customers, agents and distribution partners. Our approach to investing in and deploying new digital technologies is focused on enhancing our back-office processes and increasing operational efficiency, transforming the customer experience and improving the productivity of our distribution. We also promote innovation and aim to leverage emerging technologies to support long-term sustainable growth.

AIA completed the migration of our back office in four of our major markets into a dedicated "private cloud" environment. This was one of the largest cloud migration programmes in the insurance industry in Asia enabling availability of on-demand computing power across our back office. We developed and launched the first blockchain-enabled bancassurance network with one of our bank partners in Hong Kong and deployed new Artificial Intelligence (AI) solutions to help drive customer and agent service efficiency, as well as to support effective decision-making. We also launched the next phase of iMO, our interactive Mobile Office platform, to expand the functionality of our suite of digital tools that support our distribution platforms. These are just a few examples of the many activities that are taking place across the Group in this area.

We are constantly looking for opportunities to use innovative technologies in ways where we can leverage our scale and capabilities to industrialise them across the Group. In this way, our investments in digital technology will add material value to our customers and make meaningful improvements to our operational efficiency.



## ENGAGEMENT WITH PEOPLE

AIA's successes over the years have been the direct result of the leadership talent, professionalism, commitment and care demonstrated by our employees and agents throughout our organisation. The Group remains dedicated to creating opportunities for our staff and improving engagement with our corporate purpose and operating principles. The AIA Leadership Centre in Bangkok is fully operational and is continuing to introduce new executive and staff development programmes. In 2017, AIA once again received the "Regional Best Employer, Asia Pacific" award from Aon Hewitt in recognition of our efforts in employee engagement, talent development and performance management.

2017 was a year of change and new opportunities for the Group's senior leadership team. AIA has robust succession plans with carefully considered candidates for all senior leadership positions across the Group. The success of this framework was clearly demonstrated this year with the smooth transition of responsibilities to our new Group Executive Committee members and the consistent delivery of a strong operating performance throughout the transition period. I am pleased to report that five of the six new Group Executive Committee members appointed this year were internal promotions, underscoring AIA's deep pool of leadership talent and experience.

Management teams from across the organisation, in both Group Office and the local business units, also undertook a major project to review our strategy and our operating models. The objective was to identify priorities and develop initiatives that will build on our unique competitive advantages and sustain our strong track record of value creation. This review resulted in an updated strategic framework with a set of strategic priorities and challenging internal targets for the Group, which will require us to continue to evolve our capabilities and develop our people.

## OUTLOOK

Economic growth accelerated across much of the Asia-Pacific region as domestic consumption and services continued to replace exports as the major drivers of growth and monetary policy remained supportive during the year. Economic reform and targeted risk reduction continued in China as policymakers execute a rebalancing of the economy further away from manufacturing over the long term.

Current monetary policy conditions continue to be constructive with Asian policymakers retaining the willingness and ability on both the monetary and fiscal fronts to supplement domestic growth drivers. The outlook for overall growth in the region remains strong and broad-based as real disposable incomes continue to rise, financial conditions are supportive and consumer demand for financial services is accelerating, providing strong support for the life insurance industry and for AIA.

AIA is an exceptional company with a unique culture. The combination of major competitive advantages together with our strong operational execution and AIA's unique franchise gives me the confidence that we will continue to capture the significant opportunities that the region presents. We still have a lot to do to achieve this and I am tremendously excited about the future.

I remain committed to realising AIA's full potential in Asia-Pacific and I look forward with great enthusiasm as we continue to execute our growth strategy to create long-term sustainable value for our shareholders.



**Ng Keng Hooi**  
Group Chief Executive and President  
27 February 2018

# FINANCIAL AND OPERATING REVIEW

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## FINANCIAL REVIEW



Mr. Garth Jones  
Group Chief Financial Officer

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.

## **SUMMARY AND KEY FINANCIAL HIGHLIGHTS**

Our financial performance in 2017 has once again demonstrated AIA's ability to deliver strong and consistent results with double-digit growth across our main financial metrics of VONB, IFRS operating profit after tax and embedded value. We have also increased capital and free surplus generation from the active management of our in-force book, financed our growth, maintained our resilient solvency position and increased shareholder dividends during the year. We have a clear strategy that is working well and with a strong track record of execution. Our focus will continue to be on delivering profitable growth using our competitive advantages to invest capital where we see attractive opportunities. This is underpinned by our disciplined financial management with the aim of maintaining our prudent balance sheet taking into consideration the financial flexibility needed to fund our growth. We remain confident in AIA's long-term prospects and ability to continue to deliver value for shareholders.

### **EMBEDDED VALUE**

VONB grew by 28 per cent to US\$3,512 million benefiting from AIA's diverse growth platform across geographical markets, products and distribution channels. Our agency and partnership businesses delivered 28 per cent and 27 per cent VONB growth respectively, while Hong Kong, Malaysia, China and our Other Markets each delivered double-digit VONB growth in 2017.

ANP increased by 19 per cent to US\$6,092 million and VONB margin was higher by 4.1 pps to 56.8 per cent. Margin reported on a present value of new business premium (PVNBP) basis also increased to 10 per cent from 9 per cent in 2016.

EV operating profit increased by 19 per cent to US\$6,997 million reflecting strong new business growth, a higher expected return on EV of US\$3,317 million and overall positive operating variances of US\$304 million from the proactive management of our in-force portfolio. This has driven a strong increase of 110 bps in our operating ROEV to 16.6 per cent compared with 2016.

Equity attributable to shareholders of the Company on the embedded value basis (EV Equity) grew by US\$8,125 million to US\$51,775 million. The increase was mainly driven by EV operating profit growth of 19 per cent and investment return variances of US\$1,517 million reflecting the positive effect of short-term capital market movements. We also benefited from foreign exchange translation movements of US\$1,265 million. The strong growth in EV Equity is reported after the payment of shareholder dividends totalling US\$1,376 million.

## IFRS EARNINGS

OPAT increased by 16 per cent to US\$4,647 million mainly driven by double-digit growth in Hong Kong, Singapore, China and our Other Markets. Each of our operating market segments delivered positive OPAT growth compared with 2016. This strong performance was the result of the growth in new business over time and the proactive management of our in-force portfolio.

The expense ratio reduced to 7.5 per cent from 7.9 per cent in 2016, from disciplined expense management and as we continued to benefit from increasing scale.

Operating margin after tax was 17.9 per cent compared with 18.1 per cent in 2016. Each of our market segments reported an improvement in operating margin apart from Hong Kong reflecting significant TWPI growth in 2017 and a shift in product mix towards participating business.

Operating return on shareholders' allocated equity (operating ROE) increased by 20 bps to 14.2 per cent reflecting strong OPAT growth partly offset by the significant positive effect on shareholders' allocated equity of short-term capital market movements. Shareholders' allocated equity grew by US\$6,026 million to US\$35,658 million at 30 November 2017.

## CAPITAL POSITION AND DIVIDENDS

Underlying free surplus generation grew by 13 per cent to US\$4,527 million. The amount invested in writing new business was stable at US\$1,376 million with the increase from growth in new business offset by a higher proportion of participating business that has a lower reported new business strain.

Free surplus increased by US\$2,521 million to US\$12,303 million at 30 November 2017 mainly reflecting strong underlying free surplus generation, net of new business investment, of US\$3,151 million and positive investment return variances and other items of US\$940 million, less the payment of shareholder dividends totalling US\$1,376 million.

The solvency ratio of AIA Company Limited (AIA Co.), our principal operating company, was 443 per cent at 30 November 2017, up by 39 pps compared with 404 per cent at 30 November 2016. The higher solvency ratio was driven by the strong growth in retained earnings and the positive effect of short-term capital market movements on our investment portfolio and statutory reserves, partly offset by dividends to AIA Group Limited.

Net funds remitted to the Group Corporate Centre were US\$2,106 million in 2017 with each of our operating market segments remitting positive cashflows.

The Board has recommended a final dividend of 74.38 Hong Kong cents per share, subject to shareholders' approval at the Company's forthcoming AGM. This brings the total dividend for 2017 to 100.00 Hong Kong cents per share, an increase of 17 per cent on the higher base established in 2016. This reflects the strength of our financial results and our confidence in the outlook for the Group. The Board intends to follow AIA's established prudent, sustainable and progressive dividend policy allowing for future growth opportunities and the financial flexibility of the Group.

## NEW BUSINESS PERFORMANCE

### VONB, ANP and Margin by Segment

US\$ millions, unless otherwise stated	2017			2016			VONB Change	
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YoY CER	YoY AER
Hong Kong	1,559	53.2%	2,849	1,161	48.8%	2,294	34%	34%
Thailand	381	73.6%	518	384	81.5%	471	(4)%	(1)%
Singapore	311	71.8%	433	316	74.1%	427	(1)%	(2)%
Malaysia	220	62.5%	348	198	57.1%	341	16%	11%
China	828	85.5%	968	536	86.4%	621	60%	54%
Other Markets	408	41.2%	976	321	32.9%	969	27%	27%
<b>Subtotal</b>	<b>3,707</b>	<b>60.0%</b>	<b>6,092</b>	2,916	56.0%	5,123	28%	27%
Adjustment to reflect consolidated reserving and capital requirements	(65)	n/m	n/m	(37)	n/m	n/m	n/m	n/m
After-tax value of unallocated Group Office expenses	(130)	n/m	n/m	(129)	n/m	n/m	n/m	n/m
<b>Total</b>	<b>3,512</b>	<b>56.8%</b>	<b>6,092</b>	2,750	52.8%	5,123	28%	28%

VONB grew by 28 per cent to US\$3,512 million mainly driven by double-digit growth in Hong Kong, Malaysia, China and our Other Markets. Our agency business delivered 28 per cent VONB growth to US\$2,541 million and partnership distribution VONB grew by 27 per cent to US\$1,113 million compared with 2016.

ANP increased by 19 per cent to US\$6,092 million and VONB margin was higher by 4.1 pps to 56.8 per cent. Margin reported on a present value of new business premium (PVNBP) basis also increased to 10 per cent from 9 per cent in 2016.

Hong Kong delivered another excellent performance with VONB growth of 34 per cent to US\$1,559 million. We continued to benefit from broad-based growth across distribution channels and customer segments led by an exceptionally strong performance in the first half of the year from the retail IFA channel, as previously highlighted. Our agency channel in Hong Kong delivered another excellent performance driven by a strong increase in the number of active agents.

AIA's wholly-owned operation in China was our fastest-growing business with VONB growth of 60 per cent to US\$828 million. The consistent execution of our Premier Agency strategy continued to deliver a significant increase in the number of active agents and our extensive use of digital technology helped to drive higher agent productivity levels compared with 2016.

VONB in Thailand reduced by 4 per cent to US\$381 million consistent with the performance in the first half. We continue to transform our market-leading agency force by selective recruitment through our Financial Adviser programme and increasing the productivity of our existing agents. We also announced in October 2017 that we had reached an agreement on a new 15-year bancassurance partnership with Bangkok Bank Public Company Limited ("Bangkok Bank").

AIA Singapore reported VONB of US\$311 million in 2017 with a positive second-half performance supported by double-digit VONB growth from our agency channel. Malaysia delivered VONB growth of 16 per cent to US\$220 million with solid performances from both our agency and partnership distribution channels benefiting from strong growth in our Takaful business combined with increased sales of regular premium products.

Other Markets delivered excellent VONB growth of 27 per cent to US\$408 million. Highlights included strong performances from Australia (including New Zealand), Korea, the Philippines, Sri Lanka, Taiwan and Vietnam.

The VONB results for the Group are reported after a US\$195 million total deduction for consolidated reserving and capital requirements over and above local statutory requirements and for the present value of unallocated Group Office expenses. This approach was taken to reflect the additional reserving and capital requirements for AIA Co. and AIA International after allowing for the HKIO and the Bermuda Monetary Authority (BMA) regulations above local requirements as applied by the Group.

## EV EQUITY

### EV OPERATING PROFIT

EV operating profit increased by 19 per cent to US\$6,997 million compared with 2016. Operating ROEV increased by 110 bps to 16.6 per cent compared with 2016.

This strong performance was the result of 28 per cent growth in VONB to US\$3,512 million, a higher expected return on EV of US\$3,317 million and overall positive operating variances of US\$304 million.

Overall operating variances have totalled more than US\$1.4 billion since our initial public offering (IPO) in 2010.

#### EV Operating Profit Per Share – Basic

	2017	2016	YoY CER	YoY AER
<b>EV operating profit (US\$ millions)</b>	<b>6,997</b>	5,887	<b>19%</b>	19%
Weighted average number of ordinary shares (millions)	<b>12,000</b>	11,972	n/a	n/a
<b>Basic EV earnings per share (US cents)</b>	<b>58.31</b>	49.17	<b>19%</b>	19%

#### EV Operating Profit Per Share – Diluted

	2017	2016	YoY CER	YoY AER
<b>EV operating profit (US\$ millions)</b>	<b>6,997</b>	5,887	<b>19%</b>	19%
Weighted average number of ordinary shares <sup>(1)</sup> (millions)	<b>12,037</b>	12,006	n/a	n/a
<b>Diluted EV earnings per share<sup>(1)</sup> (US cents)</b>	<b>58.13</b>	49.03	<b>19%</b>	19%

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 (RSPUs) and restricted stock subscription units (RSSUs) 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\$8,017 million to US\$50,131 million at 30 November 2017.

The increase was mainly driven by strong EV operating profit growth of 19 per cent to US\$6,997 million and positive non-operating movements of US\$997 million. The overall growth in EV is shown after the payment of shareholder dividends totalling US\$1,376 million.

Non-operating movements included investment return variances of US\$1,517 million reflecting the positive effect of short-term capital market movements, reductions of US\$190 million for economic assumption changes and US\$330 million for other non-operating variances. Other non-operating variances were mainly from changes in regulatory requirements, including the strengthening of risk-based capital requirements in Singapore and the newly published mortality tables in Thailand, and others including modelling-related enhancements. The effect of positive foreign exchange translation movements was an additional US\$1,265 million.

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

US\$ millions, unless otherwise stated	2017		
	ANW	VIF	EV
<b>Opening EV</b>	16,544	25,570	42,114
Value of new business	(546)	4,058	3,512
Expected return on EV	4,023	(706)	3,317
Operating experience variances	313	72	385
Operating assumption changes	(229)	148	(81)
Finance costs	(136)	–	(136)
<b>EV operating profit</b>	3,425	3,572	6,997
Investment return variances	1,242	275	1,517
Effect of changes in economic assumptions	(7)	(183)	(190)
Other non-operating variances	420	(750)	(330)
<b>Total EV profit</b>	5,080	2,914	7,994
Dividends	(1,376)	–	(1,376)
Other capital movements	134	–	134
Effect of changes in exchange rates	114	1,151	1,265
<b>Closing EV</b>	20,496	29,635	50,131

US\$ millions, unless otherwise stated	2016		
	ANW	VIF	EV
<b>Opening EV</b>	15,189	23,009	38,198
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>	2,963	2,924	5,887
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>	2,760	2,832	5,592
Dividends	(1,124)	–	(1,124)
Other capital movements	(5)	–	(5)
Effect of changes in exchange rates	(276)	(271)	(547)
<b>Closing EV</b>	16,544	25,570	42,114



## EV Equity

US\$ millions, unless otherwise stated	As at 30 November 2017	As at 30 November 2016
<b>EV</b>	<b>50,131</b>	42,114
Goodwill and other intangible assets <sup>(1)</sup>	1,644	1,536
<b>EV Equity</b>	<b>51,775</b>	43,650

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 2017	VONB 2017	EV as at 30 November 2016	VONB 2016
<b>Central value</b>	<b>50,131</b>	<b>3,512</b>	42,114	2,750
<b>Equity price changes</b>				
10 per cent increase in equity prices	50,850	n/a	42,839	n/a
10 per cent decrease in equity prices	49,406	n/a	41,380	n/a
<b>Interest rate changes</b>				
50 basis points increase in interest rates	50,160	3,693	42,262	2,927
50 basis points decrease in interest rates	49,689	3,262	41,736	2,524

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

## IFRS PROFIT

### OPAT<sup>(1)</sup> by Segment

US\$ millions, unless otherwise stated	2017	2016	YoY CER	YoY AER
Hong Kong	1,636	1,334	23%	23%
Thailand	865	768	9%	13%
Singapore	504	453	12%	11%
Malaysia	272	265	6%	3%
China	639	469	39%	36%
Other Markets	758	662	13%	15%
Group Corporate Centre	(27)	30	n/m	n/m
<b>Total</b>	<b>4,647</b>	3,981	<b>16%</b>	17%

Note:

(1) Attributable to shareholders of the Company only excluding non-controlling interests.

OPAT grew by 16 per cent to US\$4,647 million mainly driven by double-digit growth in Hong Kong, Singapore, China and our Other Markets. Each of our operating market segments delivered positive OPAT growth compared with 2016. This strong performance was the result of the growth in new business over time and the proactive management of our in-force portfolio.

Hong Kong delivered an excellent performance with an OPAT increase of 23 per cent as we continued to benefit from strong underlying business growth and improved claims experience.

Thailand delivered a solid performance with 9 per cent OPAT growth and Singapore continued its positive momentum from the half-year with an increase in OPAT of 12 per cent. China OPAT grew by 39 per cent supported by the quality of our earnings and increasing scale from sustained growth in profitable new business.

Malaysia delivered an improved performance in the second half with OPAT up by 12 per cent to report 6 per cent growth for the full year. Other Markets also delivered a strong result in the second half with OPAT growth of 21 per cent giving 13 per cent for the full year and with positive OPAT growth across each of our individual markets.

Operating return on shareholders' allocated equity (operating ROE) increased by 20 bps to 14.2 per cent reflecting strong OPAT growth partly offset by the significant positive effect on shareholders' allocated equity of short-term capital market movements. Shareholders' allocated equity grew by US\$6,026 million to US\$35,658 million at 30 November 2017.

#### TWPI by Segment

US\$ millions, unless otherwise stated	2017	2016	YoY CER	YoY AER
Hong Kong	9,434	6,873	37%	37%
Thailand	3,517	3,327	2%	6%
Singapore	2,421	2,276	7%	6%
Malaysia	1,823	1,795	6%	2%
China	3,092	2,384	33%	30%
Other Markets	5,860	5,478	6%	7%
<b>Total</b>	<b>26,147</b>	<b>22,133</b>	<b>18%</b>	<b>18%</b>

TWPI increased by 18 per cent to US\$26,147 million compared with 2016. The Group's persistency remained strong and stable at 95.6 per cent in 2017.

#### IFRS Operating Profit Investment Return

US\$ millions, unless otherwise stated	2017	2016	YoY CER	YoY AER
Interest income	5,440	5,081	7%	7%
Expected long-term investment return for equities and real estate	1,656	1,343	24%	23%
<b>Total</b>	<b>7,096</b>	<b>6,424</b>	<b>11%</b>	<b>10%</b>

IFRS operating profit investment return increased by 11 per cent to US\$7,096 million as our average invested assets grew over the year as a result of the growth in our portfolio of business, supported by the higher market values of our equity portfolio.

## Operating Expenses

US\$ millions, unless otherwise stated	2017	2016	YoY CER	YoY AER
Operating expenses	1,969	1,752	13%	12%

The expense ratio reduced to 7.5 per cent from 7.9 per cent in 2016 from disciplined expense management and as we continued to benefit from increasing scale. Operating expenses grew by 13 per cent to US\$1,969 million.

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

US\$ millions, unless otherwise stated	2017	2016	YoY CER	YoY AER
OPAT	4,647	3,981	16%	17%
Short-term fluctuations in investment return related to equities and real estate, net of tax	1,741	97	n/m	n/m
Other non-operating investment return and other items, net of tax	(268)	86	n/m	n/m
<b>Total</b>	<b>6,120</b>	<b>4,164</b>	<b>48%</b>	<b>47%</b>

Note:

(1) Attributable to shareholders of the Company only excluding non-controlling interests.

## IFRS NON-OPERATING MOVEMENT

IFRS net profit increased by 48 per cent to US\$6,120 million compared with 2016. The increase was due to strong growth in OPAT of 16 per cent to US\$4,647 million and positive short-term fluctuations in investment return of US\$1,741 million compared with US\$97 million in 2016. Other non-operating items in 2016 included US\$181 million from the change in corporate income tax rate in Thailand.

## Movement in Shareholders' Allocated Equity

US\$ millions, unless otherwise stated	2017	2016
<b>Opening shareholders' allocated equity</b>	<b>29,632</b>	26,705
Opening adjustments on revaluation gains on property held for own use	–	259
Net profit	6,120	4,164
Purchase of shares held by employee share-based trusts	(10)	(86)
Dividends	(1,376)	(1,124)
Revaluation gains on property held for own use	78	50
Foreign currency translation adjustments	1,061	(423)
Other capital movements	153	87
<b>Total movement in shareholders' allocated equity</b>	<b>6,026</b>	2,927
<b>Closing shareholders' allocated equity</b>	<b>35,658</b>	29,632

The movement in shareholders' allocated equity is shown before fair value reserve movements. We believe 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\$35,658 million at 30 November 2017. The increase of US\$6,026 million was mainly due to net profit of US\$6,120 million and foreign exchange translation movements of US\$1,061 million, less the payment of shareholder dividends totalling US\$1,376 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 16 per cent to 38.73 US cents in 2017.

Basic EPS based on IFRS net profit attributable to shareholders, including mark-to-market movements from our equity and investment property portfolios, increased by 47 per cent to 51.00 US cents in 2017.

### IFRS EPS – Basic

	Net Profit <sup>(1)</sup>		OPAT <sup>(1)</sup>	
	2017	2016	2017	2016
Profit (US\$ millions)	6,120	4,164	4,647	3,981
Weighted average number of ordinary shares (millions)	12,000	11,972	12,000	11,972
<b>Basic earnings per share (US cents)</b>	<b>51.00</b>	34.78	<b>38.73</b>	33.25

### IFRS EPS – Diluted

	Net Profit <sup>(1)</sup>		OPAT <sup>(1)</sup>	
	2017	2016	2017	2016
Profit (US\$ millions)	6,120	4,164	4,647	3,981
Weighted average number of ordinary shares <sup>(2)</sup> (millions)	12,037	12,006	12,037	12,006
<b>Diluted earnings per share<sup>(2)</sup> (US cents)</b>	<b>50.84</b>	34.68	<b>38.61</b>	33.16

Notes:

(1) Attributable to shareholders of the Company 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, RSPUs and RSSUs 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

Our aim is to maintain a prudent balance sheet and capital position taking into consideration the financial flexibility needed to fund our significant new business growth opportunities and support our prudent, sustainable and progressive dividend policy and we look to do this through capital market stress conditions.

The Group's free surplus at 30 November 2017 represents the excess of adjusted net worth over required capital including consolidated reserving and capital requirements over and above local statutory requirements. Underlying free surplus generation, which excludes investment return variances and other items, increased by 13 per cent to US\$4,527 million. The amount invested in writing new business was stable at US\$1,376 million with the increase from growth in new business offset by a higher proportion of participating business that has a lower reported new business strain.

Free surplus increased by US\$2,521 million to US\$12,303 million at 30 November 2017 mainly reflecting strong underlying free surplus generation, net of new business investment, of US\$3,151 million and positive investment return variances and other items of US\$940 million, less the payment of shareholder dividends totalling US\$1,376 million.

The following table summarises the change in free surplus:

US\$ millions, unless otherwise stated	2017	2016
<b>Opening free surplus</b>	<b>9,782</b>	7,528
Underlying free surplus generated	4,527	4,024
Free surplus used to fund new business	(1,376)	(1,374)
Investment return variances and other items	940	1,005
Unallocated Group Office expenses	(192)	(161)
Dividends	(1,376)	(1,124)
Finance costs and other capital movements	(2)	(116)
<b>Closing free surplus</b>	<b>12,303</b>	9,782

### 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\$9,749 million at 30 November 2017.

The increase was mainly due to net remittances from business units of US\$2,106 million and an increase in borrowings of US\$514 million including the issuance of medium-term notes with net proceeds of US\$497 million. The increase is reported after the payment of shareholder dividends totalling US\$1,376 million.

The movements in working capital are summarised as follows:

US\$ millions, unless otherwise stated	2017	2016
<b>Opening working capital</b>	<b>8,416</b>	7,843
Group Corporate Centre operating results	(27)	30
Capital flows from business units		
Hong Kong	952	1,034
Thailand	467	411
Singapore	238	209
Malaysia	192	186
China	207	46
Other Markets	50	135
<b>Net funds remitted to Group Corporate Centre</b>	<b>2,106</b>	2,021
Payment for increase in interest of an associate (Tata AIA)	–	(310)
Increase in borrowings	514	260
Purchase of shares held by the employee share-based trusts	(10)	(86)
Payment of dividends	(1,376)	(1,124)
Change in fair value reserve and others	126	(218)
<b>Closing working capital</b>	<b>9,749</b>	8,416

## IFRS BALANCE SHEET

### Consolidated Statement of Financial Position

US\$ millions, unless otherwise stated	As at 30 November 2017	As at 30 November 2016	Change AER
<b>Assets</b>			
Financial investments	176,220	150,998	17%
Investment property	4,365	3,910	12%
Cash and cash equivalents	2,289	1,642	39%
Deferred acquisition and origination costs	21,847	18,898	16%
Other assets	10,970	9,626	14%
<b>Total assets</b>	<b>215,691</b>	<b>185,074</b>	<b>17%</b>
<b>Liabilities</b>			
Insurance and investment contract liabilities	156,979	135,214	16%
Borrowings	3,958	3,460	14%
Other liabilities	12,382	11,090	12%
<b>Less total liabilities</b>	<b>173,319</b>	<b>149,764</b>	<b>16%</b>
<b>Equity</b>			
Total equity	42,372	35,310	20%
Less non-controlling interests	378	326	16%
<b>Total equity attributable to shareholders of AIA Group Limited</b>	<b>41,994</b>	<b>34,984</b>	<b>20%</b>
Shareholders' allocated equity	35,658	29,632	20%

### Movement in Shareholders' Equity

US\$ millions, unless otherwise stated	2017	2016
<b>Opening shareholders' equity</b>	<b>34,984</b>	31,119
Opening adjustments on revaluation gains on property held for own use	–	259
Net profit	6,120	4,164
Fair value gains on assets	984	938
Purchase of shares held by employee share-based trusts	(10)	(86)
Dividends	(1,376)	(1,124)
Revaluation gains on property held for own use	78	50
Foreign currency translation adjustments	1,061	(423)
Other capital movements	153	87
<b>Total movement in shareholders' equity</b>	<b>7,010</b>	3,865
<b>Closing shareholders' equity</b>	<b>41,994</b>	34,984

## Total Investments

US\$ millions, unless otherwise stated	As at 30 November 2017	Percentage of total	As at 30 November 2016	Percentage of total
Total policyholder and shareholder	160,327	87%	137,479	87%
Total unit-linked contracts and consolidated investment funds	24,231	13%	20,657	13%
<b>Total investments</b>	<b>184,558</b>	<b>100%</b>	<b>158,136</b>	<b>100%</b>

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 2017	Percentage of total	As at 30 November 2016	Percentage of total
<b>Unit-linked contracts and consolidated investment funds</b>				
Debt securities	4,704	19%	4,456	22%
Loans and deposits	107	1%	196	1%
Equities	18,953	78%	15,498	75%
Cash and cash equivalents	456	2%	504	2%
Derivatives	11	–	3	–
<b>Total unit-linked contracts and consolidated investment funds</b>	<b>24,231</b>	<b>100%</b>	<b>20,657</b>	<b>100%</b>

### Policyholder and Shareholder Investments

US\$ millions, unless otherwise stated	As at 30 November 2017	Percentage of total	As at 30 November 2016	Percentage of total
<b>Participating funds</b>				
Government and government agency bonds	9,585	6%	7,830	6%
Corporate bonds and structured securities	11,089	7%	10,877	8%
Loans and deposits	2,037	1%	1,830	1%
<b>Subtotal – Fixed income investments</b>	<b>22,711</b>	<b>14%</b>	<b>20,537</b>	<b>15%</b>
Equities	6,822	4%	5,451	4%
Investment property and property held for own use	468	1%	434	–
Cash and cash equivalents	249	–	179	–
Derivatives	73	–	17	–
<b>Subtotal participating funds</b>	<b>30,323</b>	<b>19%</b>	<b>26,618</b>	<b>19%</b>
<b>Other policyholder and shareholder</b>				
Government and government agency bonds	46,447	29%	40,013	29%
Corporate bonds and structured securities	59,343	37%	50,442	36%
Loans and deposits	5,829	4%	5,036	4%
<b>Subtotal – Fixed income investments</b>	<b>111,619</b>	<b>70%</b>	<b>95,491</b>	<b>69%</b>
Equities	10,941	7%	9,262	7%
Investment property and property held for own use	5,581	3%	5,062	4%
Cash and cash equivalents	1,584	1%	959	1%
Derivatives	279	–	87	–
<b>Subtotal other policyholder and shareholder</b>	<b>130,004</b>	<b>81%</b>	<b>110,861</b>	<b>81%</b>
<b>Total policyholder and shareholder</b>	<b>160,327</b>	<b>100%</b>	<b>137,479</b>	<b>100%</b>

### ASSETS

Our asset allocation strategy is driven by our liability matching approach. We also aim to match our assets and liabilities in local currencies.

Total assets increased by US\$30,617 million to US\$215,691 million at 30 November 2017, compared with US\$185,074 million at 30 November 2016, due to positive net revenues, mark-to-market gains from our debt and equity securities and positive foreign exchange movements.

Total investments including financial investments, investment property, property held for own use, and cash and cash equivalents increased by US\$26,422 million to US\$184,558 million at 30 November 2017, compared with US\$158,136 million at 30 November 2016.

Of the total US\$184,558 million investments at 30 November 2017, US\$160,327 million were held in respect of policyholders and shareholders and the remaining US\$24,231 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\$134,330 million at 30 November 2017 compared with US\$116,028 million at 30 November 2016. The average credit rating of the fixed income portfolio of A remained consistent with the position at 30 November 2016.



Government and government agency bonds represented 42 per cent of fixed income investments at 30 November 2017, compared with 41 per cent at 30 November 2016. Corporate bonds and structured securities accounted for 52 per cent of fixed income investments at 30 November 2017, compared with 53 per cent at 30 November 2016.

Equity securities held in respect of policyholders and shareholders totalled US\$17,763 million at 30 November 2017, compared with US\$14,713 million at 30 November 2016. The US\$3,050 million increase in carrying value was mainly attributable to new purchases and positive mark-to-market movements. Within this figure, equity securities of US\$6,822 million were held in participating funds.

Cash and cash equivalents increased by US\$647 million to US\$2,289 million at 30 November 2017 compared with US\$1,642 million at 30 November 2016. The increase largely reflected positive net cash inflows from our operating business and proceeds of US\$497 million from an issuance of medium-term notes in May 2017 less the payment of shareholder dividends of US\$1,376 million.

Investment property and property held for own use in respect of policyholders and shareholders totalled US\$6,049 million at 30 November 2017 compared with US\$5,496 million at 30 November 2016.

Deferred acquisition and origination costs increased to US\$21,847 million at 30 November 2017 compared with US\$18,898 million at 30 November 2016, largely reflecting new business growth.

Other assets increased to US\$10,970 million at 30 November 2017 compared with US\$9,626 million at 30 November 2016, reflecting the increase in reinsurance assets, accrued interest and prepayments.

## **LIABILITIES**

Total liabilities increased to US\$173,319 million at 30 November 2017 from US\$149,764 million at 30 November 2016.

Insurance and investment contract liabilities grew to US\$156,979 million at 30 November 2017 compared with US\$135,214 million at 30 November 2016, reflecting the underlying growth of the in-force portfolio from new business, positive mark-to-market movements on equities and positive foreign exchange translation.

Borrowings increased to US\$3,958 million at 30 November 2017, due to the net proceeds of US\$497 million from an issuance of medium-term notes in May 2017. Medium-term notes with a notional amount of US\$500 million issued in 2013 will mature in 2018 as disclosed in note 28 to the financial statements.

Other liabilities were US\$12,382 million at 30 November 2017, compared with US\$11,090 million at 30 November 2016.

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 Insurance Authority (HKIA). The Group's principal operating company is AIA Co., a Hong Kong-domiciled insurer.

At 30 November 2017, the total available capital for AIA Co., our main regulated entity, was US\$8,248 million as measured under the HKIO basis, resulting in a solvency ratio of 443 per cent of regulatory minimum capital compared with 404 per cent at 30 November 2016. The higher solvency ratio was driven by the strong growth in retained earnings and the positive effect of short-term capital market movements on our investment portfolio and statutory reserves, partly offset by dividends to the Company.

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 2017	As at 30 November 2016
Total available capital	8,248	6,699
Regulatory minimum capital (100%)	1,862	1,659
Solvency ratio (%)	443%	404%

The Group's individual branches and subsidiaries are also subject to supervision, including relevant capital requirements, in the jurisdictions in which they and their parent entity operate. The local operating units were in compliance with the capital requirements of their respective entity and local regulators in each of our geographical markets at 30 November 2017.

## GLOBAL MEDIUM-TERM NOTE (GMTN) AND SECURITIES PROGRAMME

In March 2017, we expanded our US\$5 billion GMTN programme to a US\$6 billion GMTN and Securities programme. Under our US\$6 billion GMTN and Securities programme, the Company issued senior unsecured fixed rate notes with a nominal amount of US\$500 million in May 2017. The notes will mature in 2047 and bear annual interest of 4.47 per cent. The Company has the right to redeem these notes at par on 23 May of each year beginning on 23 May 2022. At 30 November 2017, the aggregate carrying amount of the debt issued under the GMTN and Securities programme was US\$3,958 million.

## CREDIT RATINGS

Moody's upgraded its financial strength rating on AIA Co. from Aa3 (Very Low Credit Risk) to Aa2 (Very Low Credit Risk) on 27 March 2017.

At 30 November 2017, AIA Co. has financial strength ratings of Aa2 (Very Low Credit Risk) with a stable outlook from Moody's; AA (Very Strong) with a stable outlook from Fitch; and AA- (Very Strong) with a stable outlook from Standard & Poor's.

Moody's upgraded its issuer credit rating on the Company from A3 (Low Credit Risk) to A2 (Low Credit Risk) on 27 March 2017. Fitch upgraded its issuer credit rating of the Company from A+ (High Credit Quality) to AA- (Very High Credit Quality) on 23 November 2017.

The Company has issuer credit ratings of A2 (Low Credit Risk) with a stable outlook from Moody's; AA- (Very High Credit Quality) with a stable outlook from Fitch; and A (Strong) with a stable outlook from Standard & Poor's.

## DIVIDENDS

The Board has recommended a final dividend of 74.38 Hong Kong cents per share, subject to shareholders' approval at the Company's forthcoming AGM. This brings the total dividend for 2017 to 100.00 Hong Kong cents per share, an increase of 17 per cent on the higher base established in 2016. This reflects the strength of our financial results as well as our confidence in the outlook for the Group. The Board intends to follow AIA's established prudent, sustainable and progressive dividend policy allowing for future growth opportunities and the financial flexibility of the Group.

## BUSINESS REVIEW

### DISTRIBUTION

#### AGENCY

AIA's proprietary tied agency network is our core distribution platform and enables us to deliver high-quality professional services to a broad range of customers across the region. Our extensive agency network provides us with a unique opportunity to offer personalised advice on a comprehensive range of products and services that reflect an individual's financial needs. The regular personal interaction our agents have with our customers is a fundamental competitive advantage for the Group and enables AIA to build long-term relationships, providing opportunities to bring further value-added products and services to those relationships over time.

The disciplined execution of AIA's Premier Agency strategy has continued to deliver excellent results. Agency VONB grew by 28 per cent to US\$2,541 million in 2017, representing 70 per cent of the Group's total VONB in 2017. ANP increased by 26 per cent to US\$3,894 million with a higher VONB margin of 65.3 per cent.

Quality recruitment is an essential component of our Premier Agency strategy. We are also committed to the ongoing professional development of our agents and leaders to ensure that we deliver customer service and engagement levels of the highest standards. Our agents have access to our comprehensive suite of training programmes and AIA was the first insurer in Asia to introduce mandatory pre-contract induction programmes. These are designed to attract high-calibre new recruits and support our agents as they build successful long-term careers with AIA. Our successful initiatives in 2017 have contributed to double-digit growth in the total number of active agents and a 14 per cent increase in active agent productivity compared with 2016.

In 2017, AIA became the only company to be ranked number one in the world for Million Dollar Round Table (MDRT) members for three consecutive years. MDRT status is an important, globally-recognised industry benchmark, setting the standard of excellence for our agents. Each of our agency markets achieved at least double-digit growth in registered MDRT members, reflecting the breadth of quality and high levels of professionalism of our agents across Asia.

In addition to agency recruitment, training and development, we made substantial investments in digital tools to help us serve our customers better and enhance the professionalism and productivity of our agents. Our iMO platform is driving a step change in the support for our agents and customers – from delivering recruitment and training programmes, to digital lead generation using data analytics and improving the effectiveness of the face-to-face sales experience. By November 2017, more than 85 per cent of our active agents across the Group have adopted our digital technology in their day-to-day sales activities.

Our aim is to continue the successful evolution of our Premier Agency strategy to differentiate AIA from capacity-driven industry models that focus on mass recruitment of part-time agents, to a professional full-time model that achieves best-in-class productivity levels, activity rates and quality of advice. We believe this distinguishes AIA to both our agents and our customers and places us at a significant advantage to capture the future growth opportunities in Asia.

## PARTNERSHIPS

Our partnerships extend our market reach and broaden our access to new customers across the Asia-Pacific region. Many of our long-term strategic partnerships are in high-growth emerging markets and are often with the most prominent financial institutions in their respective countries. We continue to drive additional growth, and strengthen these important long-term relationships by integrating our processes with those of our partners, using in-branch insurance specialists, employing digital lead generation and further building our capabilities in customer analytics. VONB from partnerships in 2017 exceeded US\$1 billion for the first time, with 27 per cent growth to US\$1,113 million. VONB margin increased to 50.6 per cent from 43.5 per cent and ANP grew by 9 per cent to US\$2,198 million. Partnerships accounted for 30 per cent of the Group's total VONB in 2017.

### Intermediary Channels

Our intermediated channels, including independent financial advisers (IFAs), brokers, private banks and specialist advisers, delivered excellent VONB growth in 2017 led by an exceptionally strong performance in the first half of the year from Hong Kong, as previously highlighted. Our overall performance reflects the deep relationships we have developed with our intermediary partners through the provision of dedicated sales and service support and our ability to offer targeted propositions that meet the needs of a broader range of customers.

### Bancassurance Partnerships

AIA has developed a leading network of strategic bank partnerships across the region and our close cooperation with these partners delivered double-digit growth in VONB in 2017. Our seven largest partner banks provide access to more than 60 million existing bank customers, where the penetration from AIA products is currently less than 2 per cent, and a significant population of potential new customers, demonstrating the considerable opportunities for future profitable growth.

AIA has built long-term strategic partnerships with major local banks including the Bank Central Asia (BCA) in Indonesia, Public Bank in Malaysia, Bank of the Philippine Islands (BPI) and IndusInd Bank in India. We have built a strong regional partnership with Citibank, N.A. (Citibank) across 12 markets with the aim of providing a full range of life and health insurance products and services to the bank's 15 million retail clients. Our joint new product launches, integration of iPoS with Citibank's sales platforms and in-depth training delivered very strong double-digit VONB growth in 2017.

We extended our relationships with BCA and Public Bank and announced new long-term distribution agreements with a number of highly-regarded banks across the region, including Bangkok Bank Public Company Limited (Bangkok Bank) in Thailand and Vietnam Prosperity Joint-Stock Commercial Bank (VPBank) in Vietnam. We also announced a transaction that includes 20-year strategic bancassurance partnerships with Commonwealth Bank of Australia (CBA) and ASB Bank Limited (ASB) in New Zealand subject to completion of the transactions, including securing all necessary regulatory and governmental approvals.

### Direct Channel

Our direct channel delivered strong VONB growth in 2017. Our businesses in Malaysia and Taiwan each delivered good results and AIA Korea continued to build on its excellent performance in the first half, with very strong double-digit VONB growth in 2017. We have also entered into a new strategic partnership with SK Group, one of the largest business conglomerates in Korea. AIA Korea will offer protection products, including AIA Vitality, to SK Telecom, the leading telecommunications service provider in Korea with more than 30 million customers.



In March 2017, we announced the appointment of David Beckham as AIA's Global Ambassador to support our promotion of healthy living activities.

In May 2017, we extended our partnership with Spurs for another five years.



## GROUP INSURANCE

AIA is a major provider of group insurance across the region with leading positions in Hong Kong, Thailand, Singapore, Malaysia and Australia. The provision of group insurance is an important part of AIA's protection strategy. The increasing emphasis on the provision of life, health and wellness schemes by employers is an area we believe will offer significant growth given the more than 1.8 billion people in the working population in Asia-Pacific (ex-Japan).

We delivered strong double-digit VONB growth in 2017 helped by the retention of several large group schemes in Australia and a solid performance from our agency channel providing individual voluntary solutions to AIA's existing customer base of more than 16 million group scheme members. We also launched AIA Vitality to selected group insurance clients in Australia, Hong Kong, Malaysia, Singapore, Thailand and the Philippines to increase engagement with their employees.

Our regional presence and longstanding relationships with international and regional employee benefits consultants place AIA in an advantaged position to capture the huge potential from the growth in Asian-headquartered multinational companies and the expansion of global corporations across the region. This is supported by our multi-territory risk-pooling capability via the AIA Asia Benefits Network.

Our agency channel provides us with access to small-and-medium sized enterprise (SME) clients throughout the region. SMEs employ more than half of the labour force in Asia-Pacific and we expect this market to become increasingly important as a source of new business as these companies evolve from small family-run operations into scalable businesses. We identify and train specialists who are able to use their strong relationships with business owners to capture the demand for group insurance as these businesses grow in size and sophistication.

## MARKETING

AIA is one of the most trusted and recognised brands across our markets. We are committed to delivering our brand promise of helping our customers across the region meet their financial protection and long-term savings needs while enabling them to live healthier, longer, better lives. This ensures that the AIA brand remains relevant and continues to resonate with our customers as their lifestyles and financial needs evolve.

## CUSTOMER ENGAGEMENT

AIA's large existing customer base is a significant source of scale and potential future growth for the Group with more than 30 million individual policies and over 16 million participating members of group insurance schemes. We recognise the importance of increasing customer engagement to help ensure the successful delivery of our brand promise to our customers and our ability to capture material upside from additional new business. Deeper analysis of customer preferences, behaviours and life stages enables us to help our distribution meet the individually-tailored needs of our customers at the right time and with the right propositions.

Our brand promise provides a framework to help us engage with our stakeholders throughout the Asia-Pacific region. We held a wide range of healthy living initiatives with our local communities to promote active lifestyles including The FitnessFest by AIA in Singapore, The #LiveBetter Expo in the Philippines, The Music Run™ in Thailand and The Men's Health Women's Health Night Run in Malaysia.

In March 2017, we also announced the appointment of David Beckham as AIA's Global Ambassador to support our promotion of healthy living activities. We launched our #WhatsYourWhy campaign, including a video prominently featuring David, which encourages people to understand their motivations for wanting to live healthier, longer, better lives. Our regional campaign spanned several months and included a four-market tour, generating over 10 million online views of the video.

Our shirt sponsorship agreement with Tottenham Hotspur Football Club (Spurs) continued to play an important role in linking AIA with healthy lifestyles by encouraging active participation in sport. In May 2017, we extended our partnership with Spurs for another five years. We believe football is an ideal platform that enables us to engage with our customers and distribution across all of our markets.

### **PRODUCT INNOVATION**

AIA Vitality, our science-backed wellness programme, epitomises AIA's brand promise. We extended the launch of AIA Vitality to Vietnam, Sri Lanka and Korea in 2017, bringing the programme to 10 markets including Australia, Singapore, the Philippines, Hong Kong, Macau, Malaysia and Thailand. We also developed a wellness programme to meet the specific needs of our customers in China.

We continued to focus on expanding our comprehensive suite of protection products in 2017 including the launch of a number of first-to-market benefits such as the "Metro Trio" and the "Smart Elite Ultra" plans in Hong Kong, as well as the "Diabetes Care" plan in Singapore. These products help raise awareness of chronic diseases and also enable AIA to access a new category of customers, who were previously unable to obtain insurance, while ensuring that we do not materially increase our risk profile. AIA Vitality is also fully integrated with these new products providing a tremendous opportunity for AIA to benefit customers, distributors, shareholders and the many communities in which we operate.

### **TECHNOLOGY AND OPERATIONS**

AIA has continued to make significant progress in transforming our technology systems and business processes. Innovation and operational excellence are strategic priorities for the Group and we have made substantial investments in digital technology during the year. Our activities span all aspects of the business – from transforming our back-office processes and systems, driving a step change in the support for our distribution, to delivering product innovation and simplifying the customer experience.

#### **INCREASING EFFICIENCY THROUGH DIGITALISATION**

The digitalisation of our back office is critical in enabling AIA to deliver market-leading customer service. The scale of more than 30 million customer interactions during the year across our businesses means that digitalisation offers many opportunities to simplify and accelerate processes whilst both enhancing the customer experience and improving costs.

For example, we continued our development of artificial intelligence (AI) capabilities using the IBM Watson platform. We achieved a 40 per cent reduction in turnaround times and over 99 per cent accuracy on claims eligibility processing in Australia. We extended this to Natural Language Processing (NLP) to launch chatbots to service customers in Korea and agents in Hong Kong. In Malaysia, we launched the first insurance chatbot integrated into social media. In Singapore, the auto-underwriting rate has more than doubled across the last two years to reach over 70 per cent by the end of 2017. We have also partnered with SK C&C in Korea to integrate IBM Watson into our service centre.

In 2017, AIA completed the transformation of our back office in four of our major markets into a dedicated "private cloud" environment. This was one of the largest cloud migration programmes in the insurance industry in Asia enabling availability of on-demand computing power across our back office. The consolidation of our multiple data centres into the "private cloud" also provided us significant reduction in carbon footprint.



## **DRIVING PRODUCTIVITY AND SERVICE EXCELLENCE**

AIA pioneered digital point-of-sale technology that has been improving the efficiency, productivity and professionalism of our agents since its launch in 2012. In November 2017, more than 85 per cent of the Group's new agency business was submitted completely paperless using an electronic signature. In China, the latest version of iPoS has reduced the time taken for the sales application and fulfilment process, including underwriting and policy issuance, to under 30 minutes from the previous average of five days.

We significantly expanded the functionality of iPoS to incorporate productivity tools and analytics capabilities as part of our iMO platform. iMO allows our agents to manage their entire range of activities from a single mobile device and marks a step change in the digital support for customers and agents. iPoS is now only one powerful component of a much broader suite of market-leading digital tools.

In 2017, we commenced the roll-out of our next generation customer platform, MyPage. This will be live in most markets by the end of 2018 offering an integrated (online and mobile), single digital touchpoint, linking all our customers with all our products and services, including AIA Vitality, in a consistent way.

We are also continuing to expand our presence on third-party online platforms, such as WeChat in China where we already provide service information, e-claims and appointment-booking services. Health claims can be submitted in real time through WeChat and the average turnaround time has reduced from four days to same day settlement.

## **PROMOTING INNOVATION AND ENHANCED CUSTOMER EXPERIENCE**

The focus of our innovation activities is on digital health and wellness, AI, cloud technology and blockchain. By leveraging innovation and emerging technologies, we are deepening engagement with our customers and supporting the sustainable and profitable growth of our businesses.

For example, our Hong Kong business co-developed Hong Kong's first blockchain-enabled bancassurance network with our bank partners, reducing the time needed to process insurance applications. AIA Vitality, our science-backed wellness programme, is designed to use digital technology to encourage and reward sustained changes in lifestyle that promote healthy living. AIA Vitality customers used our mobile apps more than 30 million times during the year. Membership has increased to more than three times the level of the prior year and we now have more than 700,000 customers with full membership of our wellness programmes.

AIA has piloted Automation Anywhere, Nice and UiPath and our aim is to deliver improved efficiency in selected major markets using Robotic Process Automation (RPA).

# HONG KONG

## **FINANCIAL HIGHLIGHTS**

AIA Hong Kong delivered another excellent performance in 2017 with VONB growing by 34 per cent to US\$1,559 million. ANP grew by 24 per cent and VONB margin increased by 4.4 pps to 53.2 per cent, reflecting sales of higher-margin protection and savings products, particularly in the second half of the year. VONB growth was broad-based across our main distribution channels and customer segments, led by an exceptionally strong performance in the first half from the retail IFA channel, as previously highlighted. Our agency channel delivered another excellent performance driven by a strong increase in the number of active agents. IFRS operating profit after tax grew by 23 per cent to US\$1,636 million reflecting strong growth in the underlying business and improved claims experience.

## **BUSINESS HIGHLIGHTS**

AIA Hong Kong continued to set the benchmark for agent quality through the consistent execution of our Premier Agency strategy. Building on the success of the AIA Premier Academy, which celebrated its sixth anniversary in 2017, we extended the programme to develop the next generation of high-calibre agency leaders. This has helped drive quality recruitment with a 26 per cent increase in the number of active new agents compared with 2016. Active agent productivity increased over the year, supported by our principal digital platforms which help our agents deliver a seamless customer experience.

Our partnership distribution also delivered another strong performance in 2017. Our long-term relationship with Citibank delivered excellent double-digit growth in VONB. This was driven by higher levels of productivity as we continued to support Citibank's relationship managers and insurance specialists. Our IFA channel also delivered an exceptional performance, particularly in the first half of the year, and we continued to strengthen our IFA proposition through our ongoing commitment to high levels of service and support.

AIA offers a broad range of protection and long-term savings products to meet the evolving needs of consumers in Hong Kong and we are the market leader in protection provision. We also engage our customers through cross-sell and loyalty campaigns which contributed meaningfully to our new sales during the year. AIA Vitality, our comprehensive science-backed wellness programme, further differentiates our protection proposition and membership numbers increased by more than 90 per cent compared with 2016.



**THE AIA GREAT EUROPEAN CARNIVAL HAS BECOME THE ANNUAL SIGNATURE EVENT ON HONG KONG'S FESTIVE CALENDAR.**



VONB <sup>(1)</sup>		VONB MARGIN <sup>(2)</sup>	
2017	2016	2017	2016
<b>1,559</b>	<b>1,161</b>	<b>53.2%</b>	<b>48.8%</b>
YoY (CER) <b>34%</b>	YoY (AER) <b>34%</b>	YoY (CER) <b>4.4pps</b>	YoY (AER) <b>4.4pps</b>

ANP		TWPI	
2017	2016	2017	2016
<b>2,849</b>	<b>2,294</b>	<b>9,434</b>	<b>6,873</b>
YoY (CER) <b>24%</b>	YoY (AER) <b>24%</b>	YoY (CER) <b>37%</b>	YoY (AER) <b>37%</b>

OPERATING PROFIT AFTER TAX	
2017	2016
<b>1,636</b>	<b>1,334</b>
YoY (CER) <b>23%</b>	YoY (AER) <b>23%</b>

US\$ MILLIONS, UNLESS OTHERWISE STATED

# THAILAND

## **FINANCIAL HIGHLIGHTS**

AIA Thailand reported VONB of US\$381 million for 2017, a reduction of 4 per cent. We continued to transform our market-leading agency distribution by selective recruitment of our next generation of full-time agents and increasing the productivity of our existing agents. We remained focused on providing long-term protection and savings products with regular premium business accounting for more than 95 per cent of ANP in 2017. IFRS operating profit after tax increased by 9 per cent to US\$865 million reflecting underlying business growth and better claims experience partly offset by the introduction of a new mortality table as required by local regulation.

## **BUSINESS HIGHLIGHTS**

An important part of our Premier Agency strategy is the acceleration of our Financial Adviser programme to drive our agency transformation and attract young and high-calibre individuals to full-time professional careers with AIA. In 2017 new recruits through this programme grew by 32 per cent compared with 2016 and the total number of Financial Advisers now exceeds 7,000. The activity ratio of newly-recruited Financial Advisers was more than double that of other new agents and productivity per active agent was 35 per cent higher than average.

Among our existing agents, we continue to actively develop those with strong potential, who receive training to become professional, full-time Premier Agents and our next generation of agency leaders. We have also made significant investments in the infrastructure supporting our Premier Agency strategy. This includes opening nine new Financial Adviser training centres nationwide, modernising our agency offices and digitally equipping our agents to support future growth. At the same time, we are continuing to enforce our minimum standards to reduce the number of less productive agents.

In October 2017, we reached agreement on a 15-year strategic bancassurance partnership with Bangkok Bank, the largest bank in Thailand by total assets with more than 16 million customer accounts. Through this new strategic partnership, Bangkok Bank will distribute AIA Thailand's broad range of protection and long-term savings products on an exclusive basis via its nationwide network of around 1,200 branches. We believe our new partnership provides tremendous opportunities by bringing together two of Thailand's largest, most well-established and recognised financial institutions.



VONB <sup>(1)</sup>		VONB MARGIN <sup>(2)</sup>	
2017	2016	2017	2016
<b>381</b>	<b>384</b>	<b>73.6%</b>	<b>81.5%</b>
YoY (CER) <b>(4)%</b>	YoY (AER) <b>(1)%</b>	YoY (CER) <b>(7.9)pps</b>	YoY (AER) <b>(7.9)pps</b>
ANP		TWPI	
2017	2016	2017	2016
<b>518</b>	<b>471</b>	<b>3,517</b>	<b>3,327</b>
YoY (CER) <b>6%</b>	YoY (AER) <b>10%</b>	YoY (CER) <b>2%</b>	YoY (AER) <b>6%</b>
OPERATING PROFIT AFTER TAX			
2017	2016		
<b>865</b>	<b>768</b>		
YoY (CER) <b>9%</b>	YoY (AER) <b>13%</b>		

US\$ MILLIONS, UNLESS OTHERWISE STATED



**AIA FOOTBALL CLINICS HELD IN BANGKOK, CHONBURI AND CHIANG MAI PROMOTE HEALTH AND WELLBEING.**

# SINGAPORE

## **FINANCIAL HIGHLIGHTS**

AIA Singapore reported VONB of US\$311 million in 2017, with a positive second-half performance supported by double-digit VONB growth from our agency channel. Sales of regular premium protection business increased over the year and we continued our disciplined approach to managing our product mix in our partnership distribution channels. IFRS operating profit after tax increased by 12 per cent to US\$504 million as a result of growth in the scale of our high-quality in-force portfolio.

## **BUSINESS HIGHLIGHTS**

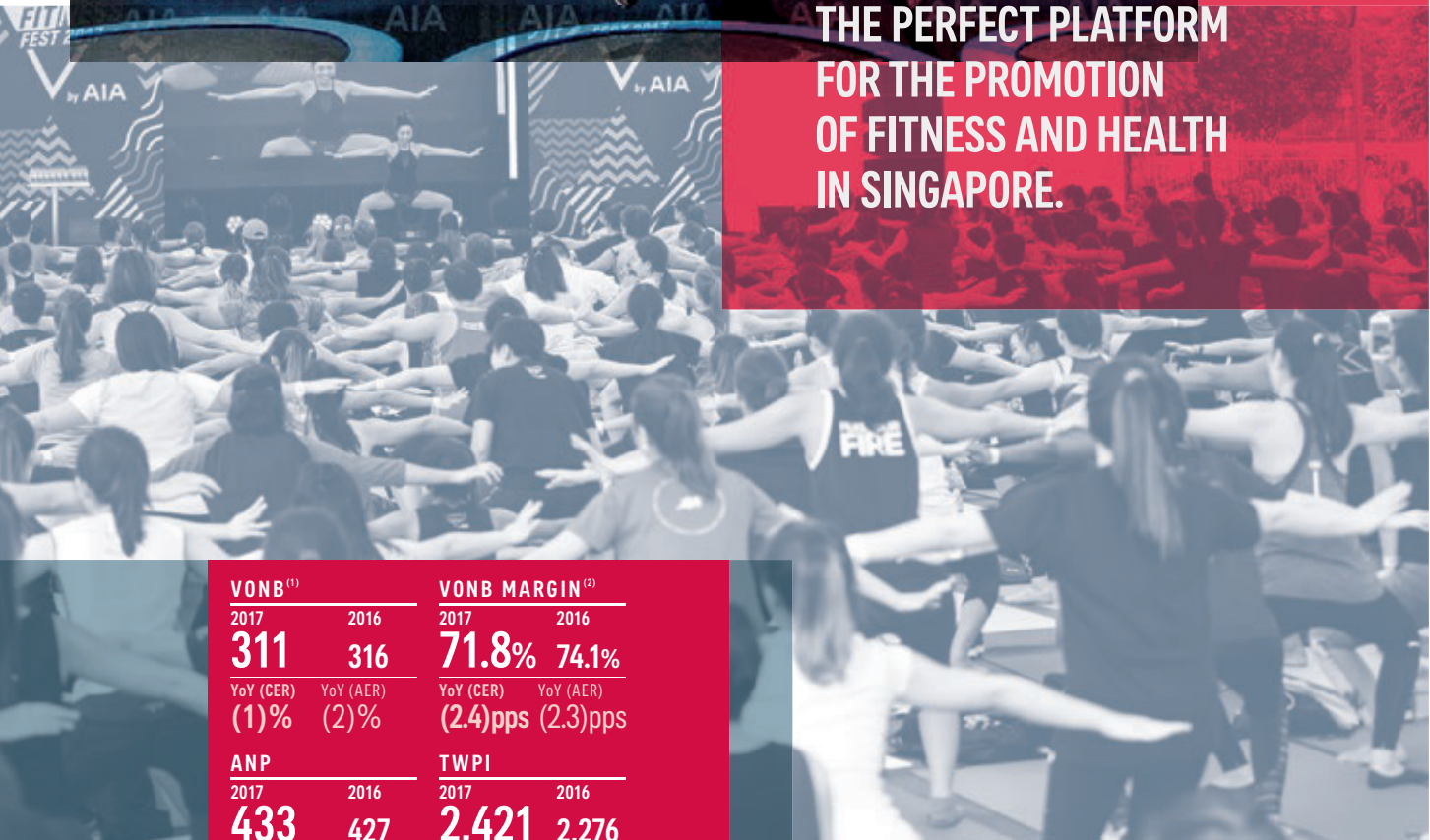
VONB growth from our market-leading Premier Agency distribution was the direct result of an increase in the number of active agents and improved productivity levels supported by the high take-up of our digital sales and training tools. More than 90 per cent of our new business applications were submitted digitally through iPoS in 2017. Our targeted recruitment strategy combined with comprehensive development programmes to support our new hires delivered a significant increase in the number of new recruits. We also saw a 15 per cent increase in overall MDRT qualifiers compared with the same period in 2016.

Our strategic partnership with Citibank delivered solid growth in regular premium protection business, although VONB was lower from single premium products. Direct sales, including digital direct, which targets Citibank's large credit card customer base with simplified protection solutions, continued to gain traction with very strong double-digit VONB growth. AIA continued to be the leader in the group insurance market in Singapore in terms of in-force premium and we delivered solid VONB growth from attracting new schemes in 2017.

As part of our continuing efforts to engage with our customers in new ways and differentiate our products and services, we launched AIA Quality Healthcare Partners in early 2017. This builds on the foundation of our market-leading position in protection and makes us the first insurer in Singapore to establish direct partnerships with the medical community. Customers can enjoy benefits such as an appointment-setting service via our AIA Healthcare mobile app, preferential consultation rates and pre-approval of claims that allows for hospitalisation without immediate out-of-pocket payments. We continued to increase engagement with our customers through AIA Vitality, with membership and VONB from products integrated with AIA Vitality trebling over the year.



**FITNESSFEST BY AIA IS THE PERFECT PLATFORM FOR THE PROMOTION OF FITNESS AND HEALTH IN SINGAPORE.**



**VONB<sup>(1)</sup>**

2017	2016
<b>311</b>	<b>316</b>
YoY (CER) <b>(1)%</b>	YoY (AER) <b>(2)%</b>

**VONB MARGIN<sup>(2)</sup>**

2017	2016
<b>71.8%</b>	<b>74.1%</b>
YoY (CER) <b>(2.4)pps</b>	YoY (AER) <b>(2.3)pps</b>

**ANP**

2017	2016
<b>433</b>	<b>427</b>
YoY (CER) <b>2%</b>	YoY (AER) <b>1%</b>

**TWPI**

2017	2016
<b>2,421</b>	<b>2,276</b>
YoY (CER) <b>7%</b>	YoY (AER) <b>6%</b>

**OPERATING PROFIT AFTER TAX**

2017	2016
<b>504</b>	<b>453</b>
YoY (CER) <b>12%</b>	YoY (AER) <b>11%</b>

US\$ MILLIONS, UNLESS OTHERWISE STATED

# MALAYSIA

## FINANCIAL HIGHLIGHTS

AIA Malaysia delivered VONB growth of 16 per cent to US\$220 million as a result of solid performances from both our agency and partnership distribution channels. VONB margin increased by 5.3 pps to 62.5 per cent as we continued to focus on providing long-term unit-linked protection products. ANP increased by 7 per cent to US\$348 million with new regular premium business accounting for 95 per cent of sales. IFRS operating profit after tax grew by 6 per cent to US\$272 million, including an improved performance over the second half with OPAT up by 12 per cent compared with the prior year.

## BUSINESS HIGHLIGHTS

Our agency strategy in Malaysia is designed to drive quality recruitment and improve agency productivity supporting our aim of promoting and rewarding highly-skilled and well-trained full-time agents. AIA's Takaful business continued to be an important growth driver as our agency leaders focus on recruitment to meet the needs of this significantly under-penetrated market. Takaful agents accounted for around two-thirds of our new recruits during the year and the total number of active Takaful-producing agents increased by 38 per cent compared with 2016.

Partnership distribution delivered another strong performance with our bancassurance business achieving 25 per cent VONB growth. Our high sum assured regular premium product targeting Public Bank's mass affluent customers continued to be well received and helped to increase the productivity of our in-branch insurance specialists. Our direct channel delivered a strong performance as we focused on offering critical illness protection products to the existing customers of Public Bank and Citibank. Building on the success of our longstanding relationship with Public Bank, we announced in December 2017 that we had agreed to extend our existing exclusive regional bancassurance partnership by a further 15 years to 2037.

AIA is the clear market leader in group insurance in Malaysia and we delivered double-digit VONB growth in the year. To further enhance customer experience, we released a new mobile app for our corporate healthcare members which enables them to locate the nearest healthcare provider, pre-register appointments, obtain referral letters and monitor their benefit usage.

AIA is committed to providing sustainable and affordable long-term protection cover to a wide cross section of Malaysian consumers. AIA was the first company globally to integrate health and wellness benefits with unit-linked life insurance and Takaful products through AIA Vitality. We more than doubled the number of AIA Vitality members and we expanded our AIA Vitality programme to Public Bank customers in June 2017. Continuing our efforts to innovate and invest in technology, we recently launched the first insurance chatbot "Ask Sara" in Malaysia to provide a differentiated and seamless experience to our sales force. This AI-powered enquiry tool provides real-time answers to agents on 700 commonly asked questions, and, in doing so, helps them to serve and advise our customers even more efficiently.



**MEN'S HEALTH WOMEN'S  
HEALTH NIGHT RUN  
BY AIA VITALITY IS ONE OF  
THE MOST ANTICIPATED  
NIGHT RUNS IN MALAYSIA.**



VONB <sup>(1)</sup>		VONB MARGIN <sup>(2)</sup>	
2017	2016	2017	2016
<b>220</b>	<b>198</b>	<b>62.5%</b>	<b>57.1%</b>
YoY (CER) 16%	YoY (AER) 11%	YoY (CER) 5.3pps	YoY (AER) 5.4pps

ANP		TWPI	
2017	2016	2017	2016
<b>348</b>	<b>341</b>	<b>1,823</b>	<b>1,795</b>
YoY (CER) 7%	YoY (AER) 2%	YoY (CER) 6%	YoY (AER) 2%

**OPERATING PROFIT  
AFTER TAX**

2017	2016
<b>272</b>	<b>265</b>
YoY (CER) 6%	YoY (AER) 3%

US\$ MILLIONS, UNLESS  
OTHERWISE STATED

# CHINA

## **FINANCIAL HIGHLIGHTS**

AIA China delivered another excellent set of results with VONB growth of 60 per cent to US\$828 million. ANP grew by 61 per cent to US\$968 million and VONB margin was 85.5 per cent. Our strong performance was driven by a significant increase in the number of active agents, higher agent productivity and our sustained focus on writing regular premium long-term savings and protection products to meet the substantial and growing needs of customers. IFRS operating profit after tax rose by 39 per cent to US\$639 million reflecting the growing scale of our business and our high-quality sources of earnings.

## **BUSINESS HIGHLIGHTS**

Our agency strategy is built around a culture of disciplined activity management and ongoing professional development to help our agents and leaders build long-term careers with AIA and provide our customers with high-quality advice tailored to their needs. Our emphasis on quality recruitment through stringent selection, best-in-class training and advanced agency leader development programmes led to a 32 per cent increase in our number of active agents compared with 2016 and a 30 per cent increase in MDRT qualifiers.

Our agents are supported by leading digital platforms that have helped them become the most productive agency distribution in the market. Our technology provides agents and leaders with a comprehensive suite of tools that covers all aspects of their roles from recruitment and training to the provision of face-to-face advice and servicing of customers – online and offline. Almost 100 per cent of new policies were submitted digitally in 2017, using our next generation of iPoS. Alongside our leading training programmes, this technological enhancement has helped active agents increase productivity levels by more than 25 per cent compared with 2016.

While agency is our main source of new business, our bancassurance distribution also made good progress in 2017 achieving strong double-digit VONB growth. We continued to work closely with Citibank and other selected local bank partners to provide long-term protection and savings products to the affluent customer segment.

AIA is a leader in the protection market in China with traditional protection business accounting for 84 per cent of VONB in 2017. We launched our first wellness programme earlier in the year in conjunction with the announcement of David Beckham as AIA's Global Ambassador. This programme combines mobile technology with an innovative customer programme to encourage healthy lifestyles through engagement activities as well as benefits and rewards. We also delivered a strong performance from our high net worth offering to meet the protection cover, estate planning and long-term retirement savings needs of this substantial and fast-growing customer segment.

**AIA'S WELLNESS PROGRAMME IN CHINA COMBINES MOBILE TECHNOLOGY WITH AN INNOVATIVE CUSTOMER PROGRAMME TO ENCOURAGE HEALTHY LIFESTYLES.**



VONB <sup>(1)</sup>		VONB MARGIN <sup>(2)</sup>	
2017	2016	2017	2016
<b>828</b>	<b>536</b>	<b>85.5%</b>	<b>86.4%</b>
YoY (CER) <b>60%</b>	YoY (AER) <b>54%</b>	YoY (CER) <b>(0.8)pps</b>	YoY (AER) <b>(0.9)pps</b>
ANP		TWPI	
2017	2016	2017	2016
<b>968</b>	<b>621</b>	<b>3,092</b>	<b>2,384</b>
YoY (CER) <b>61%</b>	YoY (AER) <b>56%</b>	YoY (CER) <b>33%</b>	YoY (AER) <b>30%</b>
OPERATING PROFIT AFTER TAX			
2017	2016		
<b>639</b>	<b>469</b>		
YoY (CER) <b>39%</b>	YoY (AER) <b>36%</b>		

US\$ MILLIONS, UNLESS OTHERWISE STATED

## OTHER MARKETS

AIA's Other Markets include Australia (including New Zealand), Cambodia, Indonesia, Korea, the Philippines, Sri Lanka, Taiwan, Vietnam and India.

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

### FINANCIAL HIGHLIGHTS

Other Markets delivered very strong growth with VONB up by 27 per cent to US\$408 million. VONB margin was higher by 8.2 pps to 41.2 per cent and ANP was flat compared with 2016. Highlights included strong performances from Australia (including New Zealand), Korea, the Philippines, Sri Lanka, Taiwan and Vietnam. IFRS operating profit after tax increased by 13 per cent to US\$758 million.

### BUSINESS HIGHLIGHTS

**Australia:** Our Australian group business delivered excellent performance as we continued to focus on the retention of major industry funds and corporate clients while proactively reviewing benefit designs. AIA also maintained its leadership position in the retail IFA channel, although the overall market growth remained subdued during the year. We also launched 'myOwn', a new health insurance brand in July 2017. myOwn is the result of an innovative alliance amongst AIA Australia; GMHBA, an Australian health insurance provider; and Discovery Limited, our AIA Vitality partner. myOwn offers a digitally-led integrated life, health and wellness proposition, which is a first for the Australian market.

In September 2017, we announced that we had reached an agreement with CBA, subject to securing all necessary regulatory and governmental approvals, to acquire Commlnsure Life in Australia and Sovereign Assurance Company Limited (Sovereign) in New Zealand. The Group will also enter into 20-year strategic bancassurance partnerships with CBA in Australia and ASB in New Zealand, together providing access to the banks' 13 million existing bank customers and significantly expanding our distribution capabilities in these markets.

**Cambodia:** Our Cambodian operations were officially launched in May 2017, which is AIA's first start-up business in a new market since our IPO. Our strategy is to focus on providing protection, health and wellness products through multichannel distribution including the creation of a full-time, professional agency distribution and our exclusive bancassurance partnership with Cambodian Public Bank. We also provide a fully digital end-to-end service platform for both our agency and bancassurance channels.

**Indonesia:** We continued to execute our Premier Agency strategy in Indonesia and our agency business delivered strong double-digit VONB growth driven by increased active agent productivity levels and higher average case sizes. We extended our longstanding relationship with BCA in February 2017, allowing us to broaden our access to BCA's customers. In 2017 we delivered double-digit VONB growth with BCA from expanding our product range and focusing on recruitment of in-branch insurance specialists. We also launched direct sales operations to customers of BCA during the year.

**Korea:** Our Korean business delivered excellent VONB growth in 2017. VONB margin was higher, mainly from a positive shift in product mix. Our direct business delivered an excellent performance, as we continued to engage with both new and existing partners to improve sales efficiency. Agency reported solid VONB growth, following the launch of new protection products and our focus on quality recruitment to grow an efficient and productive agency distribution. We have also entered into a new strategic partnership with SK Group. AIA Korea will offer protection products, including AIA Vitality, to SK Telecom, the leading telecommunications service provider with more than 30 million customers.

**Philippines:** AIA's business in the Philippines delivered strong double-digit VONB growth across both our agency and bancassurance channels. Our focus on quality recruitment led to a 24 per cent increase in the number of active new agents compared with 2016. Our joint venture with BPI continued to be the market leader in bancassurance with VONB growth from an increase in the number of in-branch insurance specialists and more efficient new lead generation. AIA Vitality membership has grown significantly following its integration into our bestselling products in both the agency and bancassurance channels.

**Sri Lanka:** Our Sri Lankan business delivered a strong performance in 2017 as we continued to execute our Premier Agency strategy. We launched new products during the year, further strengthening our position within the protection and retirement savings market. The launch of our new long-term strategic partnership with DFCC Bank has been completed with a full roll-out across all of its branches in the country.

**Taiwan:** AIA Taiwan delivered excellent VONB growth in 2017 from our multichannel partnership distribution. Our direct channel benefited from double-digit growth in our number of telesales representatives and VONB from our bancassurance and broker businesses grew significantly, as a result of successful new product launches with our strategic partners in Taiwan.

**Vietnam:** Vietnam extended its strong track record and once again delivered excellent VONB growth in 2017. Strong recruitment continued to drive active new agent growth with an increase of 28 per cent compared with 2016 while VONB margin increased as a result of a higher proportion of protection riders within the product mix. We also broadened our product range with the launch of our new unit-linked products and first-to-market early critical illness waiver of premium rider, and expanded our partnership distribution capabilities through the addition of four new bancassurance agreements including an exclusive partnership with VPBank in the second half.

VONB <sup>(1)</sup>		VONB MARGIN <sup>(2)</sup>	
2017	2016	2017	2016
<b>408</b>	<b>321</b>	<b>41.2%</b>	<b>32.9%</b>
YoY (CER) <b>27%</b>	YoY (AER) <b>27%</b>	YoY (CER) <b>8.2pps</b>	YoY (AER) <b>8.3pps</b>
ANP		TWPI	
2017	2016	2017	2016
<b>976</b>	<b>969</b>	<b>5,860</b>	<b>5,478</b>
YoY (CER) <b>1%</b>	YoY (AER) <b>1%</b>	YoY (CER) <b>6%</b>	YoY (AER) <b>7%</b>
OPERATING PROFIT AFTER TAX			
2017	2016		
<b>758</b>	<b>662</b>		
YoY (CER) <b>13%</b>	YoY (AER) <b>15%</b>		

US\$ MILLIONS, UNLESS OTHERWISE STATED

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.

# RISK MANAGEMENT

## OVERVIEW

The Group recognises the importance of sound risk management in every aspect of our business and for all stakeholders. For our policyholders it provides the security of knowing that we will always be there for them. For investors it is key to protecting and enhancing the long-term value of their investment. Finally, for regulators sound risk management supports industry growth and enhances the public’s trust in the industry.

While effective risk management is vital to any organisation, it goes to the core of a life insurance business where it is a fundamental driver of value. The Group’s Risk Management Framework (RMF) does not seek to eliminate all risks but rather to identify, understand and manage them within acceptable limits in order to support the creation of long-term value.

The Group’s RMF is built around developing an appropriate and mindful risk culture at every level of the organisation in support of our strategic objectives. The RMF provides business units with appropriate tools, processes and capabilities for the identification, assessment and, where required, upward referral of identified material risks for further evaluation.

The Group’s RMF consists of the following key components:

- Risk Culture;
- Risk Management Process;
- Risk Governance;
- Risk Appetite; and
- Risk Landscape.



## RISK CULTURE

The RMF recognises the importance of risk culture in the effective management of risks. Risk culture defines the Group's attitude to risks and ensures its remuneration structure promotes the right behaviour.

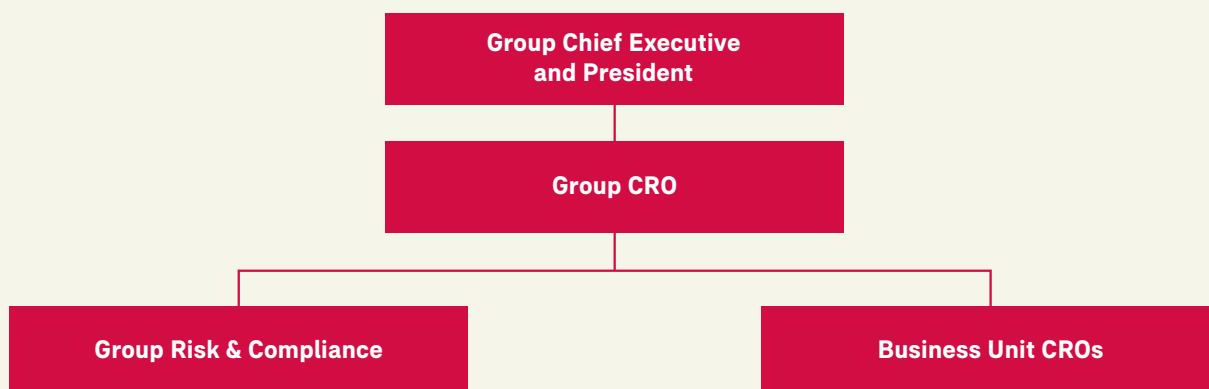
### ACCOUNTABILITY

A key component of the Group's risk culture is accountability. The First Line of Defence (First Line) is responsible for managing risks and consists of business unit management. The Group Chief Risk Officer (CRO) has overall accountability for the Risk & Compliance function across the Group. Each business unit CRO has a primary reporting line into the Group CRO and a secondary reporting line to the local Chief Executive Officer (CEO). This structure ensures independence of the Second Line of Defence (Second Line) and allows business unit CROs full access to local business discussions so as to provide risk management perspectives and insights. The Group CRO is a member of the Group Executive Committee while business unit CROs are, in most cases, also members of their respective local Executive Committees.

The Risk & Compliance organisational structure is shown below:

### REMUNERATION

The Company's executive remuneration structure ensures appropriate consideration of the RMF within a strong performance-oriented culture. This is supported by a performance management system where all staff are measured on 'how' as well as 'what' they deliver. This structure places significant emphasis on conduct as well as achievement, and is consistent with our fundamental Operating Philosophy of "Doing the Right Thing, in the Right Way, with the Right People... the Right Results will come".



## **RISK MANAGEMENT PROCESS**

The Group has a robust Risk Management Process that provides sufficient information, capability and tools to manage its key risks. To that end, the Group has developed the following key processes to identify, quantify, manage and monitor the risk exposures.

### **IDENTIFICATION**

Timely and complete identification of risks is an essential first step to the risk management process. The Risk & Compliance function has developed a systematic process to identify existing and emerging risks in the business units.

### **QUANTIFICATION**

Quantification of risk is important in establishing the level of exposure and in determining the appropriate management actions within the Group's Risk Appetite. Specific risk metrics adopted to support the quantification process are detailed in the Risk Landscape section of this report.

### **ESCALATION AND MITIGATION**

Following the risk quantification process, the executives working in the First Line are responsible for the timely identification and escalation of material risk developments and for the implementation of risk mitigation actions, as appropriate.

### **REPORTING AND MONITORING**

The Second Line is responsible for monitoring First Line activities and reporting to the appropriate Risk Committees the performance of the First Line against risk metrics and limits defined in the Risk Appetite. In addition, to ensure the effectiveness of the Risk Management Process, an Own Risk and Solvency Assessment is reported to the Risk Committees for annual review.



## RISK GOVERNANCE

### THREE LINES OF DEFENCE

The Group's Risk Governance framework is built on the "Three Lines of Defence" model. With regard to risk management, the objective is to ensure that an appropriate framework is in place, including an independent system of checks and balances, to provide assurance that risks are identified, assessed, managed and governed properly. The framework clearly defines roles and responsibilities for the management of risk between the Executive Management, Risk & Compliance and Internal Audit functions. While each line of defence is independent from the others, they work closely to ensure effective oversight.

The First Line is made up of the business decision-takers who are responsible for ensuring that effective and appropriate processes are in place at all times to effectively identify, assess and manage risk in a manner consistent with the RMF. In particular, the amount of risk taken at each level of the organisation must be consistent with both the Risk Appetite of the Group and the relevant business unit.

Initial identification, assessment and management of risk is the responsibility of executives operating in the First Line. Decisions regarding activities deemed to have significant risks attached or that are outside the limits of a given level of management are referred to a senior Group executive or, where appropriate, through the Group Chief Executive and President to the Risk Committee of the Board and, where appropriate, to the full Board of Directors.

The Second Line consists of the Risk & Compliance function. This function (under a Group CRO who reports directly to the Group Chief Executive and President) is independent of but works closely with the First Line to ensure that risks are being managed appropriately within the Group's Risk Appetite. The Second Line is also responsible for overseeing First Line activities and ensuring the Group adheres to its own high standards.

The Third Line of Defence (Third Line) is the Group Internal Audit (GIA) function, which reports to the Audit Committee of the Board. GIA is responsible for providing independent assurance over the effectiveness of key internal controls and makes recommendations based on the audit findings.

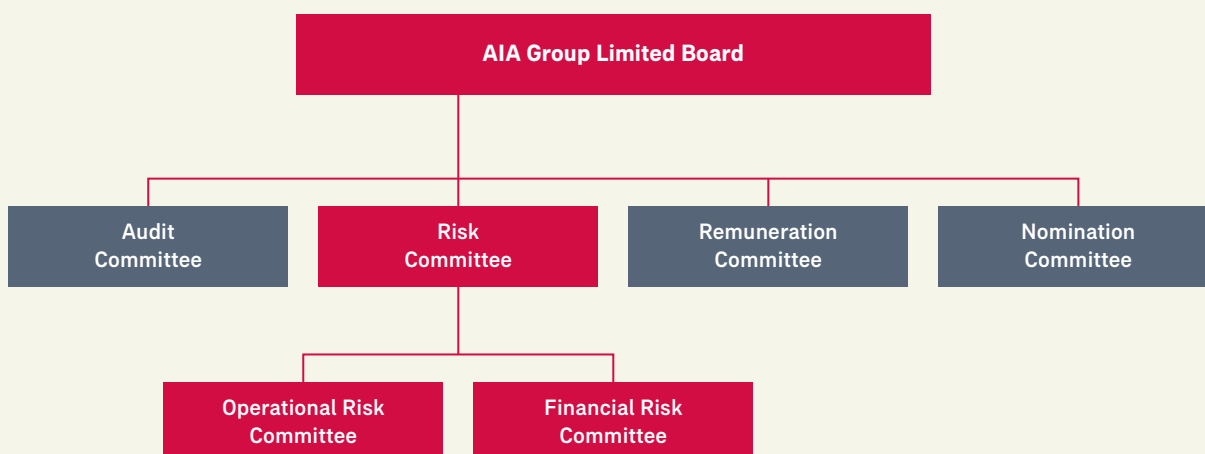
The Three Lines of Defence converge at the Board, which retains overall responsibility for the Group's RMF.



## **RISK COMMITTEE STRUCTURE**

The Group's Risk Committee structure is designed to provide:

- consistent application of the RMF across the Group;
- streamlined processes for the timely identification, assessment and escalation of risk issues;
- objective analysis of risk issues enabling informed decision-making; and
- discussion and challenge in relation to risk issues in suitable forums.



### **The Board**

The Board retains overall responsibility for oversight of the Group's risk management activities. In this regard the Board sets the Group's Risk Appetite, approves the RMF (including amendments or refinements from time to time) and monitors material Group-wide risks. In fulfilling these responsibilities, the Board is supported and advised by the Risk Committee.

### **Risk Committee**

The Risk Committee oversees risk management across the Group and advises the Board on all risk-related issues requiring Board attention. The members of the Risk Committee are all Board directors, with the majority of members including the Committee Chairman being Independent Non-executive Directors. The Risk Committee meets at least four times a year.

### **Operational Risk (ORC) and Financial Risk (FRC) Committees**

The Risk Committee is supported by two Executive Risk Committees which, between them, oversee the management of all risks. The ORC is chaired by the Group Chief Financial Officer and oversees risks associated with failure in internal processes, personnel and systems or from external events. The FRC is chaired by the Group Chief Executive and President and oversees risks associated with Financial, Insurance and Investment risks. The FRC and ORC meet at least four times a year.

The above committee structures are replicated at business unit level where applicable.

## RISK APPETITE



The Group's Risk Appetite is the foundation of its RMF. It establishes the quantum and nature of risks the Group is prepared to take to achieve its strategic objectives.

- The Risk Appetite Statement (RAS) is an overarching statement on the enterprise's attitude to risk;
- Risk Principles and Risk Tolerances are qualitative statements and quantitative metrics that expand and validate the RAS; and
- Risk Controls and Risk Limits are used to manage specific risks.

The Group has adopted the following Risk Appetite Statement:

*"The amount of risk taken by AIA in the ordinary course of its business will be sufficient to meet its customers' reasonable requirements for protection and benefits while ensuring that the level and volatility of shareholder returns are in line with a broadly-based risk profile appropriate to an Asia-Pacific ex-Japan-focused life insurance company."*

The RAS is supported by five Risk Principles:

Risk Principles	
Regulatory Capital	<i>"AIA has no appetite for regulatory non-compliance and as such will ensure that we hold sufficient capital to meet our current statutory minimum solvency in all but the most extreme market conditions."</i>
Financial Strength	<i>"AIA will ensure the Group's ability to meet all future commitments to our customers, both financial obligations and in terms of the promises we make to them. We will maintain sufficient capital to support a Financial Strength Rating that meets our business needs."</i>
Liquidity	<i>"AIA will maintain sufficient liquidity to meet our expected financial commitments as they fall due."</i>
Earnings Volatility	<i>"AIA will seek to deliver reported operating earnings consistent with expectations and will implement policies, limits and controls to contain operational risks, risk concentrations and insurance risks within reasonable tolerances."</i>
Business Practice	<i>"AIA will uphold high ethical standards and will implement sound internal controls to minimise the downside risk from the impact of any operational failures within reasonable tolerances."</i>

## RISK LANDSCAPE

The Group maintains a detailed risk taxonomy to ensure all risks are identified and systematically managed. The principal risks and their definitions are summarised below:

Financial Risks			Operational Risks		
<b>Investment</b>	<b>Insurance</b>	<b>ALM</b>			
Credit	Lapse	Interest Rate	Distribution	Information Technology	Finance & Actuarial
Equity Price	Expense	Foreign Exchange Rate	Fraud & Financial Crime	Information Security	Product Management
Property Price	Morbidity	Financial Liquidity	Legal & Regulatory	Operations	Third Party
Credit Spread	Mortality		Investment Operations	Key Projects	
Investment Liquidity			People	Business Interruption	
<b>Strategic Risks</b>					

Risks	Definition
Investment	Investment risk is the risk arising from the Group's investment portfolio due to (i) counterparties defaulting on obligations - "Credit Risk"; (ii) market movements - "Market Risk"; or (iii) reduced liquidity in markets.
Insurance	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 actuarial assumptions regarding future experience for these risks.
Asset-Liability Mismatch (ALM)	ALM risk is the risk arising from the difference in duration between the Group's assets and liabilities. This mismatch is mainly caused by differences in timing and size of the respective asset and liability cash flows.
Operational	Operational risk is the risk arising from internal processes, personnel and systems or from external events which may result in direct or indirect business impact.
Strategic	Strategic risk is the risk arising from the potential impact of the business strategy on the Group's earnings, capital and reputation. This also takes into consideration the wider social, economic, political, regulatory, competitive or technological trends that could impact the business strategy within a set time period.

## FINANCIAL RISKS – INVESTMENT

### Credit

The risk arising from the uncertainty of third parties meeting 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 and treasury activities. The Group performs a detailed analysis of each counterparty and recommends a rating, which will be updated from time to time. The Group's Risk Management function manages the Group's internal ratings framework and reviews these recommendations and, where appropriate, makes recommendations for revisions from time to time.

### Equity Price

The risk arising from changes in the market value of equity securities.

Equity price risk is managed 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 credit exposure reports on individual counterparties to monitor total concentration levels.

### Property Price

The risk arising from the volatility of real estate market value due to general or specific factors.

Property price risk can be driven by broader economic and social factors, notably tenant supply and demand, liquidity of individual assets, evolving infrastructure or government actions that may directly or indirectly influence the market. It can also be driven by the characteristics of specific holdings: their location within an area, the competitiveness of their facilities and their physical condition.

Any material property investment is individually reviewed by the Group to ensure it does not give rise to an unacceptable concentration of exposure and that it does not compromise the financial flexibility of the relevant business unit.

### Credit Spread

The risk arising from changes in the market value of securities as a result of a change in perception as to their likelihood of repayment.

The Group invests in non-government securities in a number of its portfolios for yield purposes, and the primary intention is to hold these to maturity. The Group manages its credit spread risk carefully, focusing on overall portfolio quality and diversification and seeking to avoid excessive volatility in the mark-to-market value of its investment portfolios.

### Investment Liquidity

The risk arising from the Group's ability to buy and sell investments subject to market availability and pricing.

Investment liquidity risk is managed in the first instance through the size of the Group's individual holdings relative to market volume, complemented by the quality of the investments which are primarily in government and high-quality corporate bonds with good liquidity profile. The Group also maintains a minimum liquidity threshold on its investments in listed equities.

## **FINANCIAL RISKS – INSURANCE**

### **Lapse**

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

Ensuring that customers only buy products that match 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**

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

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

### **Morbidity and Mortality**

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

Recent initiatives to manage morbidity risk and improve claims management include the promotion of wellness programmes such as AIA Vitality and the establishment of a dedicated Healthcare team to improve customer healthcare experience.

## **FINANCIAL RISKS – ASSET-LIABILITY MISMATCH (ALM)**

### **Interest Rate**

The risk arising from the impact of interest rate movements on the value of future asset and liability cash flows.

Exposure to interest rate risk predominantly arises from any difference between the duration of the Group's assets and liabilities.

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

Exposure to interest rate risk is summarised in note 36 to the financial statements, which shows the split of financial assets and liabilities between variable, fixed and non-interest bearing investments.

### **Foreign Exchange Rate**

The risk arising from foreign exchange rate movements on the value of future asset and liability cash flows, and the translation of business units' balance sheets to the Group's reporting currency.

Assets, liabilities and all regulatory and stress capital in each business unit are currency matched within set limits with the exception of holdings of equities denominated in currencies other than the local currency. Any expected capital movements due within one year are required to be hedged. The balance sheet values of the Group's business units are not hedged to the Group's reporting currency of US dollar.

### **Financial Liquidity**

The risk arising from the availability of cash resources to meet payment obligations to counterparties as they fall due.

As disclosed in note 19 to the financial statements, most of the Group's investments are in the form of marketable securities and can be readily converted into cash should the need arise.

Another financial liquidity risk arises from the availability of collateral in derivative and repo trades. This risk is managed by determining appropriate limits and assessing the ability of the business units to withstand extreme market events. The Group also supports its liquidity needs through committed bank facilities and maintaining access to debt markets via the Group's Global Medium-term Note and Securities programme.

Note 36 to the financial statements provides a maturity analysis of the Group's financial assets and its financial liabilities and insurance contract liabilities.

## **OPERATIONAL RISKS**

The risk arising from internal processes, personnel and systems or from external events which may result in direct or indirect business impact.

Operational risk is categorised into a common taxonomy which is adopted across the Group. The Group's operational risks arise in the following key areas:

- Distribution Risk – This involves intermediary misconduct such as churning, mis-selling / product suitability, fraud and other market conduct-related issues;
- Regulatory Compliance Risk – This concerns compliance with the relevant laws and regulations;
- Financial and Operational Process Risk – This involves the controls in key processes in business functions such as product management, investment, finance, actuarial, underwriting, claims, and policy administration; and
- Systems and Information Security Risk – This includes system performance, disaster recovery, and cyber and information security standards.

Each operational risk is assessed against four defined impacts that such risk could have on the business, namely Financial Loss, Regulatory Breach, Reputation Damage and Business Disruption. This assessment allows the Group to monitor its exposure against the newly defined Business Practice Risk Principle and Risk Tolerance stated earlier in the Risk Appetite section.

The Group uses various techniques to manage operational risks, including:

- Appointment of First Line Risk Owners and Risk Champions;
- Risk and Control Assessments (RCAs) for each key operational risk;
- Key Risk Indicators (KRIs) monitoring;
- Internal Incidents reporting; and
- Operational risk checklists for material projects and key processes such as product management.

The Group also protects itself against financial losses by purchasing insurance cover against a range of operational loss events including business disruption, property damage and internal fraud. The coverage is determined after taking into consideration the Group's Operational Risk Profile.

## **STRATEGIC RISKS**

Strategic risk is identified as part of the business plan process and is defined as the potential impact of the business strategy on the Group's earnings, capital and reputation. This also takes into consideration the wider social, economic, political, regulatory, competitive or technological trends that could impact the business strategy within a set time period.



# REGULATORY AND INTERNATIONAL 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.

Regulators across AIA's span of operations continue 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 by the IAIS of an insurance capital standard (ICS). Field testing for the ICS is expected to be completed in 2019 with implementation of the ICS to be conducted in two phases. Under the first phase, ICS will be used for confidential reporting to group-wide supervisors in a monitoring period lasting five years. The second phase will be implementation of the ICS as a group-wide prescribed capital requirement.

In particular in 2016, 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 the 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 are first applied to AIA's financial year ended 30 November 2017 and AIA is participating in the development and refinement of these initiatives.

In Hong Kong, the HKIA, being a statutory body established under the Insurance Companies (Amendment) Ordinance 2015, replaced the Office of the Commissioner of Insurance as the regulator of insurance companies with effect from 26 June 2017. It is anticipated that the HKIA will directly regulate intermediaries within two years. 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.

On 16 May 2017, the HKIA and the China Insurance Regulatory Commission (CIRC) signed the Equivalence Assessment Framework Agreement on Solvency Regulatory Regime under which the HKIA and the CIRC agreed to conduct an assessment that the insurance solvency regime of the Mainland and Hong Kong would be equivalent. As no implementing procedures for equivalency were in place for Hong Kong as of 30 November 2017, there was no change to the solvency requirements under the HKIO.

On 18 May 2017, the International Accounting Standards Board (IASB) published International Financial Reporting Standard (IFRS) 17, Insurance Contracts (previously IFRS 4 Phase II) which will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. On 12 December 2017, the Hong Kong Institute of Certified Public Accountants (HKICPA) approved the issuance of Hong Kong Financial Reporting Standard (HKFRS) 17, Insurance Contracts. The Group is in the midst of conducting a detailed assessment of the new standards. The standards are mandatorily effective for financial periods beginning on or after 1 January 2021.

## OUR PEOPLE

At AIA, we make it a top priority to develop our people and our leadership capabilities. At the same time, we strive to foster a strongly collaborative environment in which our people are able to deliver strong and sustainable performance. We work hard to create high-quality developmental programmes and engagement initiatives that will enable our over 20,000 employees and agents to fully support our Vision of being the world's pre-eminent life insurance provider while playing a leadership role in driving economic and social development across the region. By doing this, we are better able to deliver our brand promise of helping our clients, our employees, our shareholders and members of our communities live healthier, longer, better lives.

Underpinning our business success has been our ongoing commitment to attracting, developing and retaining the best people. Guided by our Strategic Framework and Operating Philosophy of "Doing the Right Thing, in the Right Way, with the Right People... the Right Results will come", we help our people be clear about what is required, why we do what we do and how we should approach it. Our investment in our people has been recognised through awards received by a number of our businesses over the years. Most recently, AIA Sri Lanka was awarded "Best Companies to Work For" by Great Place to Work. AIA China, Tata AIA and AIA Hong Kong each received the Best Employer 2017 award from Aon Hewitt, with the Group also receiving the award for Regional Best Employer 2017, Asia Pacific.

### BUILDING LEADERSHIP STRENGTH

A senior leadership transition took place during the year with the appointment of a new Group Chief Executive and President, along with changes in a number of senior management roles. Seven of the eight senior management roles affected by the transition (consisting of five of six roles on the Group Executive Committee and two entity CEO roles) were filled internally, underscoring our robust leadership review and succession planning process. To that end, a comprehensive Group-wide leadership review is conducted annually which generates structured action plans. In 2017, over 1,200 individual Group-wide senior positions across 21 business entities and 11 functions were reviewed against our strategic priorities. The information gained from this review enables us to prepare our leaders to better achieve our current and future ambitions.

Our customised executive leadership development programmes include on-the-job learning such as stretch assignments, project secondments and expanded job roles. Our two flagship leadership programmes, the Enterprise Leadership Programme and the Business Leadership Programme, focus on developing senior leaders with the enterprise-wide mindsets needed to lead the organisation, as well as preparing them for more complex and challenging roles in the future. In 2017, many of our leaders continued to participate in these programmes, developing and contributing as they learned on the job. Technical leadership and functional leadership programmes are also provided to enhance domain-specific knowledge and skills. These include a project management series, a course on finance for non-finance professionals, a Human Resources "Outside-In" leadership workshop, as well as functional leadership conferences and other learning sessions. These programmes are offered through our AIA Leadership Centre based in Bangkok, a world-class state-of-the-art learning facility that draws on the talents of both our internal senior leaders' facilitators and accredited external trainers.

## DEVELOPING OUR PEOPLE

One of our goals is to continuously improve our people and align their career aspirations with those of the organisation. In line with this, we are committed to providing a comprehensive suite of tailored learning and development opportunities for our employees. One example of this is the series of functional career roadmaps we introduced in 2017, which are helping our people identify the routes they want to follow in their careers while remaining open to change along the way. Learning programmes such as our signature People Manager Accelerator programme and the AIA Manager Series continued to be updated and aligned with our business ambitions. These programmes are supplemented by structured coaching, mentoring, and on-the-job learning initiatives. Our emerging leaders were encouraged to share their ideas with senior leaders in a reverse mentoring programme. A career mobility programme was also available, under which employees can participate in a variety of internal transfers to expand their skillsets and open a range of development opportunities as they develop their careers.

## EMBRACING TRANSFORMATION AND ENGAGING OUR PEOPLE

We have developed mobile and digital learning options (such as online video learning) in line with new educational approaches. We have also been deploying new systems such as an online people directory and an enhanced performance management system and modernising workflows to improve our employees' user experience. A series of "Design Thinking" workshops have been introduced to foster a mindset of customer-centricity throughout the process of digitalisation.

The annual employee engagement survey continued to provide us with valuable insights into our corporate culture, our workplaces and our workforce. In 2017, 99 per cent of our people responded to the survey. The employee engagement scores recorded for the Group once again place us above both the global financial services and insurance industry benchmarks.

## RECOGNISING AND REWARDING PERFORMANCE

We provide our employees with an effective total rewards programme, that we believe helps us attract, retain and engage the very best people in the industry. This performance-based rewards programme is aligned with our strategic objectives and continues to be a key component in the Company's delivery of sustainable long-term value.

The Company's short-term and long-term incentive programmes are designed to balance the achievement of both near-term and longer-term initiatives, all with a view to generating excellent outcomes for customers and long-term sustainable value for shareholders. These programmes are reviewed annually and this review includes a regular dialogue between the Board Risk Committee and Remuneration Committee to ensure that all of our incentive programmes drive the correct behaviours. All our recognition and benefit programmes are assessed regularly to ensure that they remain compliant with government regulations, are market competitive and aligned with our long-term stakeholder interests.

An important component of our total rewards programme is our Employee Share Purchase Plan (ESPP). The ESPP is designed to encourage employees to become AIA shareholders, thus further aligning the interests of our employees with those of our shareholders. In 2017, the employee participation rate in the ESPP grew to its highest levels to date.

All employees participate in our robust annual Performance Development Dialogue process. This process measures not only what individual employees have achieved but also how they have achieved it and encourages managers to support the continuous development of their team members.

## CORPORATE SOCIAL RESPONSIBILITY

AIA's corporate social responsibility programme is founded on our aspiration to help people live healthier, longer, better lives and our purpose to play a leadership role in driving the economic and social development of the markets in which we operate.

### PROMOTING HEALTHY LIVING

In 2017, our commitment to getting people across the Asia-Pacific region engaged in healthier lifestyles became more visible and far-reaching than ever with the announcement that David Beckham would be joining the AIA family in the role of Global Ambassador.

To officially launch the partnership, in September 2017 we embarked on our first-ever AIA Healthy Living Tour covering Hong Kong, Korea, Singapore and Malaysia. The tour's focus was on healthy eating while respecting local traditions, with a special emphasis on how popular Asian dishes can be prepared in healthier ways. The tour included a wide cross section of our local communities and provided a range of information on nutrition and overall well-being. For example, in Hong Kong, we invited 40 schoolchildren to join David at a healthy mooncake-making class, promoting awareness of healthy choices throughout life in a fun way.

We also continued to encourage those in its local communities to take part in a wide range of physical activities.

In February 2017, we sponsored the first Singapore Relay for Life, a 17-hour community event organised by the Singapore Ministry of Health which brought more than 6,000 participants together to raise awareness of cancer and cancer support.

Our sponsorship of the "Men's Health Women's Health Night Run" in Malaysia and The Music Run™ in Malaysia, Singapore and Thailand continued in 2017. The runs brought people together to have fun and to engage in exercise and well-being activities.

In Hong Kong, AIA continued to support Oxfam Trailwalker as a principal sponsor for the third year with a record-breaking 36 teams comprising 144 employees and financial planners. We also extended our partnership for another three years to 2020.

Also in Hong Kong, the Marvel 10K Weekend – Presented by AIA Vitality took place for the second year in a row at Hong Kong Disneyland in September 2017, attracting over 10,000 runners. The event welcomed participants of all ages and offered them a special way of experiencing Hong Kong Disneyland, with superhero characters cheering on the runners along the course.

### ENGAGING COMMUNITIES THROUGH FOOTBALL

In the first half of 2017, AIA announced it would be renewing and deepening its partnership with Tottenham Hotspur Football Club (Spurs), in an arrangement that will run through to June 2022.

As part of the extended benefits, two members of the Spurs coaching staff have been relocated to Hong Kong. These coaches have enabled us to significantly increase the number and effectiveness of the community coaching projects that we run in our markets around the region. Since moving to Asia in June 2017, the coaches have held



- 01 In Hong Kong, AIA continued to support Oxfam Trailwalker as a principal sponsor for the third year.
- 02 With our sponsorship, The Music Run™ brought people together to have fun and to engage in exercise and well-being activities.
- 03 As part of AIA Healthy Living Tour, David Beckham took part as a one-day coach, hosting a soccer clinic for children from low-income families in Korea.

30 training camps and coaching clinics that have benefited more than 3,000 children across Asia. To ensure that the programmes provide long-term benefits in our communities, they also train coaches with more than 100 local coaches receiving world-class training that will then be applied in our communities going forward. In addition to football training, the coaches have supported educational initiatives around topics such as conditioning, nutrition and well-being with AIA employees, customers and various members of our communities.

Under the slogan “Real Dreams Never Stop” the AIA Football Clinic returned to Thailand for a sixth consecutive year. AIA joined with two of the Thailand Football League’s leading clubs, Bangkok Glass FC and Chonburi FC to offer 1,500 young Thai footballers, aged 8-13 years and from more than 80 schools, the chance to take part in an exclusive training session with professional coaches. This year the team also engaged more than 1,300 youngsters in Chiangmai in an AIA Football Clinic and in the AIA Youth Cup Tournament.

Since the campaign commenced, AIA Thailand has engaged more than 5,000 young people in Chiangmai, Bangkok, Chonburi and Phuket. The number of participants has grown by 10 per cent each year, and has included children of our customers, agents and colleagues, as well as underprivileged children from the community.

In its fourth year of partnership with the China Youth Development Foundation, AIA launched the 2017 AIA China Youth Football Development Programme with the goal of improving basic football skills at the grass-roots level. Following the launch, 30 high school volunteers who had received football training from professional institutions visited 16 elementary schools in Guangdong, Yunnan and Hainan provinces to support football education and share their knowledge of the sport with local children.

This year for the first time, the programme was extended to Hainan and Inner Mongolia provinces, providing even more children with the opportunity to receive football training and have fun through exercise.

## SUPPORTING EDUCATION

This year AIA hosted events in many of its communities designed to bring the wider community together with the aim of encouraging and celebrating a healthy future. At these events AIA staff worked with a variety of partners to educate the public on small steps that can cumulatively result in a meaningful journey towards physical and mental well-being.

In China, AIA brought together 5,000 employees and media representatives for a conference on “well-being” at the National Exhibition and Conference Centre in Shanghai – coinciding with the launch of AIA China’s Wellness Programme. The event looked in detail at the role of the Chinese insurance industry and the need to move on from simple disease and risk management to a model of contributing proactively to improving public health.

AIA Korea opened the first ever AIA Vitality Zone – an interactive space in an AIA office where members of the public can take a journey through three zones: Knowing your Health, Improving your Health and Enjoying your Health. To date, over 37,000 people have visited the AIA Vitality Zone.

In Singapore, Australia and Vietnam, we hosted AIA Vitality Day events. These events provided audiences with a new and innovative way to connect with the insurance industry while at the same time learning more about fitness, nutrition, physical health and financial health.

In Hong Kong we conducted our annual Agency Awards to actively celebrate the agency force’s efforts in promoting the outstanding individuals and districts who have truly helped customers to see the benefits of healthy living. These involved sharing success stories of customers who have taken steps to improve their health, and through these steps, have improved the life of others.

AIA has also continued to support students on their educational and career journeys. For two years now AIA has partnered with the Asian University for Women, an independent school in Bangladesh which admits students solely on the basis of merit, regardless of their family’s income level. In 2017, five new interns joined AIA from the University, spending time in various departments across the business. To facilitate two-way learning, the interns also hosted a panel discussion for AIA employees, where they shared their personal journeys and presented their unique perspectives on and beliefs about the importance of collaborating across cultural, gender and religious lines.

## EMPOWERING COMMUNITIES

In Hong Kong, we were proud to sponsor the AIA Great European Carnival for the third year. The event, which ran from December 2016 to February 2017, consisted of unique outdoor activities that enabled us to get our healthy living message across effectively to nearly one million attendees. Through partnerships with several local charities, we also helped ensure that a wide spectrum of community groups were able to enjoy this event.

AIA believes that being part of a community means proactively supporting local endeavours in times of need. In 2017, employees from AIA Indonesia volunteered their time to meet children affected by the earthquake in the Aceh region that occurred in December 2016. The teams held a number of events and distributed new school equipment, as well as getting involved in much-needed renovation work alongside representatives from local humanitarian organisations. In Thailand, our employees donated 2,000 support packs to people who had experienced significant losses as a result of the extreme flooding in January 2017.

We also take an active role in supporting the general well-being of the communities within our markets. In Cambodia, we partnered with local hospitals to provide free health check-ups and medical consultations to more than 1,500 people in 2017.



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03 In Indonesia, our employees volunteered their time to meet children affected by the earthquake in the Aceh region.



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In Hong Kong, AIA continued its “Let’s Work Together” campaign to encourage further diversity in the workplace and promote equal job opportunities for people with disabilities. This effort was undertaken in partnership with CareER, a non-profit organisation and registered charity supporting people with disabilities in achieving their employment goals.

In December 2017, AIA announced that it became the exclusive Principal Sponsor of the Hong Kong Observation Wheel, the landmark attraction on the Central harbour front. We will also be creating the first ever AIA Vitality Park on the site of the Wheel, a free, open space that will host a variety of health and well-being activities for the public throughout the year. Ticket prices for the Observation Wheel have also been significantly reduced, making a visit truly accessible and affordable for the many residents and visitors who visit Hong Kong’s Central harbour front every year.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

AIA has released its second Environmental, Social and Governance (ESG) Report, which describes our approach to and priorities in managing our ESG performance. Our ESG Report meets the requirements of the Global Reporting Initiative (GRI) G4, and is available on the Company’s website at [www.aia.com](http://www.aia.com).

Following a company-wide review undertaken in June 2017, AIA has been officially introduced onto the FTSE4Good Index. Based in London, FTSE4Good is an index series established in 2001 to help identify and measure the performance of companies in terms of their environmental, social and governance behaviour.

# CORPORATE GOVERNANCE

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# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Company's consolidated financial statements in accordance with applicable laws and regulations.

In preparing the consolidated financial statements of the Company, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards and International Financial Reporting Standards; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records that give a true and fair view of the state of the Company's affairs and explain its transactions.

The Directors are responsible for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Directors are also responsible for preparing a Report of the Directors and the Corporate Governance Report on pages 83 to 103 of this Annual Report.

The Directors confirm that to the best of their knowledge:

1. the consolidated financial statements of the Company, prepared in accordance with Hong Kong Financial Reporting Standards and International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position, cash flows and results of the Company and its undertakings included in the consolidated financial statements taken as a whole; and
2. the section headed "Financial and Operating Review" included in this Annual Report presents a fair review of the development and performance of the business and the position of the Company and its undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that the Group faces.

## BOARD OF DIRECTORS





**FROM LEFT TO RIGHT**

Mr. John Barrie Harrison  
Mr. Mohamed Azman Yahya  
Dr. Narongchai Akrasanee  
Mr. Jack Chak-Kwong So  
Mr. Edmund Sze-Wing Tse  
Mr. Ng Keng Hooi  
Mr. Chung-Kong Chow  
Ms. Swee-Lian Teo  
Professor Lawrence Juen-Yee Lau  
Mr. Cesar Velasquez Purisima  
Mr. George Yong-Boon Yeo

## **INDEPENDENT NON-EXECUTIVE CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTOR**

### **Mr. Edmund Sze-Wing Tse**

Aged 80, is the Independent Non-executive Chairman and an Independent Non-executive Director of the Company. He was appointed Non-executive Director of the Company on 27 September 2010 and elected Non-executive Chairman on 1 January 2011. He was re-designated as the Independent Non-executive Chairman and an Independent Non-executive Director of the Company on 23 March 2017. He is also a director of AIA Foundation. Mr. Tse's appointments during almost 57 years with the Group and its predecessor, AIG Group, include serving as Honorary Chairman of AIA Co. from July 2009 to December 2010, Chairman and Chief Executive Officer from 2000 to June 2009 and President and Chief Executive Officer from 1983 to 2000. He also served as Chairman of The Philippine American Life and General Insurance (PHILAM LIFE) Company from 2005 to 2015. Mr. Tse is a non-executive director of PCCW Limited (listed on the Hong Kong Stock Exchange) and a director of Bridge Holdings Company Limited. He served as a non-executive director of PineBridge Investments Limited from 2012 to 2014 and a non-executive director of PICC Property and Casualty Company Limited (listed on the Hong Kong Stock Exchange) from 2004 to July 2014. In recognition of his outstanding contributions to the development of Hong Kong's insurance industry, Mr. Tse was awarded the Gold Bauhinia Star by the HKSAR Government in 2001. Mr. Tse received an honorary fellowship and an honorary degree of Doctor of Social Sciences from The University of Hong Kong in 1998 and 2002, respectively. In 2003, he was elected to the prestigious Insurance Hall of Fame and in 2017 Mr. Tse was awarded the first ever Lifetime Achievement Award at the Pacific Insurance Conference in recognition of his outstanding contribution to the insurance industry.

## **EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE AND PRESIDENT**

### **Mr. Ng Keng Hooi**

Aged 63, is an Executive Director and the Group Chief Executive and President of the Company, having been appointed on 1 June 2017. He joined the Group in October 2010. Mr. Ng has over 37 years of experience in Asian life insurance having spent his entire career in the sector. Prior to his current role, he was Group Chief Executive and President Designate from March 2017 and was a Regional Chief Executive for the Group since his initial appointment in 2010. During that time he was responsible for a number of the Company's businesses, including most recently those operating in Mainland China, Thailand, Indonesia, Singapore, Brunei and Taiwan as well as for the Group's Agency Distribution channel. He is a director of various companies within the Group including acting as Chairman and Chief Executive Officer for both AIA Co. and AIA International. Prior to joining the Group, he was Group Chief Executive Officer and Director of Great Eastern Holdings Limited from December 2008 to 2010. Mr. Ng worked for Prudential plc from 1989 to 2008, serving as a Managing Director of Insurance of Prudential Corporation Asia Limited from 2005 to 2008, responsible for its operations in Malaysia, Singapore, Indonesia and the Philippines. Mr. Ng began his career in life insurance at AIA Malaysia in 1980. He has been a board member of the Financial Services Professional Board in Kuala Lumpur since 24 September 2014 and has been a Fellow of the Society of Actuaries (U.S.) since 1985. He received his Bachelor of Science degree in Mechanical Engineering from Lafayette College (Pennsylvania, USA) in 1979.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Mr. Jack Chak-Kwong So

Aged 72, is an Independent Non-executive Director of the Company. He was appointed a Non-executive Director of the Company on 28 September 2010 and re-designated as an Independent Non-executive Director of the Company on 26 September 2012. From August 2007 to September 2010, Mr. So served as an Independent Non-executive Director of AIA Co. He is currently an independent non-executive director of China Resources Power Holdings Co. Ltd. (listed on the Hong Kong Stock Exchange) and serves as the Chairman of Airport Authority Hong Kong. He is also an independent senior advisor to Credit Suisse, Greater China. Mr. So was Chairman of the Consultative Committee on Economic and Trade Co-operation between Hong Kong and Mainland China from October 2013 to December 2015. Mr. So was awarded the Gold Bauhinia Star and the Grand Bauhinia Medal by the HKSAR Government in 2011 and 2017, respectively. Mr. So served as an executive director of the Hong Kong Trade Development Council from 1985 to 1992 and served as its Chairman from 2007 to 2015. He was an independent non-executive director of Cathay Pacific Airways Limited (listed on the Hong Kong Stock Exchange) from 2002 to May 2015, a non-executive director of Huanxi Media Group Limited (listed on the Hong Kong Stock Exchange) from September 2015 to September 2016. Mr. So served as the Chairman of the Hong Kong Film Development Council from 2007 to 2013 and a member of the Chinese People's Political Consultative Conference from 2008 to 2018.

### Mr. Chung-Kong Chow

Aged 67, is an Independent Non-executive Director of the Company, having been appointed on 28 September 2010. Mr. Chow is the Chairman of Hong Kong Exchanges and Clearing Limited (listed on the Hong Kong Stock Exchange). He was appointed a non-official member of the Executive Council of the HKSAR on 1 July 2012 and was further appointed for a new term of office from 1 July 2017. Mr. Chow was also appointed as the Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption from 1 January 2013, the Chairman of the Advisory Committee on Admission of Quality Migrants and Professionals of the HKSAR from 1 July 2016, a director of the Community Chest of Hong Kong from 19 June 2017 and a member of the Financial Leaders Forum set up by the HKSAR Government from 18 August 2017. He has also been a Steward of The Hong Kong Jockey Club since March 2011. Mr. Chow was knighted in the United Kingdom for his contribution to industry in 2000 and was awarded the Gold Bauhinia Star by the HKSAR Government in 2015. Mr. Chow was Chief Executive Officer of MTR Corporation Limited (listed on the Hong Kong Stock Exchange) from 2003 to 2011, Chief Executive Officer of Brambles Industries plc, a global support services company, from 2001 to 2003, and Chief Executive of GKN plc, a leading industrial company based in the United Kingdom, from 1997 to 2001. He was an independent non-executive director of Anglo American plc from 2008 to 2014, independent non-executive director of Standard Chartered plc (listed on the Hong Kong Stock Exchange) from 1997 to 2008 and the Chairman of the Hong Kong General Chamber of Commerce from 2012 to June 2014.

### **Mr. John Barrie Harrison**

Aged 61, is an Independent Non-executive Director of the Company, having been appointed on 1 July 2011. Mr. Harrison is an independent non-executive director of Cathay Pacific Airways Limited (listed on the Hong Kong Stock Exchange). He is also an independent non-executive director of BW Group Limited and has been Vice Chairman of BW LPG Limited since 2013. Mr. Harrison is also an independent non-executive director and the Chairman of the Audit Committee of Grosvenor Asia Pacific Limited since 1 December 2017. He was appointed an Honorary Court Member of The Hong Kong University of Science and Technology with effect from 20 September 2016. He was an independent non-executive director of Hong Kong Exchanges and Clearing Limited (listed on the Hong Kong Stock Exchange) from 20 April 2011 to 26 April 2017, The London Metal Exchange Limited from 6 December 2012 to 26 April 2017 and LME Clear Limited from 16 December 2013 to 26 April 2017. From 2008 to 2010, Mr. Harrison was Deputy Chairman of KPMG International. In 2003, he was elected Chairman and Chief Executive Officer of KPMG, China and Hong Kong and Chairman of KPMG Asia Pacific. Mr. Harrison began his career with KPMG in London in 1977, becoming a partner of KPMG Hong Kong in 1987. From 2012 to May 2015, he was also a member of the Asian Advisory Committee of AustralianSuper Pty Ltd. Mr. Harrison received an honorary fellowship from The Hong Kong University of Science and Technology in 2017. Mr. Harrison is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.

### **Mr. George Yong-Boon Yeo**

Aged 63, is an Independent Non-executive Director of the Company, having been appointed on 2 November 2012. Mr. Yeo is the Chairman of Kerry Logistics Network Limited (listed on the Hong Kong Stock Exchange) and a director of Kerry Holdings Limited. He was the Vice-chairman of Kerry Group Limited until 30 June 2016. Mr Yeo is an independent director of New Yangon Development Company Limited. He has been a member of the International Advisory Committee of Mitsubishi Corporation since June 2014. He is a member of the International Advisory Board of the Berggruen Institute on Governance. From November 2014 to December 2017, Mr. Yeo was a non-executive director of Wilmar International Limited. In 2013, he was appointed a member of the Pontifical Commission for Reference on the Economic-Administrative Structure of the Holy See. He became a member of the Vatican Council for the Economy in February 2014. In 2012, Mr. Yeo was presented with the Order of Sikatuna by the Philippines Government and the Padma Bhushan by the Indian Government, and became an Honorary Officer of the Order of Australia. From 1988 to 2011, Mr. Yeo was a member of the Singapore Parliament and held various Cabinet positions, including Minister for Foreign Affairs, Minister for Trade and Industry, Minister for Health, Minister for Information and the Arts and Minister of State for Finance. From 1972 to 1988, Mr. Yeo served in the Singapore Armed Forces and attained the rank of Brigadier-General in 1988 when he was Director of Joint Operations and Planning in the Ministry of Defence.

### **Mr. Mohamed Azman Yahya**

Aged 54, is an Independent Non-executive Director of the Company, having been appointed on 24 February 2014. Mr. Yahya is the Executive Chairman of Symphony Life Berhad, the Non-executive Chairman of Ranhill Holdings Berhad and an independent non-executive director of Sime Darby Berhad, all companies are listed on the Main Market of Bursa Malaysia Securities Berhad (Bursa Malaysia). Mr. Yahya is a director and Chairman of various companies, including Symphony House Sdn Bhd (formerly known as Symphony House Berhad) and Sepang International Circuit Sdn Bhd. Mr. Yahya is active in public service and sits on the boards of Khazanah Nasional Berhad, the Malaysian government investment arm, and Ekuiti Nasional Berhad, a government linked private equity fund management company. He started his career at KPMG in London and thereafter worked in a variety of roles in investment banking, ultimately being named chief executive of Amanah Merchant Bank. In 1998, he was tasked by the Malaysian Government to set-up and head Danaharta, the national asset management company. He was also the Chairman of the Corporate Debt Restructuring Committee, set up by Bank Negara Malaysia to mediate and assist in debt restructuring programmes of viable companies. He was an Independent Non-executive Director of Scomi Group Berhad (listed on Bursa Malaysia) from 2003 to 2017. Mr. Yahya received his BSc Economics (First Class) from the London School of Economics and Political Science in 1985 and is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants and a fellow of the Institute of Bankers Malaysia.

### **Professor Lawrence Juen-Yee Lau**

Aged 73, is an Independent Non-executive Director of the Company, having been appointed on 18 September 2014. Professor Lau currently serves as an independent non-executive director of CNOOC Limited and Hysan Development Company Limited (both listed on the Hong Kong Stock Exchange). He is also an independent non-executive director of Far Eastone Telecommunications Company Limited which is listed on the Taiwan Stock Exchange. He has been serving as the Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong (CUHK) since 2007 and the Chairman of the Council of Shenzhen Finance Institute of CUHK, Shenzhen since 12 January 2017. He currently serves as a member of the Exchange Fund Advisory Committee of the HKSAR, Chairman of its Governance Sub-committee and a member of its Currency Board Sub-committee and Investment Sub-committee. In addition, he serves as a member and Chairman of the Prize Recommendation Committee for the LUI Che Woo Prize Limited, Vice-Chairman of the Our Hong Kong Foundation, the Vice-Chairman of China Center for International Economic Exchanges, Beijing, as well as a member of the Hong Kong Trade Development Council Belt and Road Committee. He was awarded the Gold Bauhinia Star by the HKSAR Government in 2011. From 2004 to 2010, Professor Lau served as Vice-Chancellor (President) of CUHK. He was appointed Chairman of CIC International (Hong Kong) Co., Limited, a wholly-owned subsidiary of China Investment Corporation, in September 2010 and retired from the position in September 2014. He also served as a non-executive director of Semiconductor Manufacturing International Corporation (listed on the Hong Kong Stock Exchange) from 2011 to 2014. He was a member of the 12th National Committee of the Chinese People's Political Consultative Conference and the Vice-Chairman of its Sub-committee of Economics from 2013 to 2018. He received his B.S. degree (with Great Distinction) in Physics from Stanford University in 1964 and his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley in 1966 and 1969, respectively. He joined the faculty of the Department of Economics at Stanford University in 1966, becoming its Professor of Economics in 1976 and the first Kwoh-Ting Li Professor in Economic Development in 1992. From 1992 to 1996, he served as a Co-Director of the Asia-Pacific Research Center at Stanford University, and from 1997 to 1999 as the Director of the Stanford Institute for Economic Policy Research. He became its Kwoh-Ting Li Professor in Economic Development, Emeritus, upon his retirement from Stanford University in 2006.

### **Ms. Swee-Lian Teo**

Aged 58, is an Independent Non-executive Director of the Company, having been appointed on 14 August 2015. Ms. Teo currently serves as a non-executive and independent director and a member of the Audit Committee and Executive Resource and Compensation Committee and chairs the Risk Committee of Singapore Telecommunications Limited, which is listed on the Singapore Exchange. She is also a non-executive director and chairs the Audit and Risk Committee of Avanda Investment Management Pte Ltd., a Singapore-based fund management company. Ms. Teo has been appointed as a member of Corporate Governance Council of the Monetary Authority of Singapore (MAS) on 27 February 2017 and a member of the Board of Directors of the Dubai Financial Services Authority on 1 September 2017. Ms. Teo has over 27 years of experience with MAS. During her time at the MAS, she worked in foreign reserves management, financial sector development, strategic planning and financial supervision. She was the Deputy Managing Director in charge of Financial Supervision, overseeing the regulation and supervision of the banking, insurance and capital markets industries and macroeconomic surveillance, and also represented the MAS on various international fora, including the Basel Committee on Banking Supervision, and on various committees and working groups of the Financial Stability Board. She retired from the MAS as Special Advisor in the Managing Director's office in June 2015. In addition to the MAS, Ms. Teo also served on the Board of the Civil Aviation Authority of Singapore from 2002 to 2010. Ms. Teo received her B.Sc. (First) in Mathematics from the Imperial College of Science and Technology, University of London in 1981 and her M.Sc. in Applied Statistics from the University of Oxford in 1982. She was also awarded the Public Administration Medal (Gold) (Bar) at the Singapore National Day Awards in 2012.

### **Dr. Narongchai Akrasanee**

Aged 72, is an Independent Non-executive Director of the Company, having been appointed on 15 January 2016, and was appointed as Chairman of Advisory Board of AIA Thailand with effect from 1 December 2016. Dr. Narongchai was previously an Independent Non-executive Director of the Company from 21 November 2012 to 31 August 2014. He is the former Minister of Energy and Minister of Commerce for the Kingdom of Thailand, and served as a Senator. Dr. Narongchai served as Chairman of the Export-Import Bank of Thailand from December 2005 to June 2010, as a Director of the Office of the Insurance Commission of Thailand from October 2007 to August 2012, as a Director of the National Economic and Social Development Board for the period from July 2009 to July 2013 and as a member of the Monetary Policy Committee of the Bank of Thailand from November 2011 to September 2014. He is currently the Chairman of the Steering Committee and Vice-Chairman of the Council of Mekong Institute, the Chairman of the Thailand National Committee for the Pacific Economic Cooperation Council and the Chairman of the Khon Kaen University Council in Thailand. Dr. Narongchai also acts as the Chairman and an independent director of three entities listed on the Stock Exchange of Thailand, namely MFC Asset Management Public Company Limited, Ananda Development Public Company Limited and Thai-German Products Public Company Limited. He is the Chairman and an independent director of The Brooker Group Public Company Limited, which is listed on the Stock Exchange of Thailand's Market for Alternative Investment. Dr. Narongchai is also the Chairman of the Seranee Group of companies. He previously served as an independent director of each of Malee Sampran Public Company Limited and ABICO Holdings Public Company Limited and as the Vice-Chairman and an independent director of Thai-German Products Public Company Limited, all companies listed on the Stock Exchange of Thailand. Dr. Narongchai received a Bachelor's degree in Economics with Honours from the University of Western Australia and a M.A. and Ph.D. in Economics from Johns Hopkins University.



### **Mr. Cesar Velasquez Purisima**

Aged 57, is an Independent Non-executive Director of the Company, having been appointed on 1 September 2017. Mr. Purisima served in the government of the Republic of the Philippines (the Philippines) as Secretary of the Department of Finance from July 2010 to June 2016 and as Secretary of the Department of Trade and Industry from January 2004 to February 2005. He also previously served on the boards of a number of government institutions, including as a member of Monetary Board of the Bangko Sentral ng Pilipinas (Central Bank of the Philippines), Governor of the World Bank Group for the Philippines, Governor of the Asian Development Bank for the Philippines, Alternate Governor of the International Monetary Fund for the Philippines and Chairman of Land Bank of the Philippines. He was conferred the Chevalier dans l'Ordre national de la Légion d'Honneur (Knight of the National Order of the Legion of Honour) by the President of the French Republic in 2017, the Order of Lakandula, Rank of Grand Cross (Bayani) by the President of the Philippines in 2016 and the Chevalier de l'Ordre national du Mérite (Knight of the National Order of Merit) by the President of the French Republic in 2001. Mr. Purisima is a certified public accountant. He has extensive experience in public accounting both in the Philippines and abroad. He was Chairman and Managing Partner of SyCip, Gorres, Velayo & Co. (a member firm of Andersen Worldwide until 2002 and became member firm of Ernst & Young Global Limited) from 1999 until 2004. During the period, Mr. Purisima was also the Asia-Pacific Area Managing Partner for Assurance and Business Advisory Services of Andersen Worldwide from 2001 to 2002 and Regional Managing Partner for the ASEAN Practice of Andersen Worldwide from 2000 to 2001. Mr. Purisima obtained his Bachelor of Science in Commerce (Majors in Accounting & Management of Financial Institutions) degree from De La Salle University (Manila) in 1979, Master of Management degree from J. L. Kellogg Graduate School of Management, Northwestern University in 1983 and Doctor of Humanities honoris causa degree from Angeles University Foundation (the Philippines) in 2012.

# EXECUTIVE COMMITTEE





**FROM LEFT TO RIGHT**

Biswa Misra  
Mitchell New  
Mark Konyin  
Cara Ang  
John Cai  
William Lisle  
Ng Keng Hooi  
Garth Jones  
Jacky Chan  
Mark Saunders  
Stuart A. Spencer  
Jon Nielsen

### **Mr. Ng Keng Hooi**

Mr. Ng's biography is set out above.

### **Mr. Garth Jones**

Aged 55, is the Group Chief Financial Officer responsible for leading the Group in all aspects of capital and financial management, as well as managing relationships with key external stakeholders, including independent auditors and actuaries, rating agencies and international accounting and regulatory bodies. He is a director of various companies within the Group, including AIA Co. and AIA International. He joined the Group in April 2011. Prior to joining the Group, Mr. Jones was the Executive Vice President of China Pacific Life Insurance Co., Ltd., the life insurance arm of China Pacific Insurance (Group) Co., Ltd. He also held a number of senior management positions during 12 years with Prudential Corporation Asia Limited, including Chief Financial Officer of the Asian life insurance operations. Prior to joining Prudential, Mr. Jones led the development of Swiss Re's Asia life business. Mr. Jones is a Fellow of the Institute of Actuaries in the United Kingdom. On 1 June 2016, he was appointed a member of the industry advisory committee on long term business, which advises the Independent Insurance Authority in Hong Kong.

### **Mr. William Lisle**

Aged 52, is the Regional Chief Executive responsible for the Group's businesses operating in Thailand, Korea, Australia and New Zealand, India and Sri Lanka as well as Group Partnership Distribution. Mr. Lisle was Chief Executive Officer of AIA's operation in Malaysia from December 2012 to May 2015, including leading the large-scale and successful integration of ING Malaysia after its acquisition by the Group in 2012. He is a director of various companies within the Group, including AIA Co. and AIA International. Mr. Lisle joined the Group in January 2011 as Group Chief Distribution Officer. Prior to joining the Group, Mr. Lisle was the Managing Director, South Asia for Aviva from May 2009 until 2010. Prior to joining Aviva, Mr. Lisle held a number of senior positions at Prudential Corporation Asia Limited, including Chief Executive Officer in Malaysia from 2008 to 2009, Chief Executive Officer in Korea from 2005 to 2008, Chief Agency Officer for ICICI Prudential from 2002 to 2004 and Director of Agency Development, South Asia in 2001.

### **Mr. John Cai**

Aged 50, is the Regional Chief Executive responsible for the Group's businesses operating in China, Malaysia, Vietnam, Taiwan and Myanmar. Mr. Cai is a director of various companies within the Group, including AIA Co. and AIA International. He joined the Group in July 2009. Mr. Cai has over 20 years' experience in the insurance industry, both in Asia and the United States. Prior to becoming Regional Chief Executive, since 2009, he was Chief Executive Officer of AIA China, which became AIA's second-largest and fastest growing business during his tenure. Before joining AIA, Mr. Cai was Chief Executive Officer at AXA Hong Kong, having originally been appointed Chief Agency Officer in 2003. Mr. Cai graduated from Xi'an Jiaotong University in 1989. He is also a Chartered Financial Consultant (ChFC), a Chartered Life Underwriter and a Certified Financial Planner.

### **Mr. Jacky Chan**

Aged 54, is the Regional Chief Executive responsible for the Group's businesses operating in Hong Kong and Macau, Singapore and Brunei, Indonesia, the Philippines, and Cambodia as well as Group Agency Distribution. He is a director of various companies within the Group, including AIA Co. and AIA International. Mr. Chan has extensive experience having worked at AIA for the past 29 years. Prior to becoming a Regional Chief Executive, Mr. Chan was Chief Executive Officer of AIA Hong Kong and Macau since 2009. Previously, he held several senior positions including the Country Head of AIA China, Executive Vice President – Distribution & Marketing of Nan Shan Life Insurance of Taiwan and Senior Vice President & Head of Life Profit Centre of AIA - Asia (ex-Japan & Korea). Mr. Chan holds a Bachelor of Science Degree from The University of Hong Kong. He is a Fellow of the Society of Actuaries (FSA), a member of American Academy of Actuaries (MAAA) and a Fellow of the Canadian Institute of Actuaries (CIA).

### **Mr. Mitchell New**

Aged 54, is the Group General Counsel and Company Secretary responsible for the provision of legal services and company secretarial services for the Group and providing leadership to legal and corporate governance functions within country operations. He is a director of various companies within the Group including AIA International and AIA Reinsurance Limited. He joined the Group in April 2011. Prior to joining the Group, Mr. New was a member of the law firm Fasken Martineau and occupied various senior roles with Manulife Financial, including Senior Vice President and Chief Legal Officer for Asia, based in Hong Kong and Senior Vice President and General Counsel to Manulife's Canadian division. He is a qualified barrister and solicitor and member of the Law Society of Upper Canada and holds a Bachelor of Commerce Degree and Master's Degree in Business Administration from McMaster University and a Bachelor of Laws Degree from the University of Western Ontario.

### **Mr. Mark Saunders**

Aged 54, is the Group Chief Strategy and Corporate Development Officer responsible for strategy and corporate transactions for the Group. He is also responsible for the Group's Corporate Solutions and Healthcare businesses. He joined the Group in April 2014 and is a director of various companies within the Group. He previously served as Group Chief Strategy and Marketing Officer. Prior to joining the Group, Mr. Saunders was Managing Director of Towers Watson for the Asia-Pacific Insurance Sector, as well as Managing Director for the firm's Hong Kong business and a board member of various entities. Prior to his 17 years at Towers Watson in Hong Kong, he was Asian Regional Leader, Hong Kong Chief Executive Officer and Executive Director and Board Member of the Isle of Man-based international life insurance operations of Clerical Medical and its joint venture life insurer in Korea (Coryo-CM). He is a Fellow of the Institute and Faculty of Actuaries and Fellow of five other professional actuarial bodies.

### **Dr. Mark Konyn**

Aged 56, is the Group Chief Investment Officer responsible for providing oversight to the management of the investment portfolios of the Group as well as supervising and supporting the many investment professionals throughout the Group. He is a director of various companies within the Group including Chairman of AIA Investment Management Private Limited. He joined the Group in September 2015. Dr. Konyn joined AIA from Cathay Conning Asset Management, where he was Chief Executive Officer responsible for the company's investment business and strategic expansion in the region. He has held senior positions at Allianz Global Investors (where he was Asia-Pacific CEO for RCM Global Investors), Fidelity Investments and Prudential UK. He is a Fellow of the Royal Statistical Society, and holds a Diploma from the London Business School in Investment Management, having previously completed his Ph.D. in Operational Research sponsored by the UK Government.

### **Ms. Cara Ang**

Aged 49, is the Group Chief Human Resources Officer responsible for the development of overall human capital strategies and their implementation across the Group, as well as leading and providing support to the human resources functions in country market operations. She is also responsible for the Group Corporate Security function. She joined the Group as the Chief Human Resources Officer for AIA Singapore in May 2016. Prior to joining AIA, Ms. Ang was the Head of Human Resources of Standard Chartered Bank Singapore. During her time with Standard Chartered, she spent more than 10 years in a variety of country, regional and global HR leadership roles based in Singapore and Thailand. Prior to joining Standard Chartered Bank, Ms. Ang was the Senior Vice President and Head of Human Resources for Marsh Asia.

### **Mr. Biswa Misra**

Aged 40, is the Group Chief Technology and Operations Officer responsible for providing leadership to the Group's technology, operations and innovation areas and leading all Group Office technology resources. He is a director of various companies within the Group. He joined the Group in June 2013. Prior to joining the Group, Mr. Misra served as the Regional Chief Technology Officer for ING Insurance Asia Pacific. Previously, he spent six years with information technology consulting firm Capgemini, leading the company's insurance practice for Asia. Mr. Misra holds a degree in electrical engineering from the National Institute of Technology, Surat, India.

### **Mr. Stuart A. Spencer**

Aged 52, is the Group Chief Marketing Officer of AIA, responsible for the Group's marketing initiatives, customer propositions and AIA Vitality. He is a director of various companies within the Group. Mr. Spencer re-joined AIA in May 2017 from Zurich Insurance Group, where he was most recently the interim CEO, Asia Pacific. Prior to that he was Chief Executive Officer, General Insurance, Asia Pacific for Zurich Insurance from 2013 to 2016. Mr. Spencer was with the American International Group from 1996 to 2009, during which time he held a number of senior positions including leading their Accident & Health General Insurance operations in Latin America and the Caribbean and President – Accident and Health Worldwide. Mr. Spencer was also the Global Head and COO, Worldwide Life, Accident & Health, for Chubb Insurance. Mr. Spencer is an alumnus of the Harvard Business School, The Fletcher School of Law and Diplomacy and Brandeis University.

### **Mr. Jon Nielsen**

Aged 45, is the Group Chief Risk Officer responsible for the Group's risk and compliance functions. He is also a director of various companies within the Group. Mr. Nielsen has been with AIA for 10 years. He was appointed the Group's Regional Chief Financial Officer in 2010, overseeing the Group's financial planning, reporting and analysis, financial systems and operations, treasury and tax functions. Prior to joining AIA, Mr. Nielsen served as Deputy Head of Accounting Policy for Allianz Group for three years. Previously, he spent over eight years with Deloitte & Touche primarily serving insurance clients. He received a Master of Professional Accountancy and a Bachelor of Science in Business Administration from the University of Nebraska and is a Certified Public Accountant.

# REPORT OF THE DIRECTORS

The Board is pleased to present this report and the audited consolidated financial statements of the Company for the year ended 30 November 2017.

## PRINCIPAL ACTIVITIES

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.

Details of the activities and other particulars of the Company's principal subsidiaries are set out in note 42 to the financial statements.

## RESULTS

The results of the Group for the year ended 30 November 2017 and the state of the Group's affairs at that date are set out in the financial statements on pages 128 to 239 of this Annual Report.

## BUSINESS REVIEW

The review of the business of the Group for the year ended 30 November 2017, including a description of its principal risks and uncertainties and an indication of likely future developments as required by Schedule 5 to the Hong Kong Companies Ordinance, is contained in the Financial Review (pages 15 to 31), Business Review (pages 32 to 49), Risk Management (pages 50 to 60), Our People (pages 62 to 63), and Corporate Social Responsibility (pages 64 to 67) sections under Financial and Operating Review as well as note 41 and note 43 to the financial statements. These discussions form part of this report.

The Group has undertaken initiatives to reduce AIA's environmental footprint by employing innovative technologies to reduce resource consumption, and our reliance on business travel. We also measure and report on our own emission and energy footprint, provide facilities for recycling waste, and incorporate green standards as part of the design concept for the Group's real estate development projects. In addition, we are aware of the impact of the environment on our business and conduct responsible investment management. We have also partnered with an academic institution to conduct a study which aims to prioritise realistic and effective measures to mitigate the causes of poor air quality.

Customer privacy is of crucial importance at AIA and appropriate physical, administrative and technical measures have been implemented for its operations to protect personal and business data. The Group's Code of Conduct outlines appropriate customer privacy and data security measures and all employees are required to respect confidentiality by observing information privacy and security laws.

AIA works with an array of different product and service providers and it has integrated sustainability into the supply chain with its Supplier Code of Conduct, which encourages sound ESG practices among its suppliers.

The Group is licensed to conduct insurance business and is subject to extensive local regulatory oversight in each of the geographical markets in which its branches and subsidiaries operate. While the extent of regulation varies from jurisdiction to jurisdiction, it typically includes laws and regulations regarding corporate governance, solvency/capital adequacy, investment management, financial reporting and distribution. The Group dedicates substantial resources and appropriate personnel to ensure compliance with relevant laws and regulations. In particular, during the year ended 30 November 2017, the Group has complied with the material laws and regulations applicable to it including compliance with the solvency and capital adequacy requirements applied by its regulators, details of which are contained in note 35 to the financial statements.

Please also see the Corporate Governance Report for a discussion on the Company's commitment to high standards of corporate governance and the Board's responsibility for compliance with statutory obligations.

Details of significant events affecting the Group that have occurred since 30 November 2017 are set out in note 43 to the financial statements.

## **DIVIDENDS**

An interim dividend of 25.62 Hong Kong cents per share (2016: 21.90 Hong Kong cents per share) was paid on 31 August 2017. The Board has recommended a final dividend of 74.38 Hong Kong cents per share (2016: 63.75 Hong Kong cents per share) for the year ended 30 November 2017. If approved, the proposed final dividend together with the interim dividend will represent a total dividend of 100.00 Hong Kong cents per share (2016: 85.65 Hong Kong cents per share) for the year ended 30 November 2017.

Under the Trust Deed of the Company's Restricted Share Unit Scheme, shares of the Company are held by the trustee in either of two trust funds. These shares are held against the future entitlements of scheme participants. Provided the shares of the Company are held by the trustee and no beneficial interest in those shares has been vested in any beneficiary, the trustee shall waive any right to dividend payments or other distributions in respect of those shares (unless the Company determines otherwise).

As of 31 August 2017 (being the payment date of the interim dividend), 61,542,772 shares were held by the trustee. The amount of interim dividend waived was approximately US\$2 million. Pursuant to the Trust Deed, the trustee will waive the right to final dividend if it is declared.

Subject to shareholders' approval at the AGM, the final dividend will be payable on Friday, 8 June 2018 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 24 May 2018.



## DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

### Independent Non-executive Chairman and Independent Non-executive Director

Mr. Edmund Sze-Wing Tse <sup>(Note 1)</sup>

### Executive Director

Mr. Ng Keng Hooi (Group Chief Executive and President)

### Non-executive Director

Mr. Mark Edward Tucker <sup>(Note 2)</sup>

### 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

Dr. Narongchai Akrasanee

Mr. Cesar Velasquez Purisima

#### Notes:

- (1) Mr. Tse has been re-designated as an Independent Non-executive Chairman and Independent Non-executive Director of the Company with effect from 23 March 2017.
- (2) Mr. Tucker was re-designated as a Non-executive Director of the Company with effect from 1 June 2017 and then retired from the Board with effect from 1 September 2017.

Mr. Ng Keng Hooi and Mr. Cesar Velasquez Purisima were appointed Executive Director and Independent Non-executive Director of the Company on 1 June 2017 and 1 September 2017, respectively. Both Mr. Ng and Mr. Purisima will retire from office at the forthcoming annual general meeting pursuant to Article 104 of the Company's Articles of Association and, being eligible, offer themselves for re-election at the AGM.

In accordance with Article 100 of the Company's Articles of Association, Professor Lawrence Juen-Yee Lau, Mr. Chung-Kong Chow and Mr. John Barrie Harrison will retire from office by rotation and, being eligible, offer themselves for re-election at the AGM.

## CHANGES IN DIRECTORS' INFORMATION

Changes in the Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Change
Mr. Mohamed Azman Yahya	<ul style="list-style-type: none"><li>• Ceased to be a member of the Capital Market Advisory Group of the Malaysian Securities Commission with effect from 30 May 2017</li><li>• Ceased to be a member of the Malaysian Special Economic Committee with effect from 27 August 2017</li><li>• Appointed as an independent non-executive director of Sime Darby Berhad with effect from 1 December 2017</li></ul>
Mr. Chung-Kong Chow	<ul style="list-style-type: none"><li>• Appointed as a member of the Financial Leaders Forum set up by the HKSAR Government with effect from 18 August 2017</li></ul>
Ms. Swee-Lian Teo	<ul style="list-style-type: none"><li>• Appointed as a member of the Board of Directors of the Dubai Financial Services Authority with effect from 1 September 2017</li></ul>
Professor Lawrence Juen-Yee Lau	<ul style="list-style-type: none"><li>• Appointed as a member of the Hong Kong Trade Development Council Belt and Road Committee with effect from 15 October 2017</li></ul>
Mr. George Yong-Boon Yeo	<ul style="list-style-type: none"><li>• Ceased to be a member of the Board of Trustees of the World Economic Forum with effect from 1 November 2017</li><li>• Appointed as an independent director of New Yangon Development Company Limited with effect from 12 December 2017</li><li>• Ceased to be a non-executive director of Wilmar International Limited with effect from 31 December 2017</li></ul>
Mr. John Barrie Harrison	<ul style="list-style-type: none"><li>• Appointed as an independent non-executive director and the Chairman of the Audit Committee of Grosvenor Asia Pacific Limited with effect from 1 December 2017</li></ul>
Mr. Jack Chak-Kwong So	<ul style="list-style-type: none"><li>• Ceased to be an Honorary Consultant to the Mayor of San Francisco with effect from 12 December 2017</li></ul>

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## DIRECTORS OF SUBSIDIARIES

The names of all directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report are available on the Company's website at [www.aia.com](http://www.aia.com) under the sub-section headed "Board of Directors" of "Corporate Governance" in the section headed "Investor Relations".

## PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, subject to the relevant statutes, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in or about the execution of his/her office or which may attach thereto. The Company has taken out insurance against the liabilities and costs associated with proceedings which may be brought against directors of the Group.

## DIRECTORS' AND THE CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 November 2017, the Directors' and the Chief Executive's interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, are as follows:

Interests and short positions in the shares and underlying shares of the Company:

Name of Director	Number of shares or underlying shares	Class	Percentage of the total number of shares in issue <sup>(1)</sup>	Capacity
Mr. Ng Keng Hooi	6,364,886(L) <sup>(2)</sup>	Ordinary	0.05	Beneficial owner
	61,200(L) <sup>(3)</sup>	Ordinary	<0.01	Interest of spouse <sup>(4)</sup>
Mr. Edmund Sze-Wing Tse	3,560,400(L) <sup>(3)</sup>	Ordinary	0.03	Beneficial owner
Mr. Chung-Kong Chow	86,000(L) <sup>(3)</sup>	Ordinary	< 0.01	Beneficial owner
Mr. Jack Chak-Kwong So	260,000(L) <sup>(3)</sup>	Ordinary	< 0.01	Interest of controlled <sup>(5)</sup> corporation
Mr. John Barrie Harrison	50,000(L) <sup>(3)</sup>	Ordinary	< 0.01	Beneficial owner
Mr. George Yong-Boon Yeo	100,000(L) <sup>(3)</sup>	Ordinary	< 0.01	Beneficial owner
Professor Lawrence Juen-Yee Lau	40,000(L) <sup>(3)</sup>	Ordinary	< 0.01	Beneficial owner
	100,000(L) <sup>(3)</sup>	Ordinary	< 0.01	Interest of spouse <sup>(6)</sup>

Notes:

(1) Based on 12,074,541,456 ordinary shares in issue as at 30 November 2017.

(2) The interests include 2,073,425 ordinary shares of the Company, 3,204,564 share options under the Share Option Scheme, 1,084,384 restricted share units under the Restricted Share Unit Scheme and 2,513 matching restricted stock purchase units under the Employee Share Purchase Plan.

(3) The interests are ordinary shares of the Company.

(4) The 61,200 shares are held by the spouse of Mr. Ng Keng Hooi, Ms. Leong Seet Lan, as beneficial owner.

(5) The 260,000 shares are held by Cyber Project Developments Limited, a company beneficially wholly owned by Mr. Jack Chak-Kwong So.

(6) The 100,000 shares are held by the spouse of Professor Lawrence Juen-Yee Lau, Ms. Ayesha Abbas Macpherson, as beneficial owner.

Save as disclosed above, as at 30 November 2017, neither the Chief Executive nor any Director of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF PERSONS OTHER THAN THE DIRECTORS OR THE CHIEF EXECUTIVE

As at 30 November 2017, the following are the persons, other than the Directors or the Chief Executive of the Company, who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Number of shares or underlying shares (Note 1)		Class	Percentage of the total number of shares in issue (Note 2)		Capacity
	Long Position(L) Short Position(S) Lending Pool(P)			Long Position(L) Short Position(S) Lending Pool(P)		
JPMorgan Chase & Co.	1,088,254,932(L) 19,556,741(S) 737,449,866(P)		Ordinary	9.01(L) 0.16(S) 6.11(P)		Note 3
The Capital Group Companies, Inc.	984,372,860(L)		Ordinary	8.15(L)		Interest of controlled corporation
The Bank of New York Mellon Corporation	751,880,605(L) 709,200,742(P)		Ordinary	6.23(L) 5.87(P)		Interest of controlled corporation
BlackRock, Inc.	604,419,448(L) 4,404,600(S)		Ordinary	5.01(L) 0.04(S)		Interest of controlled corporation

Notes:

(1) The interests or short positions include underlying shares as follows:

Name of Shareholder	Long Position				Short Position			
	Physically settled listed equity derivatives	Cash settled listed equity derivatives	Physically settled unlisted equity derivatives	Cash settled unlisted equity derivatives	Physically settled listed equity derivatives	Cash settled listed equity derivatives	Physically settled unlisted equity derivatives	Cash settled unlisted equity derivatives
JPMorgan Chase & Co.	4,623,648	1,556,000	491,200	6,687,175	1,082,000	10,685,300	1,725,066	5,889,375
The Capital Group Companies, Inc.	–	–	3,593,080	–	–	–	–	–
BlackRock, Inc.	–	–	–	281,400	–	–	–	3,238,000

(2) Based on 12,074,541,456 ordinary shares in issue as at 30 November 2017.

(3) The interests held by JPMorgan Chase & Co. were held in the following capacities:

Capacity	Number of shares or underlying shares (Long Position)	Number of shares or underlying shares (Short Position)
Beneficial owner	100,979,108	19,556,741
Investment manager	249,550,900	–
Trustee (other than a bare trustee)	275,058	–
Custodian corporation/approved lending agent	737,449,866	–

Save as disclosed above, as at 30 November 2017, no person, other than the Directors or the Chief Executive of the Company, whose interests are set out in the section entitled “Directors’ and the Chief Executive’s Interests and Short Positions in Shares and Underlying Shares”, had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## **DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Under their service contracts, each of Mr. Ng Keng Hooi and Mr. Mark Edward Tucker (during the tenure of their respective appointments as Group Chief Executive and President) is entitled to an annual discretionary earned incentive award, which includes payment in the form of shares of the Company. Details of each of Mr. Ng’s and Mr. Tucker’s incentive awards are set out in the Remuneration Report.

## **DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS**

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party, and in which any Director of the Company or his/her connected entity has a material interest, directly or indirectly, subsisted as at 30 November 2017 or at any time during the year.

## **RESERVES**

As at 30 November 2017, the aggregate amount of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was US\$3,315 million (2016: US\$2,620 million).

## **CHARITABLE DONATIONS**

Charitable donations made by the Group during the year ended 30 November 2017 amounted to US\$3 million (2016: US\$2 million).

## **MAJOR CUSTOMERS AND SUPPLIERS**

During the year ended 30 November 2017, the percentage of the aggregate purchases attributable to the Group’s five largest suppliers was less than 30 per cent of the Group’s total value of purchases and the percentage of the aggregate sales attributable to the Group’s five largest customers was less than 30 per cent of the Group’s total value of sales.

## **SHARES ISSUED**

Details of the shares issued during the year ended 30 November 2017 are set out in note 33 to the financial statements.

## **DEBENTURES ISSUED**

Details of the debentures issued during the year ended 30 November 2017 are set out in note 28 to the financial statements.

## **EQUITY-LINKED AGREEMENTS**

During the year ended 30 November 2017, the Company did not enter into any equity-linked agreements and there did not subsist any equity-linked agreement entered into by the Company as at 30 November 2017, save for the restricted share units, outstanding share options, restricted stock purchase units and restricted stock subscription units awarded to employees and agents under the Restricted Share Unit Scheme, Share Option Scheme, Employee Share Purchase Plan and Agency Share Purchase Plan, respectively, described below and in the Remuneration Report and note 38 to the financial statements.

### **RESTRICTED SHARE UNIT SCHEME**

During the year ended 30 November 2017, 16,003,902 restricted share units were awarded by the Company under the Restricted Share Unit Scheme adopted by the Company on 28 September 2010 (as amended). Details of the scheme are set out in the Remuneration Report and note 38 to the financial statements.

### **SHARE OPTION SCHEME**

During the year ended 30 November 2017, 9,460,949 share options were awarded by the Company under the Share Option Scheme adopted by the Company on 28 September 2010 (as amended). 17,053,136 share options were exercised during the year and the Company issued 17,053,136 new shares accordingly. The proceeds received amounted to approximately US\$66 million. Details of the Share Option Scheme are set out in the Remuneration Report and note 38 to the financial statements.

### **EMPLOYEE SHARE PURCHASE PLAN**

During the year ended 30 November 2017, 1,394,227 restricted stock purchase units were awarded by the Company under the Employee Share Purchase Plan adopted by the Company on 25 July 2011 (as amended). 740,819 matching restricted stock purchase units were vested during the year and no shares have been issued pursuant to the Employee Share Purchase Plan. Details of the plan are set out in the Remuneration Report and note 38 to the financial statements.

### **AGENCY SHARE PURCHASE PLAN**

The Company adopted the Agency Share Purchase Plan (ASPP) on 23 February 2012 (ASPP Adoption Date). Under the ASPP, certain agents and agency leaders of the Group were selected to participate in the plan. Those agents selected for participation may elect to purchase the Company's shares and receive one matching share for each two shares purchased after having been in the plan for a period of three years through the award of matching restricted stock subscription units (RSSUs). Each eligible agent's participation level is capped at a maximum purchase in any plan year of US\$15,000. Upon vesting of the matching RSSUs, those agents who remain as agents of the Group will receive one share for each RSSU which he or she holds. The aggregate number of shares which can be issued by the Company under the ASPP during the 10-year period shall not exceed 2.5 per cent of the number of shares in issue on the ASPP Adoption Date.

During the year ended 30 November 2017, the Company awarded 1,365,886 matching RSSUs, 1,037,294 matching RSSUs vested and 1,037,294 new shares were issued pursuant to the ASPP. The proceeds received amounted to approximately US\$1 million. Since the ASPP Adoption Date and up to 30 November 2017, a total of 3,006,026 new shares were issued under the ASPP, representing approximately 0.02 per cent of the shares in issue as at the ASPP Adoption Date.

## NON-EXEMPT CONNECTED TRANSACTIONS

During the year ended 30 November 2017, the Group had not entered into any connected transactions which are not exempt from the annual reporting requirement under Chapter 14A of the Listing Rules.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group during the year ended 30 November 2017, in the ordinary course of business are set out in note 40 to the financial statements. Such related party transactions are all exempt connected transactions under Chapter 14A of the Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save for the purchase of 1,395,130 shares of the Company under the Restricted Share Unit Scheme and the Employee Share Purchase Plan at a total consideration of approximately US\$7 million, 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 2017. 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. Please refer to note 38 to the financial statements for details.

## PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as approved by the Hong Kong Stock Exchange and as permitted under the Listing Rules as at the date of this report.

## AUDITOR

PricewaterhouseCoopers was re-appointed auditor of the Company in 2017.

PricewaterhouseCoopers will retire and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the AGM.

By Order of the Board



**Edmund Sze-Wing Tse**  
Independent Non-executive Chairman  
27 February 2018

## CORPORATE GOVERNANCE REPORT

### CORE PRINCIPLES

The Board believes that strong corporate governance is essential to the delivery of sustainable value and is essential to maintaining a culture of business integrity and investor confidence. The Board is ultimately responsible for the performance of the Group, including the consistent achievement of business plans and compliance with statutory as well as corporate obligations. The Board is also responsible for the development and implementation of the Group's corporate governance practices. This Corporate Governance Report explains the Company's corporate governance principles and practices, including how the Board manages the business to deliver long-term shareholder value and to promote the development of the Group.

As a company listed on the Main Board of the Hong Kong Stock Exchange, the Company is committed to high standards of corporate governance and sees the maintenance of good corporate governance practices as essential to its sustainable growth. It is vital that Board members, in aggregate, have the requisite skills and expertise and are supported by a structure that enables appropriate delegation between the Board, its committees and management, whilst ensuring that the Board retains overall control. To promote effective governance across all of its operations, the Board has approved a governance framework, which maps out internal approval processes including those matters that may be delegated.

Throughout this Corporate Governance Report, the Board of Directors seeks to set out the Company's corporate governance structure and policies, inform shareholders of the corporate governance undertakings of the Company and demonstrate to shareholders the value of such practices.

Throughout the year ended 30 November 2017, the Company complied with all code provisions of the Corporate Governance Code applicable to it.

The quality of the Company's corporate governance programme was recognized in 2017 by The Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy, Hong Kong Baptist University through its annual Corporate Governance Excellence Awards. AIA was conferred the Category 1 (Hang Seng Index Constituent Companies) Award, in recognition of the quality of its governance and disclosure.



### BOARD OF DIRECTORS

#### ROLES AND RESPONSIBILITIES

The Board is accountable to shareholders for the affairs of the Company. It meets these obligations by ensuring the maintenance of high standards of governance in all aspects of the Company's business, setting the strategic direction for the Group and maintaining appropriate levels of review, challenge and guidance in its relationship with Group management. It is also the ultimate decision-making body for all matters considered material to the Group and is responsible for ensuring that, as a collective body, Board members have the appropriate skills, knowledge and experience to perform their roles effectively.

In these matters, the Board provides leadership to the Company in respect of operational issues through the Group Chief Executive, who is authorised to act on behalf of the Board in the operational management of the Company. Any responsibilities not so delegated by the Board to the Group Chief Executive remain the responsibility of the Board.



The Board has also adopted and/or updated various policies as recommended by the Audit Committee and the Risk Committee for better corporate governance.

During the year, the Board reviewed the Company's compliance with the Corporate Governance Code, including the necessary disclosures in its reports to shareholders.

The Board discharges the following responsibilities either by itself or through delegation to the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee:

- (a) the development and review of the Company's policies and practices on corporate governance;
- (b) the review and monitoring of the training and continuous professional development of Directors and senior management;
- (c) the review and monitoring of the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) the development, review and monitoring of the Code of Conduct applicable to all officers and employees of the Group; and
- (e) the review of the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report.

The Company has also adopted its own Directors' and Chief Executives' Dealing Policy (Dealing Policy) on terms no less exacting than those set out in the Model Code in respect of dealings by the Directors in the securities of the Company. All of the Directors confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code and the Dealing Policy throughout the year ended 30 November 2017.

## **BOARD COMPOSITION**

As of 30 November 2017 and up to the date of this Corporate Governance Report, the Board consists of eleven members, comprising one Executive Director and ten Independent Non-executive Directors. All Directors are expressly identified by reference to such categories in all corporate communications that disclose their names. The composition of the Board is well balanced with each Director having sound board level experience and expertise relevant to the business operations and development of the Group. The Board is comprised of members with extensive business, financial, government, regulatory and policy experience from a variety of backgrounds. There is diversity of nationality, ethnicity, educational background, functional expertise, gender, age and experience.

Biographies of the Directors are set out on pages 72 to 77 of this Annual Report.

## **BOARD INDEPENDENCE**

More than 90 per cent (10 out of 11) of the Board are Independent Non-executive Directors. Save as disclosed below in respect of Mr. Tse, each of the Independent Non-executive Directors of the Company meets the independence guidelines set out in Rule 3.13 of the Listing Rules and has provided to the Company the requisite annual confirmation as to his or her independence. Mr. Tse, save for being a Non-executive Director of the Company from 27 September 2010 to 22 March 2017, a current director of AIA Foundation (a subsidiary of the Company), and acting as the Chairman and a director of The Philippine American Life and General Insurance (PHILAM LIFE) Company (a subsidiary of the Company) until 22 April 2015, has met the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company has satisfied itself that Mr. Tse is independent pursuant to Rule 3.13 of the Listing Rules on the basis that since his appointment as a Non-executive Director of the Company on 27 September 2010, Mr. Tse has not held any executive or management role or function in the Company or any of its subsidiaries, and at no time during that period has he been employed by the Company or any of its subsidiaries. He has not taken part in the day-to-day management of the Company or its subsidiaries beyond his attendance at and participation in board and committee meetings of the Group.

Save as disclosed herein, none of the Independent Non-executive Directors has any business with or significant financial interests in the Company or its subsidiaries and therefore all the Independent Non-executive Directors continue to be considered by the Company to be independent.

## BOARD PROCESS

Board meetings are held at least four times a year to determine overall strategies, receive management updates, approve business plans as well as interim and annual results, and to consider other significant matters. At these meetings, senior management also provides regular updates to the Board with respect to the business activities and development of the Group, together with regulatory and policy updates.

Directors are empowered under the relevant terms of reference to request further information from the management whenever they think fit.

During the year, there were six scheduled Board meetings, all of which were convened in accordance with the Articles of Association of the Company and attended by the Directors either in person or through electronic means of communication.

Details of the attendance of individual Directors at the Board meetings, committees meetings and the 2017 annual general meeting of the Company (2017 AGM) during the year are as follows:

Name of Director	No. of Meetings Attended / No. of Meetings Held					
	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	2017 AGM
<b>Independent Non-executive Chairman and Independent Non-executive Director</b>						
Mr. Edmund Sze-Wing Tse <sup>(1)</sup>	6/6	–	3/3	6/6	4/4	1
<b>Executive Director, Group Chief Executive and President</b>						
Mr. Ng Keng Hooi <sup>(2)</sup>	4/4	–	–	–	2/2	–
<b>Non-executive Director</b>						
Mr. Mark Edward Tucker <sup>(3)</sup>	2/4	–	–	–	1/2	1
<b>Independent Non-executive Directors</b>						
Mr. Jack Chak-Kwong So	6/6	3/4	3/3	6/6	–	1
Mr. Chung-Kong Chow	6/6	–	3/3	–	4/4	1
Mr. John Barrie Harrison	6/6	4/4	3/3	–	4/4	1
Mr. George Yong-Boon Yeo	5/6	2/4	2/3	6/6	–	1
Mr. Mohamed Azman Yahya	6/6	–	3/3	6/6	–	1
Professor Lawrence Juen-Yee Lau	5/6	–	3/3	–	3/4	1
Ms. Swee-Lian Teo	6/6	–	3/3	–	4/4	1
Dr. Narongchai Akrasanee	6/6	4/4	3/3	–	–	1
Mr. Cesar Velasquez Purisima <sup>(4)</sup>	2/2	–	–	–	–	–

Notes:

- (1) Mr. Tse was re-designated from a Non-executive Director to an Independent Non-executive Director with effect from 23 March 2017.
- (2) Mr. Ng was appointed to the Board and the Risk Committee on 1 June 2017 and attended all Board and Risk Committee meetings held from his date of appointment to 30 November 2017.
- (3) Mr. Tucker was re-designated from an Executive Director to a Non-executive Director with effect from 1 June 2017 and ceased to be a member of the Risk Committee on the same date. He retired from the Board with effect from 1 September 2017.
- (4) Mr. Purisima was appointed to the Board and the Nomination Committee on 1 September 2017 and attended all Board meetings held from his date of appointment to 30 November 2017. No meeting of the Nomination Committee took place from his date of appointment to 30 November 2017.

Minutes of the meetings of and circular resolutions passed by the Board and all committees are kept by the Company Secretary. These minutes and resolutions are open for inspection on reasonable notice by any Director.

### **CHAIRMAN AND GROUP CHIEF EXECUTIVE**

Mr. Edmund Sze-Wing Tse, Independent Non-executive Chairman of the Company, plays the critical role of leading the Board in fulfilling its responsibilities. With the support of the Group Chief Executive and President and senior management, Mr. Tse seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate and reliable information in a timely manner. He is also responsible for making sure that good corporate governance practices and procedures are followed.

Since 1 June 2017, Mr. Ng Keng Hooi, acting as Group Chief Executive and President of the Company, reports to the Board and is responsible for the overall leadership, strategic and executive management and profit performance of the Group, including all operations and administration. Mr. Ng attends Board meetings as the sole Executive Director and, in his capacity as Group Chief Executive and President, ensures that the Board is updated at least monthly in respect of material aspects of the Company's performance. Mr. Ng discharges his responsibilities within the framework of the Company's policies, reserved powers and routine reporting requirements and is advised and assisted by the senior management of the Group.

From 1 December 2016 to 31 May 2017, Mr. Mark Edward Tucker, acting as Group Chief Executive and President of the Company, reported to the Board and was responsible for the overall leadership, strategic and executive management and profit performance of the Group, including all operations and administration. Mr. Tucker attended Board meetings as the sole Executive Director and, in his capacity as Group Chief Executive and President, ensured that the Board was updated at least monthly in respect of material aspects of the Company's performance. Mr. Tucker discharged his responsibilities within the framework of the Company's policies, reserved powers and routine reporting requirements and was advised and assisted by the senior management of the Group.

The segregation between the roles of Chairman and Group Chief Executive and President ensures a clear distinction between the Chairman's responsibility to manage the Board and the Group Chief Executive and President's responsibility to manage the Group's business.

The roles and responsibilities of the Board, the Chairman of the Board and the Group Chief Executive are set out in the Board Charter of the Company, which is available on the Company's website at [www.aia.com](http://www.aia.com).

### **APPOINTMENT OF DIRECTORS**

The Company uses a formal and transparent procedure for the appointment of new Directors. The Board receives recommendations for the appointment of new Directors from the Nomination Committee, which considers the background of the proposed new Directors. The Board then deliberates over such recommendations prior to approval.

All Directors (including Non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election at the general meetings of the Company in accordance with the Articles of Association of the Company and the Corporate Governance Code.

### **INDUCTION AND ONGOING DEVELOPMENT**

The Company provides each Director with personalised induction, training and development. On appointment, each Director receives a comprehensive and tailored induction covering, amongst other things, the role of the Board and its key committees, group structure, governance structure and the duties and responsibilities of a director under applicable laws and regulations.

Directors receive detailed briefings on the Group's principal businesses, the markets in which it operates and the overall competitive environment. Other areas addressed include legal and compliance issues affecting directors of financial services companies, the Group's governance arrangements, the principal basis of accounting for the Group's results, the internal audit and risk management functions, its investor relations programme and remuneration policies. The Directors are continually updated on the Group's business and the latest developments to the Listing Rules and other applicable statutory requirements to ensure compliance and continuous good corporate governance practice.

During the year, the Company organised a Board Strategy Day and provided a number of briefings to the Directors to update them on the latest developments in the Group's principal businesses and major products. In November 2017, the Board visited Melbourne, Australia, where Directors had an in-depth review of the Group's local operations. The visit also provided an opportunity for the Directors to gain new insights into the insurance sector in Australia and its prospects for continued growth.

All Directors are encouraged to participate in continuous professional development to extend and refresh their knowledge and skills, and are required to provide their training records to the Company. The training received by the Directors during the year is summarised as follows:

Name of Director	Types of Training	
	Reading or attending briefings / seminars / conferences relevant to regulatory and governance updates	Attending corporate events / Board visits / executive briefings relevant to the Group's business
<b>Independent Non-executive Chairman and Independent Non-executive Director</b>		
Mr. Edmund Sze-Wing Tse	✓	✓
<b>Executive Director, Group Chief Executive and President</b>		
Mr. Ng Keng Hooi	✓	✓
<b>Non-executive Director</b>		
Mr. Mark Edward Tucker <sup>(Note)</sup>	✓	✓
<b>Independent Non-executive Directors</b>		
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	✓	✓
Dr. Narongchai Akrasanee	✓	✓
Mr. Cesar Velasquez Purisima	✓	✓

Note:

Mr. Tucker was re-designated from an Executive Director to a Non-executive Director with effect from 1 June 2017 and retired from the Board with effect from 1 September 2017.

## COMMITTEES OF THE BOARD

The Company's corporate governance is implemented through a structured hierarchy, which includes the Board of Directors and four committees of the Board established by resolutions of the Board, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee. The membership and terms of reference of all the Board committees are available on the websites of both the Hong Kong Stock Exchange and the Company. In addition, the Group Chief Executive has established a number of management committees including, among others, an Executive Committee and Operational and Financial Risk Committees.

### AUDIT COMMITTEE

The Audit Committee consists of four members, all of whom are Independent Non-executive Directors. These are Mr. Harrison, who serves as chairman of the Committee, Mr. So, Mr. Yeo and Dr. Narongchai. The duties performed by the Audit Committee during the year included overseeing the Group's financial reporting system, reviewing risk management and internal control systems; monitoring the integrity of the preparation of the Company's financial information, including quarterly business highlights, interim and annual results of the Group; reviewing the Group's financial and accounting policies and practices as well as its whistle-blowing arrangements; and monitoring the adequacy of resources in and effectiveness of the internal audit function. Details of how the Audit Committee reviews the effectiveness of the risk management and internal control systems are set out in the Risk Management and Internal Control section of this report.

The Audit Committee also provided oversight for and management of the relationship with the Group's external auditor, including reviewing and monitoring in accordance with applicable standards the external auditor's independence and objectivity and the effectiveness of the audit process.

The Audit Committee held four meetings during the year ended 30 November 2017. The attendance records of the Audit Committee members are set out on page 94 of this Annual Report.

### NOMINATION COMMITTEE

The Nomination Committee consists of ten members, including the Independent Non-executive Chairman, Mr. Tse, who serves as chairman of the Committee, and the nine Independent Non-executive Directors, Mr. So, Mr. Chow, Mr. Harrison, Mr. Yeo, Mr. Yahya, Professor Lau, Ms. Teo, Dr. Narongchai and Mr. Purisima who became a member of the Nomination Committee on 1 September 2017. The duties performed by the Nomination Committee during the year included but not limited to reviewing and making recommendations to the Board on structure, size and composition of the Board, including the skills, knowledge, experience and diversity of background and experience of its membership; considering the nomination of Mr. Purisima as an Independent Non-executive Director, Mr. Ng as an Executive Director, re-designation of Mr. Tucker as a Non-executive Director and Mr. Tse as an Independent Non-executive Director; and determining the composition of the Board committees.

The Nomination Committee's processes and criteria for selecting and making recommendations on the appointment of Board members are designed to satisfy high standards of corporate governance. These processes meet or exceed the Listing Rules requirements to ensure that every director of the Company has the requisite character, experience and integrity and is able to demonstrate a standard of competence, commensurate with his or her position as a director of a listed issuer (including without limitation, race, gender, age, nationality, cultural and educational background). These standards give due regard to the benefits of diversity as set out in the Board Diversity Policy adopted by the Board in 2013, which is available on the Company's website, and where the nomination of Independent Non-executive Directors is under consideration, to the satisfaction of the requirements of Rule 3.13 of the Listing Rules.

The Nomination Committee held three meetings during the year ended 30 November 2017. The attendance records of the Nomination Committee members are set out on page 94 of this Annual Report.

A summary of the Board Diversity Policy, which describes the Company's approach to ensuring adequate diversity, is set out below:

- Consideration and selection of candidates for appointment to the Board will be based on merit which shall include a review of any candidate's integrity, experience, educational background, industry or related experience and more general experience;
- Within that overriding emphasis on merit, the Nomination Committee shall seek to address Board vacancies by actively considering candidates that bring a diversity of background and opinion from amongst those candidates with the appropriate background and industry or related expertise and experience. The Nomination Committee's considerations shall include achieving an appropriate level of diversity having regard to factors such as race, gender, age, nationality, cultural and educational background;
- The Nomination Committee will (a) in reviewing the Board composition, consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience, knowledge and character on the Board; and (b) as part of the performance evaluation of the Board, consider the balance of skills, experience, knowledge and independence of the Board; and
- As part of the Nomination Committee's annual review of the structure, size and composition of the Board, the Nomination Committee will expressly consider and include commentary to the Board on the subject of the Board's diversity.

#### **REMUNERATION COMMITTEE**

The Remuneration Committee consists of four members, all of whom are Independent Non-executive Directors. These are Mr. So, who serves as chairman of the Committee, Mr. Yeo, Mr. Yahya and Mr. Tse. The duties of the Remuneration Committee are to make recommendations to the Board on the remuneration policy covering the Directors and senior management of the Group and to review and approve remuneration offered to the Executive Director and senior management of the Group.

The Remuneration Committee held six meetings during the year ended 30 November 2017. The attendance records of the Remuneration Committee members are set out on page 94 of this Annual Report. Details of the key activities performed by the Remuneration Committee during the year have been set out in the Remuneration Report, which forms part of this Corporate Governance Report.

#### **RISK COMMITTEE**

The Risk Committee consists of six members, five of whom are Independent Non-executive Directors, including Mr. Chow, who serves as chairman of the Committee, Mr. Harrison, Professor Lau, Ms. Teo, Mr. Tse and Mr. Ng, the Executive Director, who became a member of the Risk Committee in place of Mr. Tucker on 1 June 2017. The duties performed by the Risk Committee during the year included providing advice to the Board on the risk profile and risk management strategy of the Group; considering and reviewing disclosures in interim and annual reports, risk management-related policies and guidelines, statutory solvency positions, risk appetite and metrics; overseeing the risk management and compliance framework; reviewing the risk management and internal control systems; endorsing the Company's risk governance structure; and reviewing major risks. Details of how the Risk Committee reviews the effectiveness of the risk management and internal control systems are set out in the Risk Management and Internal Control section of this report.

The Risk Committee held four meetings during the year ended 30 November 2017. The attendance records of the Risk Committee members are set out on page 94 of this Annual Report.

## EXTERNAL AUDITOR

The external auditor of the Company is PricewaterhouseCoopers. The Audit Committee is responsible for making recommendations to the Board on the external auditor's appointment, re-appointment and removal, which are subject to approval by the Board and at the general meetings of the Company by its shareholders. In assessing the external auditor, the Audit Committee will take into account relevant experience, performance, objectivity and independence of the external auditor. The Board has adopted policies on nomination and appointment of and services performed by the external auditor to enhance related governance practices.

The Audit Committee also reviews the non-audit services provided by the external auditor and its remuneration on a regular basis. For the year ended 30 November 2017, the total estimated remuneration payable by the Group to PricewaterhouseCoopers was US\$20.0 million (2016: US\$15.2 million), an analysis of which is set out below:

US\$ millions	2017	2016
Audit services	13.6	11.9
Non-audit services, including:		
Audit-related services <sup>(Note)</sup>	4.7	0.7
Tax services	0.9	1.4
Other services	0.8	1.2
<b>Total</b>	<b>20.0</b>	<b>15.2</b>

Note:

Audit-related services for 2017 include the audit of the Supplementary Embedded Value Information as at and for the year ended 30 November 2017 (2016: nil).

In addition to those fees disclosed above, audit fees of US\$0.8 million (2016: US\$0.8 million) were payable to PricewaterhouseCoopers by funds for which the Group is the investment adviser, manager or administrator.

## ACCOUNTABILITY AND AUDIT

### FINANCIAL REPORTING

The annual results of the Company and other financial information were published in accordance with the requirements of the Listing Rules and other applicable regulations and industry best practice. When preparing the Company's financial reports, the Board of Directors endeavours to present this information in a comprehensible, informative and user-friendly manner.

The Directors acknowledge their responsibility for preparing the Company's consolidated financial statements and ensuring that the preparation of the Company's consolidated financial statements is in accordance with the relevant requirements and applicable standards.

The statement of the Company's auditor concerning its reporting responsibilities on the Company's consolidated financial statements is set out in the Independent Auditor's Report on pages 121 to 127 of this Annual Report.

### RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors, assisted by its board committees, is responsible for overseeing the Group's risk management and internal control systems on an ongoing basis. The Board of Directors reviews the effectiveness of risk management and internal control systems on an annual basis.

The Group's Risk Management Framework (RMF) does not seek to eliminate all risks but rather to identify, understand and manage them within acceptable limits in order to support the sustainability of the business and the creation of long-term value, and can only provide reasonable and not absolute assurance against material misstatement or loss. The main features and other information on the RMF and the process used to identify, evaluate and manage significant risks are set out in the Risk Management section of this Annual Report.

The Company has an internal audit function (Internal Audit). The key features of the Company's internal control system includes independent reviews and testing of internal controls, taking a risk-based approach and developing an annual audit plan presented to the Audit Committee. Reports of significant audit findings are prepared and communicated to management and the Audit Committee and where control weaknesses or defects are identified, recommendations are provided to resolve them. This includes issues formally identified from internal audits, forensic investigations, regulatory reports and special projects. Management is responsible for the design, implementation and evaluation of the internal control system, including ongoing mitigation, across the business and processes.

The Board of Directors has, through the Risk Committee and Audit Committee, reviewed the adequacy and effectiveness of the Group's risk management and internal control systems (covering all material controls such as financial, operational and compliance controls), including:

- the adequacy of resources, staff qualifications and experience, training programmes and the budget of the Group's accounting, internal audit and financial reporting functions;
- areas of risk identified by management as well as the quality and scope of management's ongoing monitoring of risks and the risk management system;
- the changes in the nature and extent of significant risks since the previous review and the Group's ability to respond to changes in the external environment and its business;
- the quality and scope of the internal control system implemented by management and the work and effectiveness of Internal Audit as well as any significant risks reported by Internal Audit;
- the extent and frequency of communication of monitoring results to the Board and its committees, to enable the assessment of the effectiveness of the Group's risk management and internal control systems;
- the incidence of any significant control failings or weaknesses that have been identified during the year and the extent to which they have resulted in a material impact on the Group's financial performance or condition;
- the effectiveness of the Group's processes in relation to financial reporting and regulatory compliance;
- the scope of work performed by both internal and external auditors and any significant issues arising from internal and external audit reports; and
- the results of management's control self-assessment exercises.

The annual review of the Group's risk management and internal control systems was supported by an internal certification process performed by the management (at both the Company's and subsidiaries' levels), the Risk & Compliance function and Internal Audit of the Company.



The management has confirmed to the Board that the Group's risk management and internal control systems are adequate and effective. Based on the review result and the management's confirmation, the Board considered that the Group's risk management and internal control systems to be adequate and effective for the year ended 30 November 2017.

### **INSIDE INFORMATION**

The Company has implemented proper procedures and internal controls for the handling and dissemination of inside information:

- The Company has established a policy on the disclosure of inside information to ensure that all current and prospective investors of the Company, market participants and the public are provided with appropriate information relating to the Group in a timely and simultaneous manner. The policy has been communicated to all relevant staff and related training has also been provided to them; and
- A written communications protocol has also been established to implement a control process within the Group for the management of communications with various internal and external stakeholders. Such protocol identifies a list of spokespersons who are authorised to provide information about the Group to the relevant stakeholders. The Company's Code of Conduct further contains a strict prohibition on the unauthorised use of confidential or non-public information.

### **COMPANY SECRETARY**

All the Directors have access to the advice and services of the Company Secretary at any time in respect of their duties and the effective operation of the Board and Board committees. The Company Secretary advises the Board on all corporate governance matters; facilitates the induction and professional development of Directors; and ensures good information flows and communications within the Board and its committees, and between management and non-executive directors. The Company Secretary also plays an important role in ensuring that Board and committee policies and procedures are followed and the Board's obligations to shareholders pursuant to the Listing Rules are discharged. During the year, the Company Secretary undertook at least 15 hours of relevant continuing professional education.

### **ENGAGEMENT WITH SHAREHOLDERS**

The Board recognises the importance of maintaining an ongoing dialogue with the Company's shareholders and does so through general meetings, releases, announcements and corporate communications such as the annual report, interim report and circulars. The Board is committed to the timely disclosure of information. The latest information regarding the Group's activities, announcements, results presentations, webcasts and corporate communications is made available on the Company's website at [www.aia.com](http://www.aia.com) in a timely manner. The financial calendar highlighting the key dates for shareholders is set out on page 264 of this Annual Report.

The Investor Relations function oversees the Company's engagement with investors. The Company's institutional shareholder base is geographically diversified and the Company is also extensively covered by research analysts from a wide range of broker houses. An active and open dialogue with institutional investors is maintained through regular investor interactions, including meetings, investment conferences and roadshows. Investor feedback and analysts' reports on the Company are circulated to the Board and the Executive Committee on a regular and systematic basis to promote an understanding of external views on the Company's performance.

The Board has adopted a Shareholders' Communication Policy and such policy will be reviewed on a regular basis to ensure its effectiveness. The Board welcomes views, questions and concerns from shareholders and stakeholders. Shareholders and stakeholders may send their enquiries and concerns to the Board. The contact details are set out on page 265 of this Annual Report.

### **2017 ANNUAL GENERAL MEETING**

The most recent general meeting of the Company was the 2017 AGM which was held at the Grand Ballroom, 2/F, New World Millennium Hong Kong Hotel, 72 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on 12 May 2017. The Chairman and all other members of the Board at that time, together with the Group's senior management and external auditor, attended the 2017 AGM. The poll voting results are available on the websites of both the Company and the Hong Kong Stock Exchange. The matters resolved at the 2017 AGM are summarised below:

- Receipt of the audited consolidated financial statements of the Company, the Report of the Directors and the Independent Auditor's Report for the year ended 30 November 2016;
- Declaration of a final dividend of 63.75 Hong Kong cents per share for the year ended 30 November 2016;
- Re-election of Mr. Yahya, Mr. Tse and Mr. So as Independent Non-executive Directors of the Company;
- Re-appointment of PricewaterhouseCoopers as auditor of the Company until the conclusion of the next annual general meeting and authorising the Board to fix its remuneration;
- General mandate to Directors to cause the Company to issue additional shares of the Company, not exceeding 10 per cent of the aggregate number of shares of the Company in issue on the date of the 2017 AGM, and the discount for any shares to be issued not exceeding 10 per cent to the benchmarked price;
- General mandate to Directors to cause the Company to buy back shares of the Company, not exceeding 10 per cent of the aggregate number of shares of the Company in issue on the date of the 2017 AGM; and
- General mandate to Directors to cause the Company to issue shares of the Company under the restricted share unit scheme, not exceeding 2.5 per cent of the number of shares of the Company in issue on the date of the listing of the Company's shares on the Hong Kong Stock Exchange.

The forthcoming annual general meeting of the Company will be held on Friday, 18 May 2018. Further details will be set out in the circular to the shareholders of the Company to be sent together with this Annual Report.

## SHAREHOLDERS' RIGHTS

### GENERAL MEETING

Shareholder(s) representing at least 5 per cent of the total voting rights of all the shareholders of the Company having a right to vote at general meetings, may request to call a general meeting. If such request is made a general meeting must be called. Such request, either in hard copy form or in electronic form and being authenticated by the person or persons making it, must be deposited at the registered office of the Company at 35/F, AIA Central, No. 1 Connaught Road Central, Hong Kong or sent by email to [ir@aia.com](mailto:ir@aia.com) for the attention of the Company Secretary. Shareholder(s) of the Company should make reference to the provisions under Sections 566 to 568 of the Hong Kong Companies Ordinance for calling a general meeting.

### MOVING A RESOLUTION AT AN ANNUAL GENERAL MEETING

Shareholder(s) of the Company may request the Company to give notice of a resolution and move such resolution at an annual general meeting. Such notice of resolution must be given by the Company if it has received such request from:

- (a) shareholder(s) of the Company representing at least 2.5 per cent of the total voting rights of all the shareholders of the Company who have a right to vote on the resolution at the annual general meeting to which the request relates; or
- (b) at least 50 shareholders of the Company who have a right to vote on the resolution at the annual general meeting to which the request relates.

Such a request must identify the resolution of which notice is to be given, be either in hard copy form or in electronic form and be authenticated by the person or persons making it, and be received by the Company not later than six weeks before the annual general meeting to which the request relates or, if later, the time at which notice is given of that meeting. The request must be deposited at the registered office of the Company at 35/F, AIA Central, No. 1 Connaught Road Central, Hong Kong or sent by email to [ir@aia.com](mailto:ir@aia.com) for the attention of the Company Secretary. Shareholder(s) of the Company should make reference to Sections 615 and 616 of the Hong Kong Companies Ordinance for the relevant procedures to move a resolution at an annual general meeting.

### PROPOSING A PERSON FOR ELECTION AS A DIRECTOR

Shareholders can propose a person (other than a retiring Director himself/herself) for election as a director at a general meeting of the Company. Relevant procedures are available on the Company's website at [www.aia.com](http://www.aia.com).

## CONSTITUTIONAL DOCUMENTS

The Company's Articles of Association (in both English and Chinese) is available on the websites of both the Company and the Hong Kong Stock Exchange. During the year, there has been no change to the Articles of Association of the Company.

By Order of the Board



**Mitchell New**  
Company Secretary  
27 February 2018

## REMUNERATION REPORT

### STATEMENT OF THE CHAIRMAN OF THE REMUNERATION COMMITTEE

**It gives me great pleasure to present the Report on Remuneration for Directors and Key Management Personnel for the year ended 30 November 2017.**

As in prior years, the determination of executive remuneration follows a rigorous process that considers the business priorities, market practice, regulatory environment, as well as risk management aspects, all the while obtaining independent advice from the Remuneration Committee's external advisor.

During the year, there were a number of changes to the members of the Group Executive Committee that required the Remuneration Committee's attention. The Remuneration Committee's work in 2017 therefore focused on ensuring the smooth transition of the new and departing Executive Committee members, while at the same time making sure that the executive remuneration arrangements continue to be in line with the Group's strategic priorities, market practice, regulatory environment, as well as risk management considerations and the interests of our shareholders.

- In the first half of 2017, the Remuneration Committee reviewed and subsequently approved the remuneration for the new and departing Executive Committee members. The target remuneration package provided to Mr. Ng Keng Hooi in the role of Group Chief Executive and President along with the treatment of Mr. Mark Edward Tucker's remuneration upon retirement are shown on page 118 of this report.
- In the second half of the year, the Remuneration Committee undertook a holistic review of the Group's approach to total remuneration. Following the review, the Remuneration Committee is satisfied that the Group's executive remuneration arrangements are in line with market practice, the regulatory environment and shareholders' best interests and will continue to allow us to attract, motivate and retain high-calibre talent.
- As part of the review of remuneration in 2017, the Remuneration Committee reviewed the Total Shareholder Return (TSR) peer group in advance of the 2018 restricted share unit awards and determined that refinements should be made to ensure that AIA's performance is assessed against companies which are comparable to AIA's business operations. For the restricted share unit awards that will be granted in 2018, only those Dow Jones Insurance Titans 30 Index (DJTINN) companies that are considered life and health or multi-line insurance companies will be selected.
- Finally, considering the change of financial year end from 30 November to 31 December effective 2018, the Remuneration Committee reviewed the implications on the short-term and long-term incentives to ensure that it will have minimal impact on employees.

The remuneration structure for our senior executives remains unchanged in 2017 and will continue to apply in 2018. As in prior years, a significant proportion of total remuneration awarded in 2017 is subject to multi-year performance-based vesting conditions which ensure that our executives' interests are closely aligned with those of shareholders over the long term.

The Remuneration Committee continued to monitor the regulatory environment and corporate governance best practices in 2017 and will continue to do so in the future. Similar to previous years, in 2017 the Remuneration Committee communicated its deliberations and its activities to the Risk Committee.

Speaking for the Remuneration Committee, I would like to express our deepest appreciation to you all for your continued trust and support in remuneration related matters and look forward to continuing our dialogue in the years to come.



**Jack Chak-Kwong So**

Chairman, Remuneration Committee

27 February 2018

## **REMUNERATION COMMITTEE**

### **ROLE OF THE REMUNERATION COMMITTEE**

The Remuneration Committee is responsible for determining the specific remuneration packages of the Group Chief Executive and President (who is also the sole Executive Director) and Key Management Personnel (the members of the Group's Executive Committee who, by the nature and accountabilities of their respective positions, participate directly in the development, monitoring and reporting of the overall business strategies of the Group), and making recommendations to the Board on the remuneration policy and structure to be applied for the Chairman and Non-executive Directors.

The Remuneration Committee is also responsible for establishing formal and transparent procedures for developing remuneration policies and structures. In making its determinations and recommendations, the Remuneration Committee considers such factors as the responsibilities of the Group Chief Executive and President and Key Management Personnel, the remuneration paid by comparable companies, remuneration levels within the Group and the application of performance-based remuneration programmes.

The Remuneration Committee also oversees the design and operation of the Company's share schemes and other Group incentive schemes, recommending share-based employee awards to the Board for approval as well as reviewing and, where appropriate, amending the terms of the schemes as may be required.

The Remuneration Committee is authorised by the Board to discharge its duties as outlined in its Terms of Reference. It is also authorised to seek any remuneration information it requires from the Group Chief Executive and President and/or Key Management Personnel and may obtain external independent professional advice if necessary.

The full Terms of Reference of the Remuneration Committee can be accessed at [www.aia.com](http://www.aia.com).

### **MEMBERS AND MEETINGS**

As at 30 November 2017, the Remuneration Committee consisted of four Independent Non-executive Directors, being Mr. Jack Chak-Kwong So, who is the Chairman of the Committee, Mr. George Yong-Boon Yeo, Mr. Mohamed Azman Yahya, and Mr. Edmund Sze-Wing Tse.

The Remuneration Committee held six meetings during the year ended 30 November 2017. The attendance records of the Remuneration Committee members are set out on page 94 of this Annual Report.

## ACTIVITIES OF THE REMUNERATION COMMITTEE IN 2017

During the year, the major activities performed by the Remuneration Committee were as follows:

- Reviewed and approved the remuneration packages at the start of the year or on appointment for the Group Chief Executive and President and Key Management Personnel. The long-term incentive awards for the Group Chief Executive and Presidents that served during the year were approved by the Independent Non-executive Directors;
- Reviewed and approved the remuneration arrangements for departing Executive Committee members during the year;
- Reviewed and approved the 2016 short-term incentive plan payout and the vesting of the 2014 long-term incentive award;
- Reviewed and approved the 2017 long-term incentive award;
- Reviewed and approved the 2016 Remuneration Report;
- Provided the Risk Committee with a summary of considerations undertaken by the Remuneration Committee in ensuring that the Group's remuneration and benefits arrangements align with stakeholders' interests and avoid excessive risk-taking;
- Reviewed the remuneration policy for the Group Chief Executive and President and Executive Committee members and determined that the current practices continue to align with AIA's strategy and shareholders' interests;
- Reviewed the Company's approach to total remuneration in light of current regulatory and market environment, and recommended the updated approach for the Board's adoption;
- Reviewed and approved the treatment of the short-term incentive and the treatment of the unvested and future long-term incentives because of the change to the Group's financial year end in 2018;
- Reviewed and approved the performance measures to be used in the 2018 short-term incentive plan and the 2018 long-term incentive award, including the total shareholder return peer group; and
- Reviewed the executive benchmarking results ahead of the 2017/18 annual review cycle.

## **REMUNERATION POLICY**

### **OBJECTIVES**

The Company's executive remuneration policy is based on the principle of providing an equitable, motivating and competitive remuneration package to foster a strong performance-oriented culture within an appropriate risk management framework.

The policy aims to ensure that rewards and incentives relate directly to the performance of individuals, the operations and functions in which they work or for which they are responsible, and the overall performance of the Group. The compensation and benefits arrangements designed under the policy provide incentives that are consistent with the interests of the Company's stakeholders and do not encourage executives to take excessive risks that may threaten the value of the Group.



## COMPONENTS OF OUR REMUNERATION POLICY

The table below summarises the Company's remuneration policies regarding the elements of the remuneration structure that applied to the Group Chief Executive and President and the Key Management Personnel during the year.

Element	Purpose	Basis of determination	Notes on practices
<b>Basic salary</b>	Basic salary is the fixed cash element of remuneration to recruit and retain talent	Basic salary is determined with reference to the specific roles and responsibilities of the position, internal relativities, market practice, individual experience, performance and other factors to attract and retain employees with required capabilities to achieve the Group's business objectives	The Remuneration Committee reviews salaries annually, for the Group Chief Executive and President against a peer group of publicly listed insurance companies, and for the Key Management Personnel against relevant industry survey sources  Salary increases, where applicable, typically take effect from 1 March
<b>Short-term incentive</b>	Short-term incentives are delivered in the form of a performance-based cash award to recognise and reward achievement of the Group's objectives and individual contribution	Short-term incentive target and maximum opportunities are determined with reference to the market competitiveness of the total compensation package and the roles and responsibilities of the individual	Short-term incentives are based on the achievement of financial performance measures and relevant strategic objectives, as well as individual contribution
<b>Long-term incentive</b>	Long-term incentives focus on the long-term success of the Group and are used to align the interests of executives with those of shareholders using a combination of share-based awards and share options to deliver a balanced mix of ownership and incentives	Long-term incentive target awards are determined with reference to the competitiveness of the total compensation package and the roles and responsibilities of the individual	Awards are discretionary and determined on an annual basis  Awards are made in restricted share units and/or share options, and generally vest after a three-year period, with the restricted share units subject to pre-defined performance requirements
<b>Benefits</b>	Benefits form part of the long-term employment relationship and contribute to the value of total remuneration provided at market competitive levels	The benefits programme is designed to be market competitive. It remains fully compliant with local regulations	The Group Chief Executive and President and Key Management Personnel receive certain benefits, such as, participation in pension schemes, medical and life insurance
<b>Employee share purchase plan</b>	Employee share purchase plan provides share investment opportunity with matching offer to facilitate and encourage AIA share ownership by employees, and provide a long-term retention mechanism	The employee share purchase plan is open to all employees who have completed probation and is subject to a maximum contribution indicated as a percentage of basic salary or the plan maximum limit	Participants receive matching shares for shares purchased subject to an investment limit approved by the Remuneration Committee  Matching shares vest after three years

## **OUR INCENTIVE PLANS**

### **SHORT-TERM INCENTIVE PLAN**

For 2017, short-term incentive target and maximum opportunities were determined by the Remuneration Committee and communicated to the Group Chief Executive and President and Key Management Personnel at the beginning of the financial year.

#### **Performance Measures and Awards**

The financial performance measures for 2017 short-term incentives were:

- Value of new business;
- Excess embedded value growth; and
- Operating profit after tax.

Value of new business (VONB) is an estimate of the economic value of one year's sales as published by the Company.

Excess embedded value growth (EEV Growth) is the operating experience variances (current year performance against the operating assumptions for calculating embedded value or EV) in the EV operating profit.

Operating profit after tax (OPAT) is the IFRS operating profit after tax based on the IFRS results published by the Company.

The weightings for VONB, EEV Growth and OPAT are 60 per cent, 10 per cent and 30 per cent respectively.

Consistent with prior years, an individual's performance contribution was also considered when determining the amounts to be paid under the 2017 short-term incentive.

Based on the level of achievement of the performance measures, short-term incentive awards in respect of 2017 will be paid in March 2018 to both the retired Group Chief Executive and President, Mr. Mark Edward Tucker, and his successor, Mr. Ng Keng Hooi, as well as to Key Management Personnel.

The total value of short-term incentive awards accrued for each of Mr. Tucker and Mr. Ng and the Key Management Personnel for the year ended 30 November 2017 was US\$15,442,697.

This amount is included in note 39 to the financial statements as "Bonuses" for Mr. Tucker and Mr. Ng, and as part of the "Salaries and other short-term employee benefits" for the Key Management Personnel.

## **LONG-TERM INCENTIVE PLAN**

The RSU Scheme and the SO Scheme were adopted on 28 September 2010 and are effective for a period of 10 years from the date of adoption, summaries of which are provided later in this section and in note 38 to the financial statements.

These schemes are designed to motivate and reward participants who have not only made an important contribution to AIA's success, but are expected to play a significant role in the future.

Awards made under these schemes are discretionary and are determined on an annual basis with reference to an individual's overall variable remuneration, total remuneration package competitiveness, roles and responsibilities, as well as performance and potential.

The schemes operate through the award of restricted share units and share options to deliver a balanced mix of incentives and ownership. The awards made are subject to eligibility criteria and generally vest after a three-year period.

As applicable to other remuneration payments, long-term incentive vesting is subject to the Remuneration Committee's approval and is in compliance with all relevant Group policies.

The schemes are reviewed regularly to ensure their design, process, structure and governance work together to balance risk and incentives.

## **RESTRICTED SHARE UNIT SCHEME**

Under the RSU Scheme, the Company may award restricted share units to employees, Directors (excluding Independent Non-executive Directors) or officers of the Company or any of its subsidiaries.

The objectives of the RSU Scheme are to retain participants, align their interests with those of the Company's investors and reward the creation of sustainable value for shareholders through the award of restricted share units to participants.

During the year ended 30 November 2017, the Company awarded 16,003,902 restricted share units under the RSU Scheme. Since the adoption of the RSU Scheme on 28 September 2010 (RSU Adoption Date) and up to 30 November 2017, a cumulative total of 62,809,130 restricted share units vested under the RSU Scheme, representing approximately 0.521 per cent of the shares in issue as at the Company's listing date. No new shares have been issued under the RSU Scheme since its adoption.

### **Performance Measures and Vesting**

Vesting of the performance-based restricted share unit awards is contingent on the extent of achievement of three-year performance targets for the following performance measures:

- Value of new business;
- Equity attributable to shareholders of the Company on the embedded value basis; and
- Total shareholder return.

Value of new business (VONB) is an estimate of the economic value of one year's sales as published by the Company.

Equity attributable to shareholders of the Company on the embedded value basis (EV Equity) is the total of embedded value, goodwill and other intangible assets. Embedded value is an estimate of the economic value of in-force life insurance business, including the net worth on the Group's balance sheet but excluding any economic value attributable to future new business.

The VONB and EV Equity performance considered in determining incentive awards are based on the Group VONB and Group EV Equity results published by the Company.

Total shareholder return (TSR) is the compound annual return from the ownership of a share over a period of time, measured by calculating the change in the share price and the gross value of dividends received (and reinvested) during that period. AIA's TSR is calculated in the same way and compared with the TSR of the peer companies in the Dow Jones Insurance Titans 30 Index (DJTINN) over the performance period.

The three performance measures are equally weighted. Achievement of each performance measure will independently determine the vesting of one-third of the award. Threshold performance levels (for TSR, 25th percentile relative performance measured against the TSR of the peer companies in the DJTINN) are required for restricted share units to vest; at target performance levels (for TSR, median relative performance measured against the TSR of the peer companies in the DJTINN) 50 per cent of the restricted share units will vest; and at maximum performance levels (for TSR, 75th percentile or above relative performance measured against the TSR of the peer companies in the DJTINN) the full allocation of restricted share units will vest.

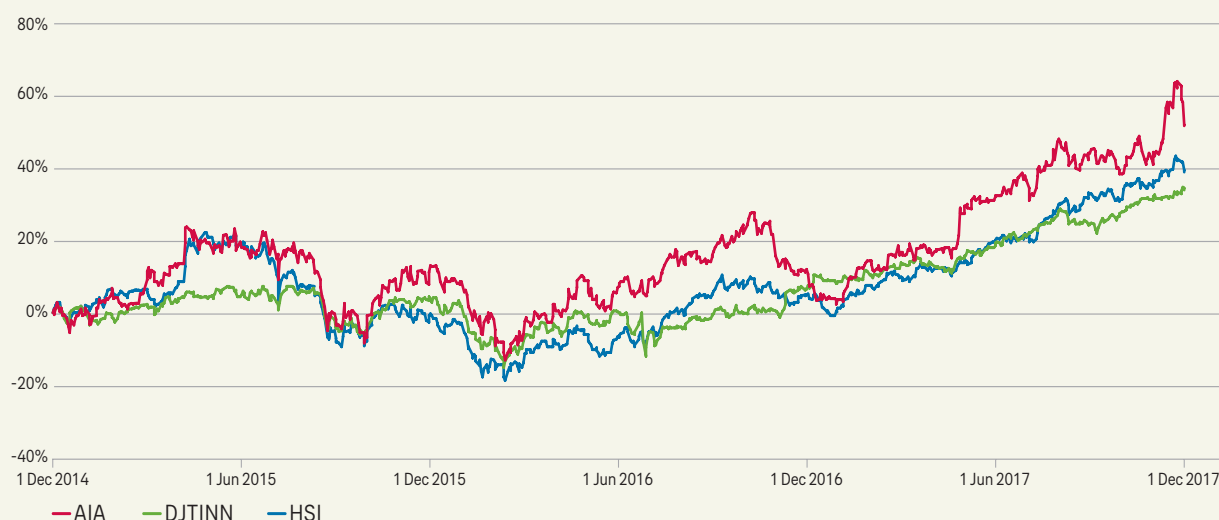
In February 2017, after assessing the performance of the Company against the predetermined performance targets over the three-year period from 1 December 2013 to 30 November 2016, the Remuneration Committee approved the vesting of the 2014 restricted share unit awards at 86.53 per cent of the maximum level. The 2014 restricted share unit awards vested on 5 March 2017.

The 2015 restricted share unit awards will vest on 12 March 2018. The final vesting result for the 2015 restricted share awards will be disclosed in the Remuneration Report in the Company's Annual Report 2018.

The chart below shows AIA's TSR compared to the DJTINN for the three-year period from 1 December 2014 to 30 November 2017, which is the same time period for performance measurement for the 2015 restricted share unit awards.

The Hang Seng Index (HSI) performance for the same period is also shown for reference, as it is a recognised Hong Kong equity market index of which AIA is a constituent.

#### AIA GROUP LIMITED TSR PERFORMANCE AGAINST THE DJTINN AND HSI



For the 2016 and 2017 performance-based restricted share unit awards, the Remuneration Committee reviewed the change in the Group's financial year end and determined that no changes are required to the performance periods. The period over which the performance of the 2016 and 2017 awards are assessed will remain ending on 30 November 2018 and 30 November 2019 respectively.

#### 2018 Awards

During the year, the Remuneration Committee reviewed the TSR peer group in advance of the 2018 restricted share unit awards and determined that refinements should be made to ensure that AIA's performance is assessed against companies which are comparable to AIA's business operations. For the restricted share unit awards that will be granted in 2018, only those DJTINN companies that are considered life and health or multi-line insurance companies will be selected (19 companies).

Consistent with prior years, VONB and EV Equity targets will continue to be used to assess the performance outcomes. The three performance measures will continue to be equally weighted. As a result of the change in financial year end, the 2018 restricted share unit award performance measures will be assessed over a three-year period starting 1 January 2018.

The table below summarises the movements in restricted share unit awards.

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day / month / year) <sup>(3)</sup>	Vesting date(s) (day / month / year)	Restricted share units outstanding as at 1 December 2016	Restricted share units awarded during the year ended 30 November 2017	Restricted share units vested during the year ended 30 November 2017	Restricted share units cancelled / lapsed / reclassified during the year ended 30 November 2017 <sup>(10)</sup>	Restricted share units outstanding as at 30 November 2017 <sup>(11)</sup>
<b>Group Chief Executive and President, Director<sup>(1)</sup></b> Mr. Ng Keng Hooi	12/3/2015	12/3/2018 <sup>(4)</sup>	–	–	–	283,490	283,490
	9/3/2016	9/3/2019 <sup>(4)</sup>	–	–	–	320,071	320,071
	10/3/2017	10/3/2020 <sup>(4)</sup>	–	–	–	267,659	267,659
	31/7/2017	1/6/2020 <sup>(4)</sup>	–	213,164	–	–	213,164
<b>Retired Group Chief Executive and President, Director<sup>(2)</sup></b> Mr. Mark Edward Tucker	5/3/2014	5/3/2017 <sup>(4)</sup>	1,261,874	–	(1,091,900)	(169,974)	–
	12/3/2015	12/3/2018 <sup>(4)</sup>	1,061,627	–	–	(88,468)	973,159
	9/3/2016	9/3/2019 <sup>(4)</sup>	1,258,693	–	–	(524,455)	734,238
	10/3/2017	10/3/2020 <sup>(4)</sup>	–	1,095,330	–	(821,497)	273,833
<b>Key Management Personnel (Group Chief Executive and President reclassified<sup>(1)</sup>, and excluding the Retired Group Chief Executive and President)</b>	5/3/2014	5/3/2017 <sup>(4)</sup>	1,484,144	–	(1,284,233)	(199,911)	–
	14/4/2014	14/4/2017 <sup>(4)</sup>	203,016	–	(175,670)	(27,346)	–
	12/3/2015	12/3/2018 <sup>(4)</sup>	1,373,882	–	–	(89,786)	1,284,096
	12/3/2015	12/3/2017 <sup>(5)</sup>	32,800	–	(32,800)	–	–
	1/9/2015	See note <sup>(6)</sup>	678,753	–	(509,065)	–	169,688
	9/3/2016	9/3/2019 <sup>(4)</sup>	1,752,539	–	–	(90,571)	1,661,968
	1/8/2016	1/8/2019 <sup>(4)</sup>	–	–	–	41,249	41,249
	17/10/2016	1/8/2019 <sup>(7)</sup>	101,217	–	–	(101,217)	–
	17/10/2016	See note <sup>(8)</sup>	62,812	–	(20,937)	(41,875)	–
	10/3/2017	10/3/2020 <sup>(4)</sup>	–	1,534,806	–	(92,931)	1,441,875
31/7/2017	1/6/2020 <sup>(4)</sup>	–	311,947	–	–	311,947	
<b>Other eligible employees and participants</b>	5/3/2014	5/3/2017 <sup>(4)</sup>	12,458,262	–	(10,443,122)	(2,015,140)	–
	11/9/2014	11/9/2017 <sup>(4)</sup>	48,724	–	(42,161)	(6,563)	–
	11/9/2014	5/3/2017 <sup>(4)</sup>	4,193	–	(3,629)	(564)	–
	12/3/2015	12/3/2018 <sup>(4)</sup>	11,498,537	–	(14,226)	(1,540,705)	9,943,606
	12/3/2015	12/3/2017 <sup>(5)</sup>	1,215,706	–	(1,187,219)	(28,487)	–
	1/9/2015	1/9/2018 <sup>(4)</sup>	20,316	–	–	–	20,316
	9/3/2016	9/3/2019 <sup>(4)</sup>	14,508,327	–	(12,600)	(1,902,239)	12,593,488
	9/3/2016	See note <sup>(9)</sup>	156,876	–	(156,876)	–	–
	1/8/2016	9/3/2019 <sup>(4)</sup>	79,134	–	(14,040)	(65,094)	–
	1/8/2016	1/8/2019 <sup>(4)</sup>	75,870	–	–	(41,249)	34,621
	17/10/2016	1/8/2019 <sup>(7)</sup>	–	–	–	101,217	101,217
	17/10/2016	See note <sup>(8)</sup>	–	–	–	41,875	41,875
	10/3/2017	10/3/2020 <sup>(4)</sup>	–	12,820,136	(718)	(958,810)	11,860,608
	31/7/2017	1/6/2020 <sup>(4)</sup>	–	28,519	–	–	28,519

Notes:

- (1) Restricted share units are not shown as at 1 December 2016 because Mr. Ng Keng Hooi was appointed as the Executive Director, Group Chief Executive and President effective 1 June 2017. Mr. Ng's outstanding restricted share units as of 1 June 2017 are reclassified from "Key Management Personnel" to "Group Chief Executive and President, Director".
- (2) Mr. Mark Edward Tucker stepped down from Group Chief Executive and President and was re-designated as a Non-executive Director effective 1 June 2017 and retired from the Board effective 1 September 2017. For clarity, all movements to Mr. Tucker's restricted share units during the year ended 30 November 2017 are shown under "Retired Group Chief Executive and President, Director".
- (3) The measurement dates (i.e. the date used to determine the value of the awards for accounting purposes) for awards made during the year ended 30 November 2014 were determined to be 5 March 2014, 14 April 2014 and 11 September 2014. The measurement dates for awards made during the year ended 30 November 2015 were determined to be 12 March 2015 and 1 September 2015. The measurement dates for awards made during the year ended 30 November 2016 were determined to be 9 March 2016, 1 August 2016 and 17 October 2016. The measurement dates for awards made during the year ended 30 November 2017 were determined to be 10 March 2017 and 31 July 2017. These measurement dates were determined in accordance with IFRS 2.
- (4) The vesting of these restricted share units is subject to the achievement of performance conditions shown on page 112 of this Annual Report.
- (5) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). All restricted share units vested on 12 March 2017.
- (6) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). Three-quarters of restricted share units vested on 1 September 2017 and one-quarter will vest on 1 September 2018.
- (7) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). All restricted share units will vest on 1 August 2019.
- (8) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). One-third of restricted share units vested on 1 August 2017, one-third will vest on 1 August 2018, and one-third will vest on 1 August 2019.
- (9) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). One-half of restricted share units vested on 30 November 2016 and one-half vested on 30 November 2017.
- (10) These restricted share units lapsed or were reclassified during the year ended 30 November 2017. The reclassification of restricted share units was a result of the appointment of Mr. Ng Keng Hooi as Group Chief Executive and President, five executives who were previously categorised as "Other eligible employees and participants" becoming "Key Management Personnel" and one executive who was previously categorised as "Key Management Personnel" becoming "Other eligible employees and participants" during the year. There were no cancelled restricted share units during the year ended 30 November 2017.
- (11) Includes restricted share units outstanding as at 30 November 2017 that, in accordance with the RSU Scheme rules, will lapse on or before the respective vesting date.

## SHARE OPTION SCHEME

The objective of the SO Scheme is to align the interests of participants with those of the Company's shareholders by allowing eligible participants to share in shareholder value created.

Under the SO Scheme, the Company may award share options to employees, Directors (excluding Independent Non-executive Directors) or officers of the Company or any of its subsidiaries. No amount is payable by the eligible participants on the acceptance of a share option.

During the year ended 30 November 2017, the Company awarded 9,460,949 share options under the SO Scheme to certain employees and officers of the Company and a number of its subsidiaries. The formula for determining the exercise price of such share options is set out in the Listing Rules which sets the exercise price as the highest of (i) the closing price of the shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant and (iii) the nominal value of a share. Since the adoption of the SO Scheme on 28 September 2010 (SO Scheme Adoption Date) and up to 30 November 2017, a cumulative total of 27,535,429 new shares were issued under the SO Scheme, representing approximately 0.229 per cent of the shares in issue as at the Company's listing date.

The total number of shares available for issue for all outstanding share options and share options that can be awarded under the scheme is 301,100,000, representing approximately 2.5 per cent of the number of shares in issue as at the date of this report. Unless shareholders' approval is obtained in accordance with the relevant procedural requirements under the Listing Rules, the maximum number of shares under option that may be awarded to any employee in any 12-month period up to and including a proposed date of grant is 0.25 per cent of the number of shares in issue as of the proposed date of grant. No share options have been awarded to substantial shareholders or in excess of the individual limit.

### Performance Measures and Vesting

Share options awarded under the SO Scheme have a life of 10 years before expiry. Generally, share options become exercisable three years after the date of grant and remain exercisable for another seven years, subject to the participants' continued employment in good standing or retirement. There are no performance conditions attached to the vesting of share options. Each share option entitles the eligible participant to subscribe for one ordinary share. Benefits are realised only to the extent that share price exceeds exercise price.

All share options awarded in 2014 became exercisable on 5 March 2017 and 14 April 2017.

The share options awarded in 2017 will vest in 2020. Details of the valuation of the share options are set out in note 38 to the financial statements.

For the share options awarded in 2015, 2016 and 2017, the Remuneration Committee reviewed the change in the Group's financial year end and determined that no changes are required to the terms of the awards.

The table below summarises the movements in share option awards.

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day / month / year) <sup>(6)</sup>	Period during which share options are exercisable (day / month / year)	Share options outstanding as at		Share options awarded during the year ended 30 November 2017	Share options vested during the year ended 30 November 2017	Share options cancelled / lapsed / reclassified during the year ended 30 November 2017 <sup>(14)</sup>	Share options exercised during the year ended 30 November 2017	Exercise price (HK\$)	Share options outstanding as at		Weighted average closing price of shares immediately before the dates on which share options were exercised (HK\$)
			1 December 2016	30 November 2017						30 November 2017	30 November 2017 <sup>(15)</sup>	
<b>Group Chief Executive and President, Director<sup>(1)</sup></b> Mr. Ng Keng Hooi	5/3/2014	5/3/2017 - 4/3/2024 <sup>(4)</sup>	–	–	–	602,486	–	37.56	602,486	–	n/a	
	12/3/2015	12/3/2018 - 11/3/2025 <sup>(5)</sup>	–	–	–	541,692	–	47.73	541,692	–	n/a	
	9/3/2016	9/3/2019 - 8/3/2026 <sup>(6)</sup>	–	–	–	851,026	–	41.90	851,026	–	n/a	
	10/3/2017	10/3/2020 - 9/3/2027 <sup>(7)</sup>	–	–	–	732,574	–	50.30	732,574	–	n/a	
	31/7/2017	1/6/2020 - 30/7/2027 <sup>(8)</sup>	–	476,786	–	–	–	61.55	476,786	–	n/a	
<b>Retired Group Chief Executive and President, Director<sup>(2)</sup></b> Mr. Mark Edward Tucker	1/6/2011	1/4/2014 - 31/5/2021 <sup>(9)</sup>	2,149,724	–	–	–	–	(2,149,724)	27.35	–	54.50	
	1/6/2011	1/4/2014 - 31/5/2021 <sup>(10)</sup>	2,418,439	–	–	–	–	(2,418,439)	27.35	–	54.53	
	15/3/2012	15/3/2015 - 14/3/2022 <sup>(11)</sup>	2,152,263	–	–	–	–	(2,152,263)	28.40	–	54.50	
	11/3/2013	11/3/2016 - 10/3/2023 <sup>(12)</sup>	2,183,144	–	–	–	–	(2,183,144)	34.35	–	54.50	
	5/3/2014	5/3/2017 - 4/3/2024 <sup>(4)</sup>	2,169,274	–	2,169,274	–	–	–	37.56	2,169,274	n/a	
	12/3/2015	12/3/2018 - 11/3/2025 <sup>(5)</sup>	2,028,555	–	–	–	(169,046)	–	47.73	1,859,509	n/a	
	9/3/2016	9/3/2019 - 8/3/2026 <sup>(6)</sup>	3,346,701	–	–	–	(1,394,458)	–	41.90	1,952,243	n/a	
10/3/2017	10/3/2020 - 9/3/2027 <sup>(7)</sup>	–	2,997,884	–	–	(2,248,413)	–	50.30	749,471	n/a		
<b>Key Management Personnel (Group Chief Executive and President reclassified<sup>(1)</sup>, and excluding the Retired Group Chief Executive and President)</b>	1/6/2011	1/4/2014 - 31/5/2021 <sup>(9)</sup>	1,121,607	–	–	45,467	–	(694,328)	27.35	472,746	50.10	
	1/6/2011	1/4/2014 - 31/5/2021 <sup>(10)</sup>	1,794,570	–	–	106,820	–	(1,353,652)	27.35	547,738	50.13	
	15/3/2012	15/3/2015 - 14/3/2022 <sup>(11)</sup>	1,604,204	–	–	45,978	–	(1,131,170)	28.40	519,012	51.90	
	11/3/2013	11/3/2016 - 10/3/2023 <sup>(12)</sup>	2,112,906	–	–	47,093	–	(1,367,319)	34.35	792,680	51.10	
	5/3/2014	5/3/2017 - 4/3/2024 <sup>(4)</sup>	2,551,368	–	2,551,368	(510,092)	–	(1,099,693)	37.56	941,583	50.20	
	14/4/2014	14/4/2017 - 13/4/2024 <sup>(13)</sup>	332,282	–	332,282	–	–	–	39.45	332,282	n/a	
	12/3/2015	12/3/2018 - 11/3/2025 <sup>(5)</sup>	2,625,207	–	–	–	(589,897)	–	47.73	2,035,310	n/a	
	9/3/2016	9/3/2019 - 8/3/2026 <sup>(6)</sup>	4,659,768	–	–	–	(922,070)	–	41.90	3,737,698	n/a	
	10/3/2017	10/3/2020 - 9/3/2027 <sup>(7)</sup>	–	4,200,707	–	–	(953,895)	–	50.30	3,246,812	n/a	
31/7/2017	1/6/2020 - 30/7/2027 <sup>(8)</sup>	–	697,732	–	–	–	–	61.55	697,732	n/a		
<b>Other eligible employees and participants</b>	1/6/2011	1/4/2014 - 31/5/2021 <sup>(9)</sup>	889,337	–	–	(45,467)	–	(175,504)	27.35	668,366	48.55	
	1/6/2011	1/4/2014 - 31/5/2021 <sup>(10)</sup>	2,022,136	–	–	(106,820)	–	(1,284,219)	27.35	631,097	52.72	
	15/3/2012	15/3/2015 - 14/3/2022 <sup>(11)</sup>	1,058,875	–	–	(45,978)	–	(257,722)	28.40	755,175	52.38	
	11/3/2013	11/3/2016 - 10/3/2023 <sup>(12)</sup>	1,068,302	–	–	(47,093)	–	(348,360)	34.35	672,849	52.91	
	5/3/2014	5/3/2017 - 4/3/2024 <sup>(4)</sup>	1,015,354	–	980,500	(127,248)	–	(420,460)	37.56	467,646	53.79	
	12/3/2015	12/3/2018 - 11/3/2025 <sup>(5)</sup>	862,621	–	–	–	(243,246)	–	(17,139)	47.73	602,236	48.30
	9/3/2016	9/3/2019 - 8/3/2026 <sup>(6)</sup>	1,414,396	–	–	–	(377,812)	–	41.90	1,036,584	n/a	
	10/3/2017	10/3/2020 - 9/3/2027 <sup>(7)</sup>	–	1,087,840	–	–	(68,213)	–	50.30	1,019,627	n/a	



Notes:

- (1) Share options are not shown as at 1 December 2016 because Mr. Ng Keng Hooi was appointed as the Executive Director, Group Chief Executive and President effective 1 June 2017. Mr. Ng's outstanding share options as of 1 June 2017 are reclassified from "Key Management Personnel" to "Group Chief Executive and President, Director".
- (2) Mr. Mark Edward Tucker stepped down from Group Chief Executive and President and was re-designated as a Non-executive Director effective 1 June 2017 and retired from the Board effective 1 September 2017. For clarity, all movements to Mr. Tucker's share options during the year ended 30 November 2017 are shown under "Retired Group Chief Executive and President, Director".
- (3) The measurement date (i.e. the date used to determine the value of the awards for accounting purposes) for awards made during the year ended 30 November 2011 was determined to be 15 June 2011. The measurement date for awards made during the year ended 30 November 2012 was determined to be 15 March 2012. The measurement date for awards made during the year ended 30 November 2013 was determined to be 11 March 2013. The measurement dates for awards made during the year ended 30 November 2014 were determined to be 5 March 2014 and 14 April 2014. The measurement date for awards made during the year ended 30 November 2015 was determined to be 12 March 2015. The measurement date for awards made during the year ended 30 November 2016 was determined to be 9 March 2016. The measurement dates for awards made during the year ended 30 November 2017 were determined to be 10 March 2017 and 31 July 2017. These measurement dates were determined in accordance with IFRS 2.
- (4) The vesting of share options is service-based only. All share options vested on 5 March 2017.
- (5) The vesting of share options is service-based only. All share options will vest on 12 March 2018.
- (6) The vesting of share options is service-based only. All share options will vest on 9 March 2019.
- (7) The closing price of the Company's shares immediately before the date on which share options were awarded was HK\$49.60. The vesting of share options is service-based only. All share options will vest on 10 March 2020.
- (8) The closing price of the Company's shares immediately before the date on which share options were awarded was HK\$59.50. The vesting of share options is service-based only. All share options will vest on 1 June 2020.
- (9) The vesting of share options is service-based only. All share options vested on 1 April 2014.
- (10) The vesting of share options is service-based only. One-third of share options vested on 1 April 2014, one-third vested on 1 April 2015, and one-third vested on 1 April 2016.
- (11) The vesting of share options is service-based only. All share options vested on 15 March 2015.
- (12) The vesting of share options is service-based only. All share options vested on 11 March 2016.
- (13) The vesting of share options is service-based only. All share options vested on 14 April 2017.
- (14) These share options lapsed or were reclassified during the year ended 30 November 2017. The reclassification of share options was a result of the appointment of Mr. Ng Keng Hooi as Group Chief Executive and President, three executives who were previously categorised as "Other eligible employees and participants" becoming "Key Management Personnel" and one executive who was previously categorised as "Key Management Personnel" becoming "Other eligible employees and participants" during the year. There were no cancelled share options during the year ended 30 November 2017.
- (15) Includes share options outstanding as at 30 November 2017 that, in accordance with the SO Scheme rules, will lapse on or before the end of the respective periods during which the share options are exercisable.

## EMPLOYEE SHARE PURCHASE PLAN

The Company adopted the Employee Share Purchase Plan (ESPP) on 25 July 2011 (ESPP Adoption Date).

Under the ESPP, eligible employees of the Group may elect to purchase the Company's shares and, after having been in the plan for three years, receive one matching share for two shares purchased through the award of matching restricted stock purchase units (RSPUs). Each eligible employee's participation level is currently capped at a maximum purchase in any plan year of 8 per cent of his or her basic salary or HK\$117,000 (or local equivalent), whichever is lower.

Upon vesting of the matching RSPUs, those employees who are still in employment with the Group will receive one share for each RSPU which he or she holds. Such shares can either be purchased on market by the trustee of the ESPP or through the issuance of new shares by the Company.

The aggregate number of shares which can be issued by the Company under the ESPP for the 10-year period shall not exceed 2.5 per cent of the number of shares in issue on the ESPP Adoption Date. For further information on the ESPP, please refer to note 38 to the financial statements.

During the year ended 30 November 2017, 1,394,227 matching RSPUs were awarded by the Company, 740,819 matching RSPUs vested and no new shares have been issued pursuant to the ESPP.

Since the ESPP Adoption Date and up to 30 November 2017, a cumulative total of 2,638,196 matching RSPUs vested under the ESPP, representing 0.022 per cent of the shares in issue as at the ESPP Adoption Date, and no new shares have been issued under the ESPP.

## **DIRECTORS AND KEY MANAGEMENT PERSONNEL EMOLUMENTS**

### **EXECUTIVE DIRECTORS**

Mr. Ng Keng Hooi, previously Regional Chief Executive Officer, was appointed as Group Chief Executive and President as well as Executive Director with effect from 1 June 2017. Mr. Ng Keng Hooi replaced Mr. Mark Edward Tucker, who stepped down from the role of Group Chief Executive and President on 1 June 2017 and was on garden leave until 30 September 2017.

In the role of Group Chief Executive and President, Mr. Ng Keng Hooi and Mr. Mark Edward Tucker received remuneration exclusively for their role and received no separate fees for their role as a Board Director or for acting as a director of any subsidiary companies.

The table below provides details of annual target remuneration, excluding benefits and allowances, for the role of Group Chief Executive and President during the years ended 30 November 2016 and 2017.

US\$	Basic salary <sup>(1)</sup>	Annual Target Pay Opportunity		Total
		Target short-term incentive	Target long-term incentive	
<b>Mr. Ng Keng Hooi</b>				
2017	992,841	1,500,000	3,000,000	5,492,841
<b>Mr. Mark Edward Tucker</b>				
2017	1,608,000	2,412,000	6,834,000	10,854,000
2016	1,545,300	2,318,000	6,567,500	10,430,800

Note:

(1) Mr. Ng Keng Hooi's basic salary is paid in Hong Kong Dollar, the annual amount is HK\$7,752,000.

The target remuneration levels shown in the table above for 2017 are the annualised amounts for both Mr. Ng Keng Hooi and Mr. Mark Edward Tucker.

In recognition of Mr. Mark Edward Tucker's significant contribution and performance in leading the Group over the past seven years, the Remuneration Committee determined to pay his remuneration and short-term incentive for the full 2017 financial year.

Mr. Mark Edward Tucker's 2015, 2016 and 2017 unvested awards under the RSU Scheme and SO Scheme were pro-rated based on the number of months served from the respective grant date until 30 November 2017, as set out on pages 114 and 116. The pro-rated awards will vest on the normal vesting dates subject to the respective performance conditions.

Details of the actual remuneration costs incurred by the Company during the year ended 30 November 2017 in relation to the Group Chief Executive and President are included in note 39 to the financial statements.

## **NON-EXECUTIVE DIRECTORS**

Remuneration for the Non-executive Directors and Independent Non-executive Directors was paid in respect of the year ended 30 November 2017 and included the fees for their services provided to the Board Committees.

All remuneration of the Non-executive Directors and Independent Non-executive Directors was on a flat annual fee basis, with no variable component linked to either corporate or individual performance.

Details of the Non-executive Directors' remuneration cost incurred by the Company during the year ended 30 November 2017 are included in note 39 to the financial statements.

## **KEY MANAGEMENT PERSONNEL**

The total remuneration cost charged to the consolidated income statement for the Key Management Personnel during the year ended 30 November 2017 was US\$52,744,104.

Details of remuneration provided during the year are included in note 39 to the financial statements

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## TO THE SHAREHOLDERS OF AIA GROUP LIMITED

*(incorporated in Hong Kong with limited liability)*

### Opinion

#### *What we have audited*

The consolidated financial statements of AIA Group Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 128 to 239, which comprise:

- the consolidated statement of financial position as at 30 November 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 November 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### Independence

We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters identified relate to the valuation of insurance contract liabilities and the amortisation of deferred acquisition costs (“DAC”).

Key audit matter	How our audit addressed the key audit matter
<p><b>a) Valuation of insurance contract liabilities</b></p> <p>Refer to the following notes in the consolidated financial statements: Note 2.4 for related accounting policies, Note 3 for critical accounting estimates and judgements, Note 25 and Note 27.</p> <p>As at 30 November 2017 the Group has insurance contract liabilities of US\$148,897 million.</p> <p>The Director’s valuation of these insurance contract liabilities involves significant judgement about uncertain future outcomes, including mortality, morbidity, persistency, expense, investment return, valuation interest rates and provision for adverse deviation, as well as complex valuation methodologies.</p> <p>The liabilities for traditional participating life assurance policies with discretionary participation features and non-participating life assurance policies, annuities and policies related to other protection products are determined by a net level premium valuation method using best estimate assumptions at policy inception adjusted for adverse deviation. These assumptions remain locked in thereafter, subject to meeting a liability adequacy test which compares the liabilities with a valuation on current best estimate assumptions.</p>	<p>We performed the following audit procedures to address this matter:</p> <ul style="list-style-type: none"> <li>• We assessed the valuation methodologies used, identified changes in methodologies from previous valuation and assessed the reasonableness and impact for material changes identified, by applying our industry knowledge and experience to compare whether the methodologies and changes to those are consistent with recognised actuarial practices and expectation derived from market experience.</li> <li>• We assessed the reasonableness of the key assumptions including those for mortality, morbidity, persistency, expense, investment return and valuation interest rates as well as provision for adverse deviation. Our assessment of the assumptions included:               <ul style="list-style-type: none"> <li>• Obtaining an understanding of, and testing, the controls in place to determine the assumptions;</li> <li>• Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience;</li> </ul> </li> </ul>

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## Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><b>a) Valuation of insurance contract liabilities</b> (continued)</p> <p>Insurance contract liabilities for universal life and unit-linked policies are based on the value of the account balance together with liabilities for unearned revenue and additional insurance benefits which are dependent upon operating assumptions and future investment return assumptions that are reassessed at each reporting period.</p> <p>As part of our consideration of assumptions, we have focused on those insurance contracts where the assumptions are reassessed at each reporting date as well as how assumptions are set at policy inception dates.</p> <p>We have, in relation to valuation methodologies used, focused on changes in methodologies from the previous valuation as well as methodologies applied to material new product types (as applicable).</p>	<ul style="list-style-type: none"> <li>Challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.</li> <li>We checked the calculation of the liability adequacy test and assessed the related results in order to ascertain whether the insurance contract liabilities used for the in-force business are adequate in the context of a valuation on current best estimate assumptions.</li> </ul> <p>Based upon the work performed, we found the methodologies and assumptions used by management to be appropriate, including those used in the liability adequacy test.</p>
<p><b>b) Amortisation of DAC</b></p> <p>Refer to the following notes in the consolidated financial statements: Note 2.4.1 for related accounting policies, Note 3.3 for critical accounting estimates and judgements and Note 18.</p> <p>As at 30 November 2017, the Group has reported DAC of US\$21,847 million.</p> <p>The amortisation of DAC for traditional life insurance policies and annuities are amortised over the expected life of the policies as a constant percentage of premiums and involve less judgement by the Directors compared to universal life and unit-linked policies. Expected premiums are estimated at the date of policy issue.</p>	<p>We performed the following audit procedures to address this matter:</p> <ul style="list-style-type: none"> <li>Reviewed and challenged the basis of amortisation of DAC in the context of the Group's accounting policy and the appropriateness of the assumptions used in determining the estimated gross profits used for amortisation for universal life and unit-linked policies. This included those for mortality, morbidity, persistency, expense and investment returns by comparing against past experience, market observable data (as applicable) and our experience of market practice.</li> </ul>

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**Key Audit Matters** (continued)

Key audit matter	How our audit addressed the key audit matter
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**b) Amortisation of DAC** (continued)

The amortisation of DAC for universal life and unit-linked policies involves greater judgement by the Directors. For these contracts, DAC is 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 are revised regularly and significant judgement is exercised in making appropriate estimates of gross profits.

Based upon the work performed, we found the assumptions used in relation to the amortisation of DAC for universal life and unit-linked policies to be appropriate.

As part of our audit we have focused on DAC related to universal life and unit-linked policies where the assumptions are reassessed at each reporting date.

**Other Information**

The Directors of the Company are responsible for the other information. The other information comprises the Group Chief Executive and President's Report, Financial Review, Business Review, Regulatory and International Developments, Supplementary Embedded Value Information and our auditor's report thereon and Glossary (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Financial Highlights, Chairman's Statement, Risk Management, Our People, Corporate Social Responsibility, Statement of Directors' Responsibilities, Board of Directors, Executive Committee, Report of the Directors, Corporate Governance Report, Remuneration Report, Information for Shareholders and Corporate Information, which are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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#### **Other Information** (continued)

When we read the Financial Highlights, Chairman's Statement, Risk Management, Our People, Corporate Social Responsibility, Statement of Directors' Responsibilities, Board of Directors, Executive Committee, Report of the Directors, Corporate Governance Report, Remuneration Report, Information for Shareholders and Corporate Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate action considering our legal rights and obligations.

#### **Other Matter**

The Group has prepared Supplementary Embedded Value Information as at and for the year ended 30 November 2017 in accordance with the embedded value basis of preparation set out in Sections 4 and 5 of the Supplementary Embedded Value Information, on which we issued a separate auditor's report to the Board of Directors of the Company dated 27 February 2018.

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

The Directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and with IFRSs issued by the 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.

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

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

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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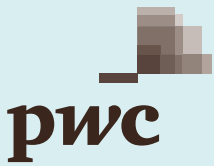
### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

(continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

(continued)

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lars Christian Jordy Nielsen.

### PricewaterhouseCoopers

*Certified Public Accountants*

Hong Kong

27 February 2018

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**FINANCIAL STATEMENTS**  
**CONSOLIDATED INCOME STATEMENT**

US\$m	Notes	Year ended 30 November 2017	Year ended 30 November 2016
<b>REVENUE</b>			
Premiums and fee income		<b>26,986</b>	21,757
Premiums ceded to reinsurers		<b>(1,497)</b>	(1,313)
Net premiums and fee income		<b>25,489</b>	20,444
Investment return	8	<b>12,622</b>	7,555
Other operating revenue	8	<b>219</b>	197
<b>Total revenue</b>		<b>38,330</b>	28,196
<b>EXPENSES</b>			
Insurance and investment contract benefits		<b>26,108</b>	19,340
Insurance and investment contract benefits ceded		<b>(1,267)</b>	(1,119)
<b>Net insurance and investment contract benefits</b>		<b>24,841</b>	18,221
Commission and other acquisition expenses		<b>3,455</b>	2,735
Operating expenses		<b>1,969</b>	1,752
Finance costs		<b>183</b>	149
Other expenses		<b>567</b>	462
<b>Total expenses</b>	9	<b>31,015</b>	23,319
<b>Profit before share of losses from associates and joint venture</b>		<b>7,315</b>	4,877
Share of losses from associates and joint venture		<b>–</b>	(5)
<b>Profit before tax</b>		<b>7,315</b>	4,872
Income tax expense attributable to policyholders' returns		<b>(128)</b>	(62)
<b>Profit before tax attributable to shareholders' profits</b>		<b>7,187</b>	4,810
Tax expense	10	<b>(1,128)</b>	(660)
Tax attributable to policyholders' returns		<b>128</b>	62
Tax expense attributable to shareholders' profits		<b>(1,000)</b>	(598)
<b>Net profit</b>		<b>6,187</b>	4,212
<i>Net profit attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>6,120</b>	4,164
Non-controlling interests		<b>67</b>	48
<b>EARNINGS PER SHARE (US\$)</b>			
Basic	11	<b>0.51</b>	0.35
Diluted	11	<b>0.51</b>	0.35

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US\$m	Year ended 30 November 2017	Year ended 30 November 2016
<b>Net profit</b>	<b>6,187</b>	4,212
<b>OTHER COMPREHENSIVE INCOME</b>		
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on available for sale financial assets (net of tax of: 2017: US\$297m; 2016: US\$8m)	<b>1,197</b>	869
Fair value (gains)/losses on available for sale financial assets transferred to income on disposal and impairment (net of tax of: 2017: US\$19m; 2016: US\$6m)	<b>(161)</b>	2
Foreign currency translation adjustments	<b>1,028</b>	(412)
Cash flow hedges	<b>(11)</b>	1
Share of other comprehensive (expense)/income from associates and joint venture	<b>(24)</b>	43
Subtotal	<b>2,029</b>	503
Items that will not be reclassified subsequently to profit or loss:		
Revaluation gains on property held for own use (net of tax of: 2017: US\$(14)m; 2016: US\$(66)m)	<b>78</b>	309
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: 2017: nil; 2016: US\$1m)	<b>18</b>	(21)
Subtotal	<b>96</b>	288
Total other comprehensive income	<b>2,125</b>	791
<b>Total comprehensive income</b>	<b>8,312</b>	5,003
<i>Total comprehensive income attributable to:</i>		
<b>Shareholders of AIA Group Limited</b>	<b>8,250</b>	4,968
Non-controlling interests	<b>62</b>	35

**FINANCIAL STATEMENTS**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

US\$m	Notes	As at 30 November 2017	As at 30 November 2016
<b>ASSETS</b>			
Intangible assets	13	<b>1,864</b>	1,743
Investments in associates and joint venture	14	<b>642</b>	650
Property, plant and equipment	15	<b>1,213</b>	1,132
Investment property	16	<b>4,365</b>	3,910
Reinsurance assets	17	<b>2,481</b>	2,046
Deferred acquisition and origination costs	18	<b>21,847</b>	18,898
<b>Financial investments:</b>	19, 21		
Loans and deposits		<b>7,973</b>	7,062
Available for sale			
Debt securities		<b>105,466</b>	90,092
At fair value through profit or loss			
Debt securities		<b>25,702</b>	23,526
Equity securities		<b>36,716</b>	30,211
Derivative financial instruments	20	<b>363</b>	107
		<b>176,220</b>	150,998
Deferred tax assets	10	<b>9</b>	7
Current tax recoverable		<b>131</b>	59
Other assets	22	<b>4,630</b>	3,989
Cash and cash equivalents	24	<b>2,289</b>	1,642
<b>Total assets</b>		<b>215,691</b>	185,074
<b>LIABILITIES</b>			
Insurance contract liabilities	25	<b>148,897</b>	128,186
Investment contract liabilities	26	<b>8,082</b>	7,028
Borrowings	28	<b>3,958</b>	3,460
Obligations under repurchase agreements	29	<b>1,883</b>	1,984
Derivative financial instruments	20	<b>361</b>	644
Provisions	31	<b>234</b>	253
Deferred tax liabilities	10	<b>3,595</b>	3,276
Current tax liabilities		<b>421</b>	210
Other liabilities	32	<b>5,888</b>	4,723
<b>Total liabilities</b>		<b>173,319</b>	149,764

US\$m	Notes	As at 30 November 2017	As at 30 November 2016
<b>EQUITY</b>			
Share capital	33	<b>14,065</b>	13,998
Employee share-based trusts	33	<b>(297)</b>	(351)
Other reserves	33	<b>(11,948)</b>	(11,954)
Retained earnings		<b>34,087</b>	29,334
Fair value reserve	33	<b>6,336</b>	5,352
Foreign currency translation reserve	33	<b>(751)</b>	(1,812)
Property revaluation reserve	33	<b>527</b>	449
Others		<b>(25)</b>	(32)
Amounts reflected in other comprehensive income		<b>6,087</b>	3,957
<i>Total equity attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>41,994</b>	34,984
Non-controlling interests	34	<b>378</b>	326
<b>Total equity</b>		<b>42,372</b>	35,310
<b>Total liabilities and equity</b>		<b>215,691</b>	185,074

Approved and authorised for issue by the Board of Directors on 27 February 2018.



**Ng Keng Hooi**  
Director



**Edmund Sze-Wing Tse**  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$m	Note	Other comprehensive income									
		Share capital	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	Total equity
<b>Balance at 1 December 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>
Net profit		-	-	-	6,120	-	-	-	-	67	6,187
Fair value gains/(losses) on available for sale financial assets		-	-	-	-	1,202	-	-	-	(5)	1,197
Fair value gains on available for sale financial assets transferred to income on disposal		-	-	-	-	(161)	-	-	-	-	(161)
Foreign currency translation adjustments		-	-	-	-	-	1,028	-	-	-	1,028
Cash flow hedges		-	-	-	-	-	-	-	(11)	-	(11)
Share of other comprehensive (expense)/income from associates and joint venture		-	-	-	-	(57)	33	-	-	-	(24)
Revaluation gains on property held for own use		-	-	-	-	-	-	78	-	-	78
Effect of remeasurement of net liability of defined benefit schemes		-	-	-	-	-	-	-	18	-	18
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>6,120</b>	<b>984</b>	<b>1,061</b>	<b>78</b>	<b>7</b>	<b>62</b>	<b>8,312</b>
Dividends	12	-	-	-	(1,376)	-	-	-	-	(14)	(1,390)
Shares issued under share option scheme and agency share purchase plan		67	-	-	-	-	-	-	-	-	67
Capital contributions from non-controlling interests		-	-	-	-	-	-	-	-	4	4
Share-based compensation		-	-	79	-	-	-	-	-	-	79
Purchase of shares held by employee share-based trusts		-	(10)	-	-	-	-	-	-	-	(10)
Transfer of vested shares from employee share-based trusts		-	64	(64)	-	-	-	-	-	-	-
Others		-	-	(9)	9	-	-	-	-	-	-
<b>Balance at 30 November 2017</b>		<b>14,065</b>	<b>(297)</b>	<b>(11,948)</b>	<b>34,087</b>	<b>6,336</b>	<b>(751)</b>	<b>527</b>	<b>(25)</b>	<b>378</b>	<b>42,372</b>



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 2015</b>		13,971	(321)	(11,978)	26,294	4,414	(1,389)	140	(12)	303	31,422
Opening adjustments on revaluation gains on property held for own use		-	-	-	-	-	-	259	-	-	259
Net profit		-	-	-	4,164	-	-	-	-	48	4,212
Fair value gains/(losses) on available for sale financial assets		-	-	-	-	874	-	-	-	(5)	869
Fair value losses on available for sale financial assets transferred to income on disposal and impairment		-	-	-	-	2	-	-	-	-	2
Foreign currency translation adjustments		-	-	-	-	-	(404)	-	-	(8)	(412)
Cash flow hedges		-	-	-	-	-	-	-	1	-	1
Share of other comprehensive income/(expense) from associates and joint venture		-	-	-	-	62	(19)	-	-	-	43
Revaluation gains on property held for own use		-	-	-	-	-	-	50	-	-	50
Effect of remeasurement of net liability of defined benefit schemes		-	-	-	-	-	-	-	(21)	-	(21)
<b>Total comprehensive income/(expense) for the year</b>		-	-	-	4,164	938	(423)	309	(20)	35	5,003
Dividends	12	-	-	-	(1,124)	-	-	-	-	(12)	(1,136)
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)	-	-	-	-	-	-	-
Others		-	-	(6)	-	-	-	-	-	-	(6)
<b>Balance at 30 November 2016</b>		13,998	(351)	(11,954)	29,334	5,352	(1,812)	449	(32)	326	35,310

## CONSOLIDATED STATEMENT OF CASH FLOWS

US\$m	Notes	Year ended 30 November 2017	Year ended 30 November 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit before tax</b>		<b>7,315</b>	4,872
Adjustments for:			
Financial investments		<b>(18,413)</b>	(13,438)
Insurance and investment contract liabilities		<b>14,312</b>	11,794
Obligations under repurchase agreements	29	<b>(219)</b>	(1,019)
Other non-cash operating items, including investment income and the effect of exchange rate changes on certain operating items		<b>(7,242)</b>	(6,164)
Operating cash items:			
Interest received		<b>5,627</b>	5,261
Dividends received		<b>703</b>	645
Interest paid		<b>(50)</b>	(39)
Tax paid		<b>(582)</b>	(548)
<b>Net cash provided by operating activities</b>		<b>1,451</b>	1,364
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for intangible assets	13	<b>(151)</b>	(64)
(Contribution to)/distribution or dividend from associates and joint venture	14	<b>(6)</b>	2
Proceeds for sale of property, plant and equipment	15	<b>20</b>	–
Payments for investment property and property, plant and equipment	15, 16	<b>(104)</b>	(181)
Payments for increase in interest of an associate		<b>–</b>	(310)
<b>Net cash used in investing activities</b>		<b>(241)</b>	(553)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of medium-term notes	28	<b>497</b>	733
Interest paid on medium-term notes		<b>(136)</b>	(108)
Repayment of medium-term notes	28	<b>–</b>	(150)
Net repayment of other borrowings	28	<b>(1)</b>	(323)
Capital contributions from non-controlling interests		<b>4</b>	–
Dividends paid during the year		<b>(1,390)</b>	(1,136)
Purchase of shares held by employee share-based trusts		<b>(10)</b>	(86)
Shares issued under share option scheme and agency share purchase plan		<b>67</b>	27
<b>Net cash used in financing activities</b>		<b>(969)</b>	(1,043)
Net increase/(decrease) in cash and cash equivalents		<b>241</b>	(232)
Cash and cash equivalents at beginning of the financial year		<b>1,482</b>	1,750
Effect of exchange rate changes on cash and cash equivalents		<b>64</b>	(36)
<b>Cash and cash equivalents at end of the financial year</b>		<b>1,787</b>	1,482

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 2017	Year ended 30 November 2016
Cash and cash equivalents in the consolidated statement of financial position	24	<b>2,289</b>	1,642
Bank overdrafts		<b>(502)</b>	(160)
<b>CASH AND CASH EQUIVALENTS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS</b>		<b>1,787</b>	1,482

## 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 27 February 2018.

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 as follows.

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)**2.1 Basis of preparation and statement of compliance** (continued)

(a) The following relevant new amendments to standards have been adopted for the first time for the financial year ended 30 November 2017 and have no material impact to the Group:

- Amendments to IAS 1, Disclosure Initiative;
- Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation;
- Amendments to IAS 19, Employee Benefits, Discount rate: regional market issue;
- Amendments to IAS 27, Equity Method in Separate Financial Statements;
- Amendments to IAS 34, Interim Financial Reporting, Disclosure of Information 'elsewhere in the interim financial report';
- Amendments to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, Changes in methods of disposal;
- Amendments to IFRS 7, Financial Instruments: Disclosure, Servicing Contracts and Applicability of the Amendments to IFRS 7 to Condensed Interim Financial Statements; and
- Amendments to IFRS 11, Acquisitions of Interests in Joint Operations.

(b) The following relevant new standard, interpretation and amendments to standards have been issued but are not effective for the financial year ended 30 November 2017 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);
- IFRIC 23, Uncertainty Over Income Tax Treatment (2019);
- Amendments to IAS 7, Disclosure Initiative (2018);
- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (2018);
- Amendments to IAS 12, Income Tax Consequences of Payments on Instruments Classified as Equity (2019);
- Amendments to IAS 23, Borrowing Costs Eligible for Capitalisation (2019);
- Amendments to IAS 28, Measuring an Associate or Joint Venture at Fair Value (2019);
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (2019);
- Amendments to IAS 40, Transfers of Investment Property (2019);
- IFRS 15, Revenue from Contracts with Customers and amendments thereto (2019);
- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (2019);
- Amendments to IFRS 3, Business Combinations and IFRS 11, Joint Arrangements – Remeasurement of Previously Held Interests (2019); and
- Amendments to IFRS 12, Clarification of the Scope of the Standard (2018).

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)**2.1 Basis of preparation and statement of compliance** (continued)

(c) The following relevant new standards and requirements have been issued but are not effective for the financial year ended 30 November 2017 and have not been early adopted:

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

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity's risk management strategies. The IASB made further changes to two areas of IFRS 9. Financial assets containing prepayment features with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if the cash flow represents solely payments of principal and interest. Non-substantial modifications or exchange of financial liabilities that do not result in derecognition will be required to be recognised in profit or loss. The Group is yet to fully assess the impact of the above new requirements and changes, but the impact is not expected to be material.

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

- On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and IFRS 17, Insurance Contracts. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of IFRS 17 and the financial 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 IFRS 17 is applied. Based on the amendments to IFRS 4, the Group is eligible for and will elect to apply the temporary option to defer the effective date of IFRS 9 in order to implement the changes in parallel with IFRS 17, Insurance Contracts.
- IFRS 17, Insurance Contracts (previously IFRS 4 Phase II) will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, IFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. On 12 December 2017, the Hong Kong Institute of Certified Public Accountants ("HKICPA") approved the issuance of HKFRS 17, Insurance Contracts. The Group is in the midst of conducting a detailed assessment of the new standards. The standards are mandatorily effective for financial periods beginning on or after 1 January 2021.

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)**2.1 Basis of preparation and statement of compliance** (continued)

(c) The following relevant new standards and requirements have been issued but are not effective for the financial year ended 30 November 2017 and have not been early adopted: (continued)

- 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 financial periods beginning on or after 1 January 2019.

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.

**2.2 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. SIGNIFICANT ACCOUNTING POLICIES** (continued)**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 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.

**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.



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Basis of consolidation (continued)

#### 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 policyholder 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)**Product classification** (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)**Product classification** (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)**Product classification** (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)**Product classification** (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, 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 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.

**2.23 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. SIGNIFICANT ACCOUNTING POLICIES** (continued)**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.

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.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS** (continued)**3.2 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. 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.

**3.4 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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS** (continued)**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.

**3.5.2 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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### 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.

#### 3.7 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 2017	Year ended 30 November 2016
Hong Kong	<b>7.79</b>	7.76
Thailand	<b>34.15</b>	35.30
Singapore	<b>1.39</b>	1.38
Malaysia	<b>4.33</b>	4.13
China	<b>6.78</b>	6.60

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

	US dollar exchange rates	
	As at 30 November 2017	As at 30 November 2016
Hong Kong	<b>7.81</b>	7.76
Thailand	<b>32.62</b>	35.61
Singapore	<b>1.35</b>	1.43
Malaysia	<b>4.09</b>	4.47
China	<b>6.61</b>	6.89

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 2017	Year ended 30 November 2016
<b>Operating profit after tax</b>	7	<b>4,682</b>	4,013
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 2017: US\$(117)m; 2016: US\$(4)m)		<b>1,764</b>	97
Other non-operating investment return and other items (net of tax of 2017: US\$40m; 2016: US\$169m)		<b>(259)</b>	102
<b>Net profit</b>		<b>6,187</b>	4,212
<i>Operating profit after tax attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>4,647</b>	3,981
Non-controlling interests		<b>35</b>	32
<i>Net profit attributable to:</i>			
<b>Shareholders of AIA Group Limited</b>		<b>6,120</b>	4,164
Non-controlling interests		<b>67</b>	48

Operating profit is determined using, among others, expected long-term investment return 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 used to determine expected long-term investment return are based on the same assumptions used 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 2017	Year ended 30 November 2016
<b>TWPI by geography</b>		
Hong Kong	<b>9,434</b>	6,873
Thailand	<b>3,517</b>	3,327
Singapore	<b>2,421</b>	2,276
Malaysia	<b>1,823</b>	1,795
China	<b>3,092</b>	2,384
Other Markets	<b>5,860</b>	5,478
<b>Total</b>	<b>26,147</b>	22,133
<b>First year premiums by geography</b>		
Hong Kong	<b>2,586</b>	2,065
Thailand	<b>477</b>	439
Singapore	<b>277</b>	261
Malaysia	<b>286</b>	276
China	<b>928</b>	585
Other Markets	<b>925</b>	872
<b>Total</b>	<b>5,479</b>	4,498
<b>Single premiums by geography</b>		
Hong Kong	<b>2,417</b>	1,761
Thailand	<b>194</b>	163
Singapore	<b>1,433</b>	1,443
Malaysia	<b>187</b>	167
China	<b>150</b>	194
Other Markets	<b>622</b>	619
<b>Total</b>	<b>5,003</b>	4,347
<b>Renewal premiums by geography</b>		
Hong Kong	<b>6,606</b>	4,632
Thailand	<b>3,021</b>	2,872
Singapore	<b>2,001</b>	1,871
Malaysia	<b>1,518</b>	1,502
China	<b>2,149</b>	1,779
Other Markets	<b>4,873</b>	4,544
<b>Total</b>	<b>20,168</b>	17,200

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

ANP US\$m	Year ended 30 November 2017	Year ended 30 November 2016
<b>ANP by geography</b>		
Hong Kong	<b>2,849</b>	2,294
Thailand	<b>518</b>	471
Singapore	<b>433</b>	427
Malaysia	<b>348</b>	341
China	<b>968</b>	621
Other Markets	<b>976</b>	969
<b>Total</b>	<b>6,092</b>	5,123

**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 (including New Zealand), Cambodia, Indonesia, Korea, 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.

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 2017								
<b>ANP</b>	<b>2,849</b>	<b>518</b>	<b>433</b>	<b>348</b>	<b>968</b>	<b>976</b>	<b>–</b>	<b>6,092</b>
<b>TWPI</b>	<b>9,434</b>	<b>3,517</b>	<b>2,421</b>	<b>1,823</b>	<b>3,092</b>	<b>5,860</b>	<b>–</b>	<b>26,147</b>
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	<b>10,828</b>	<b>3,532</b>	<b>2,837</b>	<b>1,610</b>	<b>3,006</b>	<b>3,888</b>	<b>7</b>	<b>25,708</b>
Investment return	<b>2,148</b>	<b>1,189</b>	<b>1,083</b>	<b>547</b>	<b>734</b>	<b>1,057</b>	<b>338</b>	<b>7,096</b>
<b>Total revenue</b>	<b>12,976</b>	<b>4,721</b>	<b>3,920</b>	<b>2,157</b>	<b>3,740</b>	<b>4,945</b>	<b>345</b>	<b>32,804</b>
Net insurance and investment contract benefits	<b>9,454</b>	<b>2,659</b>	<b>2,822</b>	<b>1,439</b>	<b>2,406</b>	<b>2,603</b>	<b>4</b>	<b>21,387</b>
Commission and other acquisition expenses	<b>1,213</b>	<b>739</b>	<b>347</b>	<b>210</b>	<b>181</b>	<b>752</b>	<b>1</b>	<b>3,443</b>
Operating expenses	<b>407</b>	<b>199</b>	<b>181</b>	<b>164</b>	<b>278</b>	<b>552</b>	<b>188</b>	<b>1,969</b>
Finance costs and other expenses	<b>117</b>	<b>49</b>	<b>27</b>	<b>11</b>	<b>28</b>	<b>42</b>	<b>126</b>	<b>400</b>
<b>Total expenses</b>	<b>11,191</b>	<b>3,646</b>	<b>3,377</b>	<b>1,824</b>	<b>2,893</b>	<b>3,949</b>	<b>319</b>	<b>27,199</b>
Share of profit from associates and joint venture	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Operating profit before tax</b>	<b>1,785</b>	<b>1,075</b>	<b>543</b>	<b>333</b>	<b>847</b>	<b>996</b>	<b>26</b>	<b>5,605</b>
Tax on operating profit before tax	<b>(137)</b>	<b>(210)</b>	<b>(39)</b>	<b>(59)</b>	<b>(208)</b>	<b>(217)</b>	<b>(53)</b>	<b>(923)</b>
<b>Operating profit after tax</b>	<b>1,648</b>	<b>865</b>	<b>504</b>	<b>274</b>	<b>639</b>	<b>779</b>	<b>(27)</b>	<b>4,682</b>
<i>Operating profit after tax attributable to:</i>								
<b>Shareholders of AIA Group Limited</b>	<b>1,636</b>	<b>865</b>	<b>504</b>	<b>272</b>	<b>639</b>	<b>758</b>	<b>(27)</b>	<b>4,647</b>
Non-controlling interests	<b>12</b>	<b>–</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>21</b>	<b>–</b>	<b>35</b>
<b>Key operating ratios:</b>								
Expense ratio	<b>4.3%</b>	<b>5.7%</b>	<b>7.5%</b>	<b>9.0%</b>	<b>9.0%</b>	<b>9.4%</b>	<b>–</b>	<b>7.5%</b>
Operating margin	<b>17.5%</b>	<b>24.6%</b>	<b>20.8%</b>	<b>15.0%</b>	<b>20.7%</b>	<b>13.3%</b>	<b>–</b>	<b>17.9%</b>
Operating return on shareholders' allocated equity	<b>23.6%</b>	<b>17.5%</b>	<b>18.5%</b>	<b>19.1%</b>	<b>20.4%</b>	<b>12.8%</b>	<b>–</b>	<b>14.2%</b>
Operating profit before tax includes:								
Finance costs	<b>29</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>16</b>	<b>2</b>	<b>104</b>	<b>157</b>
Depreciation and amortisation	<b>37</b>	<b>10</b>	<b>16</b>	<b>17</b>	<b>17</b>	<b>40</b>	<b>12</b>	<b>149</b>

**7. SEGMENT INFORMATION** (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
30 November 2017								
<b>Total assets</b>	<b>65,485</b>	<b>31,319</b>	<b>35,922</b>	<b>14,347</b>	<b>19,915</b>	<b>37,145</b>	<b>11,558</b>	<b>215,691</b>
<b>Total liabilities</b>	<b>54,023</b>	<b>24,358</b>	<b>32,501</b>	<b>12,806</b>	<b>16,789</b>	<b>29,172</b>	<b>3,670</b>	<b>173,319</b>
<b>Total equity</b>	<b>11,462</b>	<b>6,961</b>	<b>3,421</b>	<b>1,541</b>	<b>3,126</b>	<b>7,973</b>	<b>7,888</b>	<b>42,372</b>
<b>Shareholders' allocated equity</b>	<b>7,909</b>	<b>5,510</b>	<b>2,961</b>	<b>1,524</b>	<b>3,391</b>	<b>6,430</b>	<b>7,933</b>	<b>35,658</b>
Net capital (out)/in flows	(952)	(467)	(238)	(192)	(207)	(50)	866	(1,240)
Total assets include:								
Investments in associates and joint venture	-	-	1	6	-	635	-	642

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 2017					
Net premiums, fee income and other operating revenue	<b>25,708</b>	-	-	<b>25,708</b>	Net premiums, fee income and other operating revenue
Investment return	<b>7,096</b>	<b>2,314</b>	<b>3,212</b>	<b>12,622</b>	Investment return
<b>Total revenue</b>	<b>32,804</b>	<b>2,314</b>	<b>3,212</b>	<b>38,330</b>	<b>Total revenue</b>
Net insurance and investment contract benefits	<b>21,387</b>	<b>433</b>	<b>3,021</b>	<b>24,841</b>	Net insurance and investment contract benefits
Other expenses	<b>5,812</b>	-	<b>362</b>	<b>6,174</b>	Other expenses
<b>Total expenses</b>	<b>27,199</b>	<b>433</b>	<b>3,383</b>	<b>31,015</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>5,605</b>	<b>1,881</b>	<b>(171)</b>	<b>7,315</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	Group Corporate Centre	Total
Year ended 30 November 2016								
<b>ANP</b>	2,294	471	427	341	621	969	–	5,123
<b>TWPI</b>	6,873	3,327	2,276	1,795	2,384	5,478	–	22,133
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	7,172	3,271	2,659	1,621	2,267	3,655	(4)	20,641
Investment return	1,788	1,056	1,024	541	663	1,025	327	6,424
<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	6,311	2,541	2,672	1,474	1,937	2,588	(11)	17,512
Commission and other acquisition expenses	790	609	303	183	146	655	–	2,686
Operating expenses	310	184	161	163	235	515	184	1,752
Finance costs and other expenses	104	38	16	11	12	43	110	334
<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	–	–	–	–	–	(5)	–	(5)
<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	(101)	(187)	(78)	(64)	(131)	(192)	(10)	(763)
<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	10	–	–	2	–	20	–	32
<b>Key operating ratios:</b>								
Expense ratio	4.5%	5.5%	7.1%	9.1%	9.9%	9.4%	–	7.9%
Operating margin	19.6%	23.1%	19.9%	14.9%	19.7%	12.4%	–	18.1%
Operating return on shareholders' allocated equity	22.9%	19.0%	19.1%	19.7%	17.0%	13.5%	–	14.1%
Operating profit before tax includes:								
Finance costs	28	5	7	2	19	2	86	149
Depreciation and amortisation	23	9	13	17	13	37	15	127

**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>	52,916	26,800	31,087	12,409	18,672	33,011	10,179	185,074								
<b>Total liabilities</b>	45,166	21,163	28,345	11,079	15,064	25,881	3,066	149,764								
<b>Total equity</b>	7,750	5,637	2,742	1,330	3,608	7,130	7,113	35,310								
<b>Shareholders' allocated equity</b>	5,935	4,400	2,502	1,331	2,864	5,369	7,231	29,632								
Net capital (out)/in flows	(1,034)	(411)	(209)	(186)	(46)	175	608	(1,103)								
Total assets include:																
Investments in associates and joint venture	<table border="1"> <tr> <td>–</td> <td>–</td> <td>1</td> <td>6</td> <td>–</td> <td>643</td> <td>–</td> <td>650</td> </tr> </table>								–	–	1	6	–	643	–	650
–	–	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	20,641	–	–	20,641	Net premiums, fee income and other operating revenue
Investment return	6,424	42	1,089	7,555	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	17,512	(59)	768	18,221	Net insurance and investment contract benefits
Other expenses	4,772	–	326	5,098	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	(5)	–	–	(5)	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.

**8. REVENUE**

**Investment return**

US\$m	Year ended 30 November 2017	Year ended 30 November 2016
Interest income	5,599	5,290
Dividend income	695	654
Rental income	151	140
<b>Investment income</b>	<b>6,445</b>	<b>6,084</b>
<b>Available for sale</b>		
Net realised gains from debt securities	180	25
Impairment of debt securities	–	(22)
<b>Net gains of available for sale financial assets reflected in the consolidated income statement</b>	<b>180</b>	<b>3</b>
<b>At fair value through profit or loss</b>		
<b>Net gains of financial assets designated at fair value through profit or loss</b>		
Net (losses)/gains of debt securities	(89)	125
Net gains of equity securities	5,789	934
<b>Net gains of financial instruments held for trading</b>		
Net losses of debt investments	–	(1)
Net fair value movement on derivatives	513	39
<b>Net gains in respect of financial instruments at fair value through profit or loss</b>	<b>6,213</b>	<b>1,097</b>
Net fair value movement of investment property	367	288
Net foreign exchange (losses)/gains	(560)	75
Other net realised (losses)/gains	(23)	8
<b>Investment experience</b>	<b>6,177</b>	<b>1,471</b>
<b>Investment return</b>	<b>12,622</b>	<b>7,555</b>

Foreign currency movements resulted in the following (losses)/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 2017	Year ended 30 November 2016
Foreign exchange (losses)/gains	(238)	36

**Other operating revenue**

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



**9. EXPENSES**

US\$m	Year ended 30 November 2017	Year ended 30 November 2016
Insurance contract benefits	<b>11,530</b>	10,501
Change in insurance contract liabilities	<b>13,366</b>	8,594
Investment contract benefits	<b>1,212</b>	245
<b>Insurance and investment contract benefits</b>	<b>26,108</b>	19,340
Insurance and investment contract benefits ceded	<b>(1,267)</b>	(1,119)
<b>Insurance and investment contract benefits, net of reinsurance ceded</b>	<b>24,841</b>	18,221
Commission and other acquisition expenses incurred	<b>5,696</b>	4,786
Deferral and amortisation of acquisition costs	<b>(2,241)</b>	(2,051)
<b>Commission and other acquisition expenses</b>	<b>3,455</b>	2,735
Employee benefit expenses	<b>1,243</b>	1,168
Depreciation	<b>65</b>	64
Amortisation	<b>53</b>	37
Operating lease rentals	<b>147</b>	122
Other operating expenses	<b>461</b>	361
<b>Operating expenses</b>	<b>1,969</b>	1,752
Investment management expenses and others	<b>397</b>	340
Depreciation on property held for own use	<b>22</b>	21
Restructuring and other non-operating costs <sup>(1)</sup>	<b>142</b>	82
Change in third-party interests in consolidated investment funds	<b>6</b>	19
<b>Other expenses</b>	<b>567</b>	462
Finance costs	<b>183</b>	149
<b>Total</b>	<b>31,015</b>	23,319

Other operating expenses include auditors' remuneration of US\$20m (2016: US\$15m), an analysis of which is set out below:

US\$m	Year ended 30 November 2017	Year ended 30 November 2016
Audit services	<b>14</b>	12
Non-audit services, including:		
Audit-related services <sup>(2)</sup>	<b>4</b>	1
Tax services	<b>1</b>	1
Other services	<b>1</b>	1
<b>Total</b>	<b>20</b>	15

Notes:

- (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.
- (2) Audit-related services for 2017 include the audit of the Supplementary Embedded Value Information as at and for the year ended 30 November 2017 (2016: nil).

**9. EXPENSES** (continued)

Finance costs may be analysed as:

US\$m	Year ended 30 November 2017	Year ended 30 November 2016
Repurchase agreements (see note 29 for details)	47	35
Medium-term notes	132	111
Other loans	4	3
<b>Total</b>	<b>183</b>	<b>149</b>

Employee benefit expenses consist of:

US\$m	Year ended 30 November 2017	Year ended 30 November 2016
Wages and salaries	1,012	936
Share-based compensation	73	79
Pension costs – defined contribution plans	72	67
Pension costs – defined benefit plans	7	11
Other employee benefit expenses	79	75
<b>Total</b>	<b>1,243</b>	<b>1,168</b>

**10. INCOME TAX**

US\$m	Year ended 30 November 2017	Year ended 30 November 2016
<b>Tax charged in the consolidated income statement</b>		
Current income tax – Hong Kong Profits Tax	124	87
Current income tax – overseas	526	392
Deferred income tax on temporary differences	478	181
<b>Total</b>	<b>1,128</b>	<b>660</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\$128m (2016: US\$62m).

**10. INCOME TAX** (continued)

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 2017	Year ended 30 November 2016
Hong Kong	<b>16.5%</b>	16.5%
Thailand	<b>20%</b>	20%
Singapore	<b>17%</b>	17%
Malaysia	<b>24%</b>	24%
China	<b>25%</b>	25%
Others	<b>12% – 30%</b>	12% – 30%

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

The table above does not include prospective changes in corporate income tax rates for Korea and Taiwan, which were enacted after 30 November 2017. For Korea, the corporate income tax rate for the portion of taxable income that exceeds 300 billion Korean Won will increase from 24.2% to 27.5% for fiscal year 2018 and onwards. For Taiwan, the corporate income tax rate will increase from 17% to 20% for fiscal year 2018 and onwards. Accordingly, the financial impact of these changes in corporate income tax rate have not been reflected in the consolidated financial statements.

During the year of 2016, 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 was recognised in profit or loss and US\$133m was recognised in other comprehensive income for the year ended 30 November 2016.

**10. INCOME TAX** (continued)

US\$m	Year ended 30 November 2017	Year ended 30 November 2016
<b>Income tax reconciliation</b>		
<b>Profit before income tax</b>	<b>7,315</b>	4,872
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	<b>1,361</b>	935
Reduction in tax payable from:		
Life insurance tax <sup>(1)</sup>	<b>(108)</b>	–
Exempt investment income	<b>(266)</b>	(166)
Amount over-provided in prior years	<b>(10)</b>	(23)
Changes in tax rate and law	<b>–</b>	(181)
Others	<b>(83)</b>	(65)
	<b>(467)</b>	(435)
Increase in tax payable from:		
Life insurance tax <sup>(1)</sup>	<b>–</b>	18
Withholding taxes	<b>17</b>	1
Disallowed expenses	<b>132</b>	81
Unrecognised deferred tax assets	<b>19</b>	30
Provisions for uncertain tax positions	<b>66</b>	30
	<b>234</b>	160
<b>Total income tax expense</b>	<b>1,128</b>	660

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 2017						
Revaluation of financial instruments	<b>(1,387)</b>	<b>(52)</b>	<b>316</b>	<b>(33)</b>	–	<b>(1,156)</b>
Deferred acquisition costs	<b>(2,196)</b>	<b>(214)</b>	–	<b>(136)</b>	–	<b>(2,546)</b>
Insurance and investment contract liabilities	<b>1,094</b>	<b>(78)</b>	–	<b>70</b>	–	<b>1,086</b>
Withholding taxes	<b>(132)</b>	<b>(16)</b>	–	<b>1</b>	–	<b>(147)</b>
Provision for expenses	<b>110</b>	<b>29</b>	–	<b>7</b>	–	<b>146</b>
Losses available for offset against future taxable income	<b>69</b>	<b>(39)</b>	–	<b>1</b>	–	<b>31</b>
Life surplus <sup>(1)</sup>	<b>(534)</b>	<b>(100)</b>	–	<b>(40)</b>	–	<b>(674)</b>
Others	<b>(293)</b>	<b>(8)</b>	–	<b>(11)</b>	<b>(14)</b>	<b>(326)</b>
<b>Total</b>	<b>(3,269)</b>	<b>(478)</b>	<b>316</b>	<b>(141)</b>	<b>(14)</b>	<b>(3,586)</b>
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>

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 of US\$316m for 2017 (2016: US\$14m), US\$297m (2016: US\$8m) relates to fair value gains and losses on available for sale financial assets and US\$19m (2016: US\$6m) 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\$52m (2016: US\$59m) 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\$62m (2016: US\$156m) in respect of unremitted earnings of operations in two jurisdictions (2016: 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 2020 (Macau and the Philippines), 2022 (Thailand and China), 2025 (Taiwan) and 2027 (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 2017	Year ended 30 November 2016
Net profit attributable to shareholders of AIA Group Limited (US\$m)	<b>6,120</b>	4,164
Weighted average number of ordinary shares in issue (million)	<b>12,000</b>	11,972
<b>Basic earnings per share (US cents per share)</b>	<b>51.00</b>	34.78

**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 2017 and 2016, 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 2017	Year ended 30 November 2016
Net profit attributable to shareholders of AIA Group Limited (US\$m)	<b>6,120</b>	4,164
Weighted average number of ordinary shares in issue (million)	<b>12,000</b>	11,972
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded under share-based compensation plans (million)	<b>37</b>	34
Weighted average number of ordinary shares for diluted earnings per share (million)	<b>12,037</b>	12,006
<b>Diluted earnings per share (US cents per share)</b>	<b>50.84</b>	34.68

At 30 November 2017, 5,340,052 share options (2016: 14,937,248) 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 2017 and 2016, 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 2017	Year ended 30 November 2016
Basic (US cents per share)	<b>38.73</b>	33.25
Diluted (US cents per share)	<b>38.61</b>	33.16

**12. DIVIDENDS**

Dividends to shareholders of the Company attributable to the year:

US\$m	Year ended 30 November 2017	Year ended 30 November 2016
Interim dividend declared and paid of 25.62 Hong Kong cents per share (2016: 21.90 Hong Kong cents per share)	<b>393</b>	338
Final dividend proposed after the reporting date of 74.38 Hong Kong cents per share (2016: 63.75 Hong Kong cents per share) <sup>(1)</sup>	<b>1,144</b>	985
	<b>1,537</b>	1,323

Note:

(1) Based upon shares outstanding at 30 November 2017 and 2016 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 27 February 2018 subject to shareholders' approval at the AGM to be held on 18 May 2018. 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 2017	Year ended 30 November 2016
Final dividend in respect of the previous financial year, approved and paid during the year of 63.75 Hong Kong cents per share (2016: 51.00 Hong Kong cents per share)	<b>983</b>	786

## 13. INTANGIBLE ASSETS

US\$m	Goodwill	Computer software	Distribution and other rights	Total
<b>Cost</b>				
At 1 December 2015	808	405	870	2,083
Additions	–	61	3	64
Disposals	–	(4)	(1)	(5)
Foreign exchange movements and others	(33)	(4)	(57)	(94)
At 30 November 2016	<b>775</b>	<b>458</b>	<b>815</b>	<b>2,048</b>
Additions	–	<b>53</b>	<b>77</b>	<b>130</b>
Disposals	–	<b>(2)</b>	–	<b>(2)</b>
Foreign exchange movements	<b>60</b>	<b>17</b>	<b>15</b>	<b>92</b>
<b>At 30 November 2017</b>	<b>835</b>	<b>526</b>	<b>907</b>	<b>2,268</b>
<b>Accumulated amortisation</b>				
At 1 December 2015	(4)	(199)	(46)	(249)
Amortisation charge for the year	–	(36)	(27)	(63)
Disposals	–	2	1	3
Foreign exchange movements	–	1	3	4
At 30 November 2016	<b>(4)</b>	<b>(232)</b>	<b>(69)</b>	<b>(305)</b>
Amortisation charge for the year	–	<b>(51)</b>	<b>(33)</b>	<b>(84)</b>
Foreign exchange movements	–	<b>(14)</b>	<b>(1)</b>	<b>(15)</b>
<b>At 30 November 2017</b>	<b>(4)</b>	<b>(297)</b>	<b>(103)</b>	<b>(404)</b>
<b>Net book value</b>				
At 30 November 2016	771	226	746	1,743
<b>At 30 November 2017</b>	<b>831</b>	<b>229</b>	<b>804</b>	<b>1,864</b>

The Group holds intangible assets for its long-term use and the annual amortisation charge of US\$84m (2016: US\$63m) approximates the amount that is expected to be recovered through consumption within 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 2017	Year ended 30 November 2016
<b>Group</b>		
Investments in associates	<b>636</b>	650
Investment in joint venture	<b>6</b>	–
<b>Total</b>	<b>642</b>	650

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 interests in its principal associates and joint venture are as follows:

	Place of incorporation	Principal activity	Type of shares held	Group's interest %	
				As at 30 November 2017	As at 30 November 2016
Tata AIA Life Insurance Company Limited	India	Insurance	Ordinary	<b>49%</b>	49%

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 and joint venture**

The investments in the associates and joint venture are 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 and joint venture.

US\$m	Year ended 30 November 2017	Year ended 30 November 2016
Carrying amount in the statement of financial position	<b>642</b>	650
Losses from continuing operations	<b>–</b>	(5)
Other comprehensive (expenses)/income	<b>(24)</b>	43
<b>Total comprehensive (expenses)/income</b>	<b>(24)</b>	38

## 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 2015	615	207	357	1,179
Additions	3	19	131	153
Disposals	(34)	(36)	(13)	(83)
Net transfers from investment property	19	–	–	19
Increase from valuation	312	–	–	312
Foreign exchange movements	(10)	(2)	(11)	(23)
<b>At 30 November 2016</b>	<b>905</b>	<b>188</b>	<b>464</b>	<b>1,557</b>
Additions	1	23	66	90
Disposals	(7)	(21)	(58)	(86)
Net transfers to investment property	(24)	–	–	(24)
Increase from valuation	62	–	–	62
Foreign exchange movements	42	11	18	71
<b>At 30 November 2017</b>	<b>979</b>	<b>201</b>	<b>490</b>	<b>1,670</b>
<b>Accumulated depreciation</b>				
At 1 December 2015	(200)	(172)	(228)	(600)
Depreciation charge for the year	(15)	(19)	(45)	(79)
Disposals	11	28	–	39
Revaluation adjustment	209	–	–	209
Foreign exchange movements	(5)	3	8	6
<b>At 30 November 2016</b>	<b>–</b>	<b>(160)</b>	<b>(265)</b>	<b>(425)</b>
Depreciation charge for the year	(16)	(18)	(47)	(81)
Disposals	5	19	37	61
Revaluation adjustment	10	–	–	10
Foreign exchange movements	1	(9)	(14)	(22)
<b>At 30 November 2017</b>	<b>–</b>	<b>(168)</b>	<b>(289)</b>	<b>(457)</b>
<b>Net book value</b>				
At 30 November 2016	905	28	199	1,132
<b>At 30 November 2017</b>	<b>979</b>	<b>33</b>	<b>201</b>	<b>1,213</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 (2016: 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\$72m (2016: US\$521m) 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\$373m (2016: US\$393m). 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 2015	3,659
Additions and capitalised subsequent expenditures	60
Disposals	(3)
Net transfers to property, plant and equipment	(19)
Net transfers to other assets	(40)
Fair value gain	288
Foreign exchange movements	(35)
At 30 November 2016	<b>3,910</b>
Additions and capitalised subsequent expenditures	<b>10</b>
Disposals	<b>(12)</b>
Net transfers from property, plant and equipment	<b>24</b>
Fair value gain	<b>367</b>
Foreign exchange movements	<b>66</b>
<b>At 30 November 2017</b>	<b>4,365</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\$151m (2016: US\$140m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US\$31m (2016: US\$32m).

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 2017	As at 30 November 2016
<b>Leases of investment property</b>		
Expiring no later than one year	<b>135</b>	121
Expiring later than one year and no later than five years	<b>241</b>	143
Expiring after five years or more	<b>31</b>	8
<b>Total</b>	<b>407</b>	272

**17. REINSURANCE ASSETS**

US\$m	As at 30 November 2017	As at 30 November 2016
Amounts recoverable from reinsurers	<b>506</b>	335
Ceded insurance and investment contract liabilities	<b>1,975</b>	1,711
<b>Total</b>	<b>2,481</b>	2,046

**18. DEFERRED ACQUISITION AND ORIGINATION COSTS**

US\$m	As at 30 November 2017	As at 30 November 2016
<b>Carrying amount</b>		
Deferred acquisition costs on insurance contracts	<b>21,345</b>	18,351
Deferred origination costs on investment contracts	<b>373</b>	418
Value of business acquired	<b>129</b>	129
<b>Total</b>	<b>21,847</b>	18,898
	Year ended 30 November 2017	Year ended 30 November 2016
<b>Movements in the year</b>		
<b>At beginning of financial year</b>	<b>18,898</b>	17,092
Deferral and amortisation of acquisition and origination costs	<b>2,318</b>	2,057
Foreign exchange movements	<b>833</b>	(172)
Impact of assumption changes	<b>(77)</b>	(6)
Other movements	<b>(125)</b>	(73)
<b>At end of financial year</b>	<b>21,847</b>	18,898

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, if applicable. External ratings for government bonds are based on issuers as well as currencies of issuances. The following conventions have been adopted to conform the various ratings.

External ratings		Internal ratings	Reported as
Standard and Poor's	Moody's		
AAA	Aaa	1	AAA
AA+ to AA-	Aa1 to Aa3	2+ to 2-	AA
A+ to A-	A1 to A3	3+ to 3-	A
BBB+ to BBB-	Baa1 to Baa3	4+ to 4-	BBB
BB+ and below	Ba1 and below	5+ and below	Below investment grade <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	Other policyholder and shareholder					
		FVTPL	FVTPL	AFS				
30 November 2017								
<b>Government bonds</b> – issued in local currency								
Thailand	A	–	–	13,141	13,141	–	–	13,141
China	A	1,520	–	6,821	8,341	27	–	8,368
Korea	AA	–	–	5,439	5,439	272	–	5,711
Singapore	AAA	2,440	–	1,230	3,670	476	–	4,146
Philippines	BBB	–	–	2,346	2,346	55	–	2,401
Malaysia	A	1,249	–	562	1,811	25	–	1,836
United States	AA	168	–	3,100	3,268	1	–	3,269
Indonesia	BBB	77	25	379	481	55	–	536
Other <sup>(1)</sup>		6	–	744	750	2	–	752
<b>Subtotal</b>		<b>5,460</b>	<b>25</b>	<b>33,762</b>	<b>39,247</b>	<b>913</b>	<b>–</b>	<b>40,160</b>
<b>Government bonds</b> – foreign currency								
AAA		–	–	–	–	8	–	8
AA		36	–	799	835	25	–	860
A		90	–	831	921	16	–	937
BBB		95	45	1,677	1,817	185	–	2,002
Below investment grade		–	12	53	65	–	–	65
<b>Subtotal</b>		<b>221</b>	<b>57</b>	<b>3,360</b>	<b>3,638</b>	<b>234</b>	<b>–</b>	<b>3,872</b>
<b>Government agency</b> <b>bonds<sup>(2)</sup></b>								
AAA		1,184	–	908	2,092	90	–	2,182
AA		367	–	3,517	3,884	63	263	4,210
A		2,084	3	3,051	5,138	38	56	5,232
BBB		198	10	1,493	1,701	5	–	1,706
Below investment grade		71	1	260	332	14	–	346
<b>Subtotal</b>		<b>3,904</b>	<b>14</b>	<b>9,229</b>	<b>13,147</b>	<b>210</b>	<b>319</b>	<b>13,676</b>

Notes:

- (1) Of the total government bonds issued in local currency listed as “Other” at 30 November 2017, 44 per cent are rated as investment grade and a further 38 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				Unit-linked FVTPL	Consolidated investment funds <sup>(3)</sup>		Total
	Participating funds	Other policyholder and shareholder		Subtotal		FVTPL	FVTPL	
	FVTPL	FVTPL	AFS					
30 November 2017								
<b>Corporate bonds</b>								
AAA	46	–	431	477	5	–	482	
AA	475	17	4,021	4,513	11	349	4,873	
A	5,185	43	26,150	31,378	377	1,139	32,894	
BBB	4,510	106	25,461	30,077	598	181	30,856	
Below investment grade	679	19	2,421	3,119	191	–	3,310	
Not rated	–	2	–	2	177	–	179	
<b>Subtotal</b>	<b>10,895</b>	<b>187</b>	<b>58,484</b>	<b>69,566</b>	<b>1,359</b>	<b>1,669</b>	<b>72,594</b>	
<b>Structured securities<sup>(4)</sup></b>								
AAA	–	–	9	9	–	–	9	
AA	–	–	64	64	–	–	64	
A	18	–	301	319	–	–	319	
BBB	165	–	250	415	–	–	415	
Below investment grade	–	–	6	6	–	–	6	
Not rated	11	41	1	53	–	–	53	
<b>Subtotal</b>	<b>194</b>	<b>41</b>	<b>631</b>	<b>866</b>	<b>–</b>	<b>–</b>	<b>866</b>	
<b>Total<sup>(5)</sup></b>	<b>20,674</b>	<b>324</b>	<b>105,466</b>	<b>126,464</b>	<b>2,716</b>	<b>1,988</b>	<b>131,168</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\$4,900m 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>(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	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.

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

US\$m	As at 30 November 2017	As at 30 November 2016
<b>Debt securities – FVTPL</b>		
Designated at fair value through profit or loss	<b>25,702</b>	23,509
Held for trading	–	17
<b>Total</b>	<b>25,702</b>	<b>23,526</b>

**19. FINANCIAL INVESTMENTS** (continued)

**Equity securities**

Equity securities by type comprise the following:

US\$m	Policyholder and shareholder		Subtotal	Unit-linked FVTPL	Consolidated investment funds <sup>(1)</sup> FVTPL	Total
	Participating funds FVTPL	Other policyholder and shareholder FVTPL				
30 November 2017						
Equity shares	<b>4,631</b>	<b>9,267</b>	<b>13,898</b>	<b>4,610</b>	–	<b>18,508</b>
Interests in investment funds	<b>2,191</b>	<b>1,674</b>	<b>3,865</b>	<b>14,343</b>	–	<b>18,208</b>
<b>Total</b>	<b>6,822</b>	<b>10,941</b>	<b>17,763</b>	<b>18,953</b>	–	<b>36,716</b>

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

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 2017	As at 30 November 2016
<b>Debt securities</b>		
Listed	<b>100,647</b>	86,105
Unlisted	<b>30,521</b>	27,513
<b>Total</b>	<b>131,168</b>	113,618
<b>Equity securities</b>		
Listed	<b>20,205</b>	16,394
Unlisted <sup>(1)</sup>	<b>16,511</b>	13,817
<b>Total</b>	<b>36,716</b>	30,211

Note:

(1) Including US\$15,375m (2016: US\$13,067m) 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 2017		As at 30 November 2016	
	Investment funds	Structured securities <sup>(1)</sup>	Investment funds	Structured securities <sup>(1)</sup>
Available for sale debt securities	1,250 <sup>(2)</sup>	631	939 <sup>(2)</sup>	753
Debt securities at fair value through profit or loss	520 <sup>(2)</sup>	235	489 <sup>(2)</sup>	383
Equity securities at fair value through profit or loss	18,208	–	15,930	–
<b>Total</b>	<b>19,978</b>	<b>866</b>	17,358	1,136

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 2017	As at 30 November 2016
Policy loans	<b>2,726</b>	2,448
Mortgage loans on residential real estate	<b>600</b>	546
Mortgage loans on commercial real estate	<b>53</b>	51
Other loans	<b>889</b>	737
Allowance for loan losses	<b>(12)</b>	(13)
<b>Loans</b>	<b>4,256</b>	3,769
Term deposits	<b>2,138</b>	1,847
Promissory notes <sup>(1)</sup>	<b>1,579</b>	1,446
<b>Total</b>	<b>7,973</b>	7,062

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\$1,749m (2016: US\$1,638m).

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 2017, the carrying value of such receivables is US\$326m (2016: US\$224m).

## 20. DERIVATIVE FINANCIAL INSTRUMENTS

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

US\$m	Notional amount	Fair value	
		Assets	Liabilities
30 November 2017			
<b>Foreign exchange contracts</b>			
Cross-currency swaps	7,569	249	(164)
Forwards	5,921	47	(142)
Foreign exchange futures	139	-	-
Currency options	7	-	-
<b>Total foreign exchange contracts</b>	<b>13,636</b>	<b>296</b>	<b>(306)</b>
<b>Interest rate contracts</b>			
Interest rate swaps	3,157	51	(55)
<b>Other</b>			
Warrants and options	161	16	-
<b>Netting</b>	<b>(139)</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>16,815</b>	<b>363</b>	<b>(361)</b>
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>

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\$8m (2016: US\$12m) 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 2017, the Group had posted cash collateral of US\$10m (2016: US\$188m) and pledged debt securities with carrying value of US\$227m (2016: US\$440m) for liabilities and held cash collateral of US\$141m (2016: US\$6m), debt securities collateral with carrying value of US\$15m (2016: US\$5m) 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 repurchase agreements.

## 21. FAIR VALUE MEASUREMENT

### Fair value of financial instruments

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

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

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 2017						
Financial investments	19					
Loans and deposits		–	–	7,973	7,973	7,977
Debt securities		25,702	105,466	–	131,168	131,168
Equity securities		36,716	–	–	36,716	36,716
Derivative financial instruments	20	363	–	–	363	363
Reinsurance receivables	17	–	–	506	506	506
Other receivables	22	–	–	2,150	2,150	2,150
Accrued investment income	22	–	–	1,541	1,541	1,541
Cash and cash equivalents	24	–	–	2,289	2,289	2,289
<b>Financial assets</b>		<b>62,781</b>	<b>105,466</b>	<b>14,459</b>	<b>182,706</b>	<b>182,710</b>
	Notes	Fair value through profit or loss		Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities						
Investment contract liabilities	26	7,502		580	8,082	8,082
Borrowings	28	–		3,958	3,958	4,144
Obligations under repurchase agreements	29	–		1,883	1,883	1,883
Derivative financial instruments	20	361		–	361	361
Other liabilities	32	1,225		4,663	5,888	5,888
<b>Financial liabilities</b>		<b>9,088</b>		<b>11,084</b>	<b>20,172</b>	<b>20,358</b>

**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 2016						
Financial investments	19					
Loans and deposits		–	–	7,062	7,062	7,066
Debt securities		23,526	90,092	–	113,618	113,618
Equity securities		30,211	–	–	30,211	30,211
Derivative financial instruments	20	107	–	–	107	107
Reinsurance receivables	17	–	–	335	335	335
Other receivables	22	–	–	1,934	1,934	1,934
Accrued investment income	22	–	–	1,383	1,383	1,383
Cash and cash equivalents	24	–	–	1,642	1,642	1,642
<b>Financial assets</b>		<b>53,844</b>	<b>90,092</b>	<b>12,356</b>	<b>156,292</b>	<b>156,296</b>
		Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities						
Investment contract liabilities		26	6,499	529	7,028	7,028
Borrowings		28	–	3,460	3,460	3,479
Obligations under repurchase agreements		29	–	1,984	1,984	1,984
Derivative financial instruments		20	644	–	644	644
Other liabilities		32	1,239	3,484	4,723	4,723
<b>Financial liabilities</b>			<b>8,382</b>	<b>9,457</b>	<b>17,839</b>	<b>17,858</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 2017.

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, in most cases, are valued on the basis of the highest and best use of the properties that is physically possible, legally permissible and financially feasible. The current use of the properties are considered to be its highest and best use; records of recent sales and offerings of similar property are analysed and comparison made for such factors as size, location, quality and prospective use. On limited occasions, potential redevelopment of the properties in use would be taken into account when they would maximise the fair value of the properties; the 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 2017				
<b>Recurring fair value measurements</b>				
<b>Non-financial assets</b>				
Property held for own use	–	–	979	979
Investment property	–	–	4,365	4,365
<b>Financial assets</b>				
Available for sale				
Debt securities	–	104,318	1,148	105,466
At fair value through profit or loss				
Debt securities				
Participating funds	–	20,255	419	20,674
Unit-linked and consolidated investment funds	–	4,604	100	4,704
Other policyholder and shareholder	–	259	65	324
Equity securities				
Participating funds	6,034	355	433	6,822
Unit-linked and consolidated investment funds	18,803	149	1	18,953
Other policyholder and shareholder	9,625	690	626	10,941
Derivative financial instruments				
Foreign exchange contracts	–	296	–	296
Interest rate contracts	–	51	–	51
Other contracts	8	8	–	16
<b>Total assets on a recurring fair value measurement basis</b>	<b>34,470</b>	<b>130,985</b>	<b>8,136</b>	<b>173,591</b>
<i>% of Total</i>	<i>19.9</i>	<i>75.4</i>	<i>4.7</i>	<i>100.0</i>
<b>Financial liabilities</b>				
Investment contract liabilities	–	–	7,502	7,502
Derivative financial instruments				
Foreign exchange contracts	–	306	–	306
Interest rate contracts	–	55	–	55
Other liabilities	–	1,225	–	1,225
<b>Total liabilities on a recurring fair value measurement basis</b>	<b>–</b>	<b>1,586</b>	<b>7,502</b>	<b>9,088</b>
<i>% of Total</i>	<i>–</i>	<i>17.5</i>	<i>82.5</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 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>

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 2017, the Group transferred US\$50m (2016: US\$241m) 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\$148m (2016: US\$463m) of assets from Level 2 to Level 1 during the year ended 30 November 2017.

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 2017 and 2016. The tables reflect gains and losses, including gains and losses on assets and liabilities categorised as Level 3 as at 30 November 2017 and 2016.

**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 2016</b>	<b>905</b>	<b>3,910</b>	<b>1,947</b>	<b>688</b>	–	<b>(6,499)</b>
Net movement on investment contract liabilities	–	–	–	–	–	<b>(1,003)</b>
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	<b>(16)</b>	<b>367</b>	<b>(56)</b>	<b>31</b>	–	–
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	<b>115</b>	<b>66</b>	<b>55</b>	<b>18</b>	–	–
Transfer to investment property	<b>(24)</b>	<b>24</b>	–	–	–	–
Purchases	<b>1</b>	<b>10</b>	<b>216</b>	<b>369</b>	–	–
Sales	<b>(2)</b>	<b>(12)</b>	<b>(20)</b>	<b>(35)</b>	–	–
Settlements	–	–	<b>(410)</b>	–	–	–
Transfer into Level 3	–	–	–	<b>2</b>	–	–
Transfer out of Level 3	–	–	–	<b>(13)</b>	–	–
<b>At 30 November 2017</b>	<b>979</b>	<b>4,365</b>	<b>1,732</b>	<b>1,060</b>	–	<b>(7,502)</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>(16)</b>	<b>367</b>	<b>(61)</b>	<b>31</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	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/(liabilities)	Investment contracts
<b>At 1 December 2015</b>	415	3,659	1,780	674	–	(6,573)
Net movement on investment contract liabilities	–	–	–	–	–	74
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	(15)	288	5	(45)	–	–
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	506	(35)	(49)	(8)	–	–
Transfer to other assets	–	(40)	–	–	–	–
Transfer from investment property	19	(19)	–	–	–	–
Purchases	3	60	539	119	–	–
Sales	(23)	(3)	(165)	(43)	–	–
Settlements	–	–	(84)	–	–	–
Transfer into Level 3	–	–	–	11	–	–
Transfer out of Level 3	–	–	(79)	(20)	–	–
<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>

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 2017 and 2016, 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 2017 (US\$m)	Valuation techniques	Unobservable inputs	Range
<b>Debt securities</b>	<b>943</b>	<b>Discounted cash flows</b>	<b>Discount rate for liquidity</b>	<b>5.29% – 11.89%</b>

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

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 Valuations Advisory Committee 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 of financial and insurance assets and liabilities for which the fair value is disclosed at reporting date**

A summary of fair value hierarchy of assets and liabilities not carried at fair value but for which the fair value is disclosed as at 30 November 2017 and 2016 is given below.

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
30 November 2017				
<b>Assets for which the fair value is disclosed</b>				
<b>Financial assets</b>				
Loans and deposits	1,112	2,680	4,185	7,977
Reinsurance receivables	–	506	–	506
Other receivables	–	2,109	41	2,150
Accrued investment income	21	1,520	–	1,541
Cash and cash equivalents	2,289	–	–	2,289
<b>Total assets for which the fair value is disclosed</b>	<b>3,422</b>	<b>6,815</b>	<b>4,226</b>	<b>14,463</b>
<b>Liabilities for which the fair value is disclosed</b>				
<b>Financial liabilities</b>				
Investment contract liabilities	–	–	580	580
Borrowings	3,630	514	–	4,144
Obligations under repurchase agreements	–	1,883	–	1,883
Other liabilities	692	3,938	33	4,663
<b>Total liabilities for which the fair value is disclosed</b>	<b>4,322</b>	<b>6,335</b>	<b>613</b>	<b>11,270</b>
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>

**22. OTHER ASSETS**

US\$m	As at 30 November 2017	As at 30 November 2016
Accrued investment income	<b>1,541</b>	1,383
Pension scheme assets		
Defined benefit pension scheme surpluses	<b>44</b>	24
Insurance receivables due from insurance and investment contract holders	<b>1,223</b>	1,004
Prepayments – operating lease of leasehold land	<b>357</b>	345
Others	<b>1,465</b>	1,233
<b>Total</b>	<b>4,630</b>	3,989

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 2017, no impairment loss (2016: US\$22m) was 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 2017 was nil (2016: US\$18m).

**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 2017 was US\$12m (2016: US\$18m).

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 2017	As at 30 November 2016
Cash	<b>1,735</b>	1,120
Cash equivalents	<b>554</b>	522
<b>Total<sup>(1)</sup></b>	<b>2,289</b>	1,642

Note:

(1) Of cash and cash equivalents, US\$385m (2016: US\$412m) are held to back unit-linked contracts and US\$71m (2016: US\$92m) 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 2017	Year ended 30 November 2016
<b>At beginning of financial year</b>	<b>128,186</b>	115,969
Valuation premiums and deposits	<b>25,586</b>	23,962
Liabilities released for policy termination or other policy benefits paid and related expenses	<b>(14,929)</b>	(13,647)
Fees from account balances	<b>(1,817)</b>	(1,491)
Accretion of interest	<b>4,417</b>	3,810
Foreign exchange movements	<b>5,232</b>	(1,733)
Change in net asset values attributable to policyholders	<b>2,762</b>	1,434
Other movements	<b>(540)</b>	(118)
<b>At end of financial year</b>	<b>148,897</b>	128,186

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

US\$m	Year ended 30 November 2017	Year ended 30 November 2016
Deferred profit	<b>7,046</b>	5,761
Unearned revenue	<b>2,674</b>	2,906
Policyholders' share of participating surplus	<b>7,935</b>	6,731
Liabilities for future policyholder benefits	<b>131,242</b>	112,788
<b>Total</b>	<b>148,897</b>	128,186

**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 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>	• Not applicable	<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>	• Not applicable	<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 2017 and 2016, the ranges of applicable valuation interest rates for traditional insurance contracts, which vary by operating segment, year of issuance and products, within the first 20 years are as follows:

	As at 30 November 2017	As at 30 November 2016
Hong Kong	<b>3.50% – 7.50%</b>	3.50% – 7.50%
Thailand	<b>3.13% – 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% – 5.43%
China	<b>2.75% – 7.00%</b>	2.75% – 7.00%
Australia	<b>2.97% – 7.11%</b>	2.97% – 7.11%
Indonesia	<b>3.01% – 9.00%</b>	3.02% – 9.00%
Korea	<b>2.85% – 6.50%</b>	2.85% – 6.50%
Philippines	<b>2.20% – 9.20%</b>	2.20% – 9.20%
Sri Lanka	<b>7.10% – 10.78%</b>	7.10% – 10.78%
Taiwan	<b>1.75% – 6.50%</b>	1.75% – 6.50%
Vietnam	<b>5.53% – 11.48%</b>	5.07% – 12.25%

**26. INVESTMENT CONTRACT LIABILITIES**

US\$m	Year ended 30 November 2017	Year ended 30 November 2016
<b>At beginning of financial year</b>	<b>7,028</b>	7,116
Effect of foreign exchange movements	<b>123</b>	(56)
Investment contract benefits	<b>1,212</b>	245
Fees charged	<b>(145)</b>	(138)
Net withdrawals and other movements	<b>(136)</b>	(139)
<b>At end of financial year<sup>(1)</sup></b>	<b>8,082</b>	7,028

Note:

(1) Of investment contract liabilities, US\$482m (2016: US\$558m) 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 2017	As at 30 November 2016
<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>	20
0.5 pps decrease in investment return	<b>(39)</b>	(27)
10% increase in expenses	<b>(7)</b>	(7)
10% increase in mortality rates	<b>(42)</b>	(36)
10% increase in lapse/discontinuance rates	<b>(32)</b>	(22)

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\$16m (2016: US\$20m) increase in profit.

**28. BORROWINGS**

US\$m	As at 30 November 2017	As at 30 November 2016
Other loans	–	1
Medium-term notes	<b>3,958</b>	3,459
<b>Total</b>	<b>3,958</b>	3,460

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 Company's outstanding medium-term notes at 30 November 2017:

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
23 May 2017 <sup>(2)</sup>	US\$500m	4.470%	30 years

Notes:

(1) These medium-term notes are listed on The Stock Exchange of Hong Kong Limited.

(2) These medium-term notes are listed on The Taipei Exchange, Taiwan. The Company has the right to redeem these notes at par on 23 May of each year beginning on 23 May 2022.

The net proceeds from issuance during the year ended 30 November 2017 and 2016 are used for general corporate purposes.

The Group has access to an aggregate of US\$2,226m unsecured committed credit facilities, which includes a US\$300m revolving three-year credit facility expiring in 2020 and a US\$1,926m five-year credit facility expiring in 2022. The credit facilities will be used for general corporate purposes. There were nil outstanding borrowings under these credit facilities as of 30 November 2017 (2016: 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 2017	As at 30 November 2016
Debt securities – AFS	<b>1,854</b>	2,045
Debt securities – FVTPL	<b>12</b>	98
<b>Total</b>	<b>1,866</b>	2,143



**29. OBLIGATIONS UNDER REPURCHASE AGREEMENTS** (continued)**Collateral**

At 30 November 2017, the Group had pledged debt securities with carrying value of US\$1m (2016: US\$6m). Cash collateral of US\$1m (2016: US\$1m) 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.

At 30 November 2017, the obligations under repurchase agreements were US\$1,883m (2016: US\$1,984m).

**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 2017							
Financial assets:							
	Derivative assets	363	–	363	(15)	(141)	207
	Reverse repurchase agreements	326	–	326	(326)	–	–
<b>Total</b>		<b>689</b>	<b>–</b>	<b>689</b>	<b>(341)</b>	<b>(141)</b>	<b>207</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 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>

**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 2017						
Financial liabilities:						
Derivative liabilities	361	–	361	(227)	(10)	124
Repurchase agreements	1,883	–	1,883	(1,883)	–	–
<b>Total</b>	<b>2,244</b>	<b>–</b>	<b>2,244</b>	<b>(2,110)</b>	<b>(10)</b>	<b>124</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 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>

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 2015</b>	117	128	245
Charged to the consolidated income statement	11	52	63
Charged to other comprehensive income	22	–	22
Released during the year	–	(18)	(18)
Utilised during the year	(3)	(54)	(57)
Other movements	(2)	–	(2)
<b>At 30 November 2016</b>	<b>145</b>	<b>108</b>	<b>253</b>
Charged to the consolidated income statement	7	94	101
Charged to other comprehensive income	(23)	–	(23)
Exchange differences	9	–	9
Released during the year	–	(29)	(29)
Utilised during the year	(12)	(83)	(95)
Other movements	17	1	18
<b>At 30 November 2017</b>	<b>143</b>	<b>91</b>	<b>234</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 2017	As at 30 November 2016
Trade and other payables	3,958	2,980
Third-party interests in consolidated investment funds	1,225	1,239
Reinsurance payables	705	504
<b>Total</b>	<b>5,888</b>	<b>4,723</b>

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 2017		As at 30 November 2016	
	Million shares	US\$m	Million shares	US\$m
<b>At beginning of the financial year</b>	<b>12,056</b>	<b>13,998</b>	12,048	13,971
Shares issued under share option scheme and agency share purchase plan	<b>18</b>	<b>67</b>	8	27
<b>At end of the financial year</b>	<b>12,074</b>	<b>14,065</b>	12,056	13,998

The Company issued 17,053,136 shares under share option scheme (2016: 7,174,665 shares) and 1,037,294 shares under agency share purchase plan (2016: 927,042 shares) during the year ended 30 November 2017.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the year ended 30 November 2017 with the exception of 1,395,132 shares (2016: 16,849,376 shares) of the Company purchased by and nil shares (2016: 276,401 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 2017, 15,730,944 shares (2016: 13,664,506 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 2017, 63,720,201 shares (2016: 78,056,013 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 2017	As at 30 November 2016
Equity shares in subsidiaries	64	59
Share of earnings	310	257
Share of other reserves	4	10
<b>Total</b>	<b>378</b>	<b>326</b>

### 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 Insurance Authority (HKIA), which requires that AIA Co. and AIA International meet the solvency margin requirements of the Hong Kong Insurance Ordinance (HKIO). The HKIO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. AIA has given an undertaking to the HKIA to maintain an excess of assets over liabilities for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement in each of AIA Co. and AIA International.

The capital positions of the Group's two principal operating companies as of 30 November 2017 and 2016 are as follows:

US\$m	30 November 2017			30 November 2016		
	Total available capital	Regulatory minimum capital	Solvency ratio	Total available capital	Regulatory minimum capital	Solvency ratio
AIA Co.	8,248	1,862	443%	6,699	1,659	404%
AIA International	7,826	2,431	322%	6,237	2,072	301%

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

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 HKIA of their solvency margin position based on their annual audited financial statements.

**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 HKIA.

**Capital and Regulatory Orders Specific to the Group**

As of 30 November 2017, the requirements and restrictions summarised below may be considered material to the Group and remain in effect unless otherwise stated.

**Hong Kong Insurance Authority**

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 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)(a)(iii)(B) of the HKIO) 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)(a)(iii)(B) of the HKIO) 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 HKIO. The Insurance Authority is empowered by the HKIO to raise objection if it appears to it that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company’s financial resources; the viability of a holding company’s business plan for its insurance subsidiaries which are regulated by the 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 HKIO, regulations under the HKIO or guidelines 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

Lapse risk is the risk that the rate of policy termination deviates 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

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

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

### Morbidity and Mortality

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

The 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 make final decision on the assigned ratings. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

**Interest rate risk**

The 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 2017				
Financial assets				
Loans and deposits	1,045	6,919	9	7,973
Other receivables	1	–	1,898	1,899
Debt securities	8,392	122,776	–	131,168
Equity securities	–	–	36,716	36,716
Reinsurance receivables	–	–	506	506
Accrued investment income	–	–	1,541	1,541
Cash and cash equivalents	2,001	–	288	2,289
Derivative financial instruments	–	–	363	363
<b>Total financial assets</b>	<b>11,439</b>	<b>129,695</b>	<b>41,321</b>	<b>182,455</b>
Financial liabilities				
Investment contract liabilities	–	–	8,082	8,082
Borrowings	–	3,958	–	3,958
Obligations under repurchase agreements	1,883	–	–	1,883
Other liabilities	92	–	5,796	5,888
Derivative financial instruments	–	–	361	361
<b>Total financial liabilities</b>	<b>1,975</b>	<b>3,958</b>	<b>14,239</b>	<b>20,172</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 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>

**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 2017			30 November 2016		
	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	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)
US\$m						
<b>Equity price risk</b>						
10 per cent increase in equity prices	<b>1,182</b>	<b>1,182</b>	<b>1,182</b>	995	995	995
10 per cent decrease in equity prices	<b>(1,182)</b>	<b>(1,182)</b>	<b>(1,182)</b>	(995)	(995)	(995)
<b>Interest rate risk</b>						
+ 50 basis points shift in yield curves	<b>(157)</b>	<b>(5,676)</b>	<b>(157)</b>	(204)	(4,699)	(204)
- 50 basis points shift in yield curves	<b>169</b>	<b>6,272</b>	<b>169</b>	219	5,179	219

**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 dollar for financial reporting purposes. The balance sheet values of our operating units and subsidiaries are not hedged to the Group's presentation currency, the US dollar.

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

**Foreign exchange rate net exposure**

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
30 November 2017						
Equity analysed by original currency	24,497	2,772	3,768	(2,356)	2,157	3,527
Net notional amounts of currency derivative positions	(9,225)	597	2,535	3,005	–	8
<b>Currency exposure</b>	<b>15,272</b>	<b>3,369</b>	<b>6,303</b>	<b>649</b>	<b>2,157</b>	<b>3,535</b>
<b>5% strengthening of original currency</b>						
Impact on profit before tax	164	3	(8)	21	4	19
Impact on other comprehensive income	(188)	133	323	12	104	158
<b>Impact on total equity</b>	<b>(24)</b>	<b>136</b>	<b>315</b>	<b>33</b>	<b>108</b>	<b>177</b>
<b>5% strengthening of the US dollar</b>						
Impact on profit before tax	164	30	9	(5)	(3)	(16)
Impact on other comprehensive income	(188)	(166)	(324)	(28)	(105)	(161)
<b>Impact on total equity</b>	<b>(24)</b>	<b>(136)</b>	<b>(315)</b>	<b>(33)</b>	<b>(108)</b>	<b>(177)</b>
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>

**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 Company's Global Medium-term Note and Securities 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 2017						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	7,866	1,427	919	399	2,392	2,729
Other receivables	1,727	1,617	59	6	–	45
Debt securities	126,464	3,834	17,553	31,334	73,743	–
Equity securities	17,763	–	–	–	–	17,763
Reinsurance receivables	506	506	–	–	–	–
Accrued investment income	1,494	1,486	1	–	–	7
Cash and cash equivalents	1,833	1,833	–	–	–	–
Derivative financial instruments	352	76	142	122	12	–
<b>Subtotal</b>	<b>158,005</b>	<b>10,779</b>	<b>18,674</b>	<b>31,861</b>	<b>76,147</b>	<b>20,544</b>
Financial assets (Unit-linked contracts and consolidated investment funds)	24,450	–	–	–	–	24,450
<b>Total</b>	<b>182,455</b>	<b>10,779</b>	<b>18,674</b>	<b>31,861</b>	<b>76,147</b>	<b>44,994</b>
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)						
	109,900	2,609	10,420	11,404	85,467	–
Borrowings	3,958	500	499 <sup>(1)</sup>	1,242	1,717	–
Obligations under repurchase agreements	1,883	1,883	–	–	–	–
Other liabilities	4,445	3,314	47	2	–	1,082
Derivative financial instruments	361	170	57	86	48	–
<b>Subtotal</b>	<b>120,547</b>	<b>8,476</b>	<b>11,023</b>	<b>12,734</b>	<b>87,232</b>	<b>1,082</b>
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	24,450	–	–	–	–	24,450
<b>Total</b>	<b>144,997</b>	<b>8,476</b>	<b>11,023</b>	<b>12,734</b>	<b>87,232</b>	<b>25,532</b>

Note:

(1) No borrowings are 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 2016						
Financial assets (Policyholders 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 (Policyholders 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.

### 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, Indonesia, Korea, the Philippines, Sri Lanka, Taiwan and Vietnam. The latest independent actuarial valuations of the plans were at 30 November 2017 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 44 per cent (2016: 33 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\$79m (2016: US\$62m). The total expenses relating to these plans recognised in the consolidated income statement was US\$7m (2016: US\$11m).

#### 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\$72m (2016: US\$67m). 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 2017, 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 (2016: 301,100,000), representing approximately 2.5 per cent (2016: 2.5 per cent) of the number of shares in issue at 30 November 2017.

**38. SHARE-BASED COMPENSATION** (continued)**Share-based compensation plans** (continued)**RSU Scheme** (continued)

	Year ended 30 November 2017	Year ended 30 November 2016
Number of shares		
<b>Restricted Share Units</b>		
Outstanding at beginning of financial year	<b>49,337,302</b>	53,650,778
Awarded	<b>16,003,902</b>	18,964,022
Forfeited	<b>(7,751,321)</b>	(10,150,721)
Vested	<b>(14,989,196)</b>	(13,126,777)
Outstanding at end of financial year	<b>42,600,687</b>	49,337,302

**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 (2016: 301,100,000), representing approximately 2.5 per cent (2016: 2.5 per cent) of the number of shares in issue at 30 November 2017.

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 2017		Year ended 30 November 2016	
	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>41,581,033</b>	<b>35.88</b>	40,458,104	33.29
Awarded	<b>9,460,949</b>	<b>51.70</b>	9,550,232	41.90
Exercised	<b>(17,053,136)</b>	<b>30.10</b>	(7,174,665)	28.58
Forfeited or expired	<b>(4,876,612)</b>	<b>46.79</b>	(1,252,638)	39.91
Outstanding at end of financial year	<b>29,112,234</b>	<b>42.58</b>	41,581,033	35.88
Share options exercisable at end of financial year	<b>14,134,157</b>	<b>37.38</b>	20,592,646	29.44

At the date the share option was exercised, the weighted average share price of the Company was HK\$52.61 for the year ended 30 November 2017 (2016: HK\$49.43).



**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 2017 and 2016 is summarised in the table below.

	Year ended 30 November 2017		Year ended 30 November 2016	
	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>5,059,663</b>	<b>4.21</b>	20,575,507	5.14
HK\$36 – HK\$45	<b>12,090,822</b>	<b>7.58</b>	15,489,143	8.48
HK\$46 – HK\$55	<b>10,787,231</b>	<b>8.34</b>	5,516,383	8.28
HK\$56 – HK\$65	<b>1,174,518</b>	<b>9.67</b>	–	–
Outstanding at end of financial year	<b>29,112,234</b>	<b>7.36</b>	41,581,033	6.80

**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 2017, eligible employees paid US\$20m (2016: US\$14m) to purchase 2,739,064 ordinary shares (2016: 2,436,497 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 2017, eligible agents paid US\$20m (2016: US\$17m) to purchase 2,708,018 ordinary shares (2016: 2,792,549 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 2017			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
<b>Assumptions</b>				
Risk-free interest rate	<b>1.45% – 1.90%</b>	<b>0.83% – 1.29%*</b>	<b>0.68% – 1.29%</b>	<b>1.25%</b>
Volatility	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>
Dividend yield	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>
Exercise price (HK\$)	<b>50.30 – 61.55</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Share option life (in years)	<b>10</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Expected life (in years)	<b>7.95 – 8.00</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Weighted average fair value per option/unit at measurement date (HK\$)	<b>10.47</b>	<b>39.95</b>	<b>58.25</b>	<b>45.81</b>
	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

\* Applicable to RSU with market conditions.

The weighted average share price for share option valuation for awards made during the year ended 30 November 2017 is HK\$51.70 (2016: HK\$41.60). The total fair value of share options awarded during the year ended 30 November 2017 is US\$13m (2016: US\$10m).

**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 2017 is US\$79m (2016: US\$84m).

### 39. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

#### Directors' remuneration

The Executive Directors receive 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 <sup>(3)</sup>	Inducement fees	Total
Year ended 30 November 2017								
<i>Executive Directors</i>								
	-	1,135,952	4,824,000	8,336,772	70,949	1,154,706	-	15,522,379
	-	749,333	1,504,110	1,375,587	44,788	-	-	3,673,818
	-	1,885,285	6,328,110	9,712,359	115,737	1,154,706	-	19,196,197

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
	-	2,212,482	4,636,000	8,107,671	137,417	-	-	15,093,570

#### Notes:

- (1) Includes non-cash benefits for housing, medical and life insurance, children's education, club and professional membership, company car and perquisites.
- (2) Includes SOs and RSUs awarded based upon the fair value at grant date.
- (3) Includes post-employment benefits received during garden leave and termination benefits.
- (4) 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. Mr. Mark Edward Tucker retired as Group Chief Executive and President with effect from 1 June 2017.
- (5) Mr. Ng Keng Hooi was appointed as Group Chief Executive and President of the Company on 1 June 2017. He 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 2017 and 2016 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 2017								
<i>Non-executive Director</i>								
Mr. Mark Edward Tucker <sup>(3)</sup>	-	-	-	-	-	-	-	-
<i>Independent Non-executive Directors</i>								
Mr. Edmund Sze-Wing Tse <sup>(4)</sup>	570,000	109,383	-	-	-	-	-	679,383
Mr. Jack Chak-Kwong So	260,000	-	-	-	-	-	-	260,000
Mr. Chung-Kong Chow	220,000	-	-	-	-	-	-	220,000
Mr. John Barrie Harrison	260,000	-	-	-	-	-	-	260,000
Mr. George Yong-Boon Yeo	245,000	-	-	-	-	-	-	245,000
Mr. Mohamed Azman Yahya	205,000	-	-	-	-	-	-	205,000
Professor Lawrence Juen-Yee Lau	205,000	-	-	-	-	-	-	205,000
Ms. Swee-Lian Teo	205,000	-	-	-	-	-	-	205,000
Dr. Narongchai Akrasanee <sup>(5)</sup>	265,000	-	-	-	-	-	-	265,000
Mr. Cesar Velasquez Purisima <sup>(6)</sup>	43,630	-	-	-	-	-	-	43,630
<b>Total</b>	<b>2,478,630</b>	<b>109,383</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,588,013</b>

**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 2016								
<i>Non-executive Director</i>								
Mr. Edmund Sze-Wing Tse	571,230	97,289	–	–	–	–	–	668,519
<i>Independent Non-executive Directors</i>								
Mr. Jack Chak-Kwong So	260,000	–	–	–	–	–	–	260,000
Mr. Chung-Kong Chow	220,000	–	–	–	–	–	–	220,000
Mr. John Barrie Harrison	260,000	–	–	–	–	–	–	260,000
Mr. George Yong-Boon Yeo	245,000	–	–	–	–	–	–	245,000
Mr. Mohamed Azman Yahya	205,000	–	–	–	–	–	–	205,000
Professor Lawrence Juen-Yee Lau	205,000	–	–	–	–	–	–	205,000
Ms. Swee-Lian Teo	205,000	–	–	–	–	–	–	205,000
Dr. Narongchai Akrasanee <sup>(5)</sup>	188,566	–	–	–	–	–	–	188,566
<b>Total</b>	<b>2,359,796</b>	<b>97,289</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,457,085</b>

## Notes:

- (1) Saved as disclosed below, all 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) Includes non-cash benefits for housing, club membership and medical insurance and company car.
- (3) Mr. Mark Edward Tucker was re-designated as Non-executive Director of the Company on 1 June 2017 and retired from the position on 1 September 2017. He did not receive a director's fee during his tenure of office as a Non-executive Director of the Company.
- (4) Mr. Edmund Sze-Wing Tse was re-designated as Independent Non-executive Director of the Company on 23 March 2017.
- (5) Dr. Narongchai Akrasanee was appointed as Independent Non-executive Director of the Company on 15 January 2016. US\$50,000 which represents remuneration to Dr. Narongchai Akrasanee in respect of his services as Chairman of Advisory Board of AIA Thailand for the year ended 30 November 2017 is included in his fees.
- (6) Mr. Cesar Velasquez Purisima was appointed as Independent Non-executive Director of the Company on 1 September 2017.

**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 2017 and 2016 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 <sup>(3)</sup>	Inducement fees	Total
<b>Year ended</b>								
<b>30 November 2017</b>	<b>–</b>	<b>5,098,393</b>	<b>10,523,042</b>	<b>15,462,857</b>	<b>247,032</b>	<b>2,458,727</b>	<b>–</b>	<b>33,790,051</b>
30 November 2016	–	6,148,230	10,114,000	15,870,944	299,748	–	–	32,432,922

## Notes:

- (1) 2017 and 2016 non-cash benefits include housing, medical and life insurance, medical check-up, children's education, club and professional membership, company car and perquisites.
- (2) Includes SOs and RSUs awarded to the five highest-paid individuals based upon the fair value at grant date.
- (3) Includes post-employment benefits received during garden leave and termination benefits.

**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 2017	Year ended 30 November 2016
28,500,001 to 29,000,000	1	–
30,000,001 to 30,500,000	–	1
32,000,001 to 32,500,000	1	–
33,000,001 to 33,500,000	–	1
34,500,001 to 35,000,000	–	1
35,000,001 to 35,500,000	1	–
36,000,001 to 36,500,000	–	1
45,500,001 to 46,000,000	1	–
117,000,001 to 117,500,000	–	1
120,500,001 to 121,000,000	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 2017	Year ended 30 November 2016
<b>Key management compensation and other expenses</b>		
Salaries and other short-term employee benefits	<b>27,287,043</b>	26,994,421
Post-employment benefits	<b>3,731,580</b>	568,687
Share-based payments <sup>(1)</sup>	<b>18,646,971</b>	21,144,940
Termination benefits	<b>3,078,510</b>	–
<b>Total</b>	<b>52,744,104</b>	48,708,048

Note:

(1) Include SOs and RSUs awarded to the key management personnel based upon the fair value at grant date.

The emoluments of the key management personnel are within the following bands:

US\$	Year ended 30 November 2017	Year ended 30 November 2016
Below 1,000,000	4	2
1,000,001 to 2,000,000	5	1
2,000,001 to 3,000,000	1	3
3,000,001 to 4,000,000	3	3
4,000,001 to 5,000,000	2	3
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 2017	As at 30 November 2016
<b>Properties and others expiring</b>		
Not later than one year	<b>128</b>	120
Later than one and not later than five years	<b>219</b>	178
Later than five years	<b>48</b>	94
<b>Total</b>	<b>395</b>	392

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 2017	As at 30 November 2016
Not later than one year	<b>1,231</b>	682
Later than one and not later than five years	<b>6</b>	10
<b>Total</b>	<b>1,237</b>	692

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\$561m at 30 November 2017 (2016: US\$616m). The liabilities and related reinsurance assets, which totalled US\$2m (2016: US\$3m), 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 2017		As at 30 November 2016	
				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	1,910,844,140 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	Stated 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 (BPLAC) 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. EVENTS AFTER THE REPORTING PERIOD

On 1 January 2018, AIA International completed the transfer of its insurance business in Korea from a branch to a wholly-owned subsidiary, AIA Life Insurance Co. Ltd. This transfer was not expected to have any material financial impact on the Group consolidated financial statements.

In September 2017, the Group reached an agreement, subject to securing all necessary regulatory and governmental approvals, to acquire Commonwealth Bank of Australia's (CBA) life insurance business in Australia and life and health insurance businesses in New Zealand. The transaction includes 20-year strategic bancassurance partnerships with CBA in Australia and ASB Bank Limited in New Zealand. The transaction will expand the Group's distribution capabilities and customer reach in Australia and New Zealand markets. As announced on 21 September 2017, the gross consideration to be paid with respect to the proposed transaction is expected to be approximately US\$3.0 billion payable in cash on completion of the proposed transaction and subject to certain adjustments at completion. After taking into account the expected proceeds from reinsurance agreements and the expected free surplus of the acquired businesses, the final net cash outlay by AIA is expected to be approximately US\$1.5 billion.

In December 2017, the Group entered into a 15-year extension of the existing exclusive regional bancassurance agreement with Public Bank Berhad, a leading Malaysian banking group, extending the partnership from 2023 to 2037.

The Board has resolved to change the Company's financial year-end date from 30 November to 31 December. Accordingly, the next financial year-end date of the Company will be 31 December 2018 and the next audited financial statements of the Group will cover a 13-month period from 1 December 2017 to 31 December 2018.

On 27 February 2018, a Committee appointed by the Board of Directors proposed a final dividend of 74.38 Hong Kong cents per share (2016: 63.75 Hong Kong cents per share).

## 44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

US\$m	As at 30 November 2017	As at 30 November 2016
<b>Assets</b>		
Investment in subsidiaries	15,750	15,745
Available for sale – debt securities	2,442	1,544
At fair value through profit or loss – derivative financial instruments	37	–
Loans to/amounts due from subsidiaries	3,554	2,903
Other assets	17	44
Cash and cash equivalents	5	4
<b>Total assets</b>	<b>21,805</b>	<b>20,240</b>
<b>Liabilities</b>		
Borrowings	4,420	3,777
Derivative financial instruments	125	–
Other liabilities	43	70
<b>Total liabilities</b>	<b>4,588</b>	<b>3,847</b>
<b>Equity</b>		
Share capital	14,065	13,998
Employee share-based trusts	(297)	(351)
Other reserves	199	185
Retained earnings	3,315	2,620
Amounts reflected in other comprehensive income	(65)	(59)
<b>Total equity</b>	<b>17,217</b>	<b>16,393</b>
<b>Total liabilities and equity</b>	<b>21,805</b>	<b>20,240</b>

Note:

(1) The financial information of the Company should be read in conjunction with the consolidated financial statements of the Group.

Approved and authorised for issue by the Board of Directors on 27 February 2018.



**Ng Keng Hooi**  
Director



**Edmund Sze-Wing Tse**  
Director

## 45. 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 2016</b>	<b>13,998</b>	<b>(351)</b>	<b>185</b>	<b>2,620</b>	<b>(59)</b>	<b>16,393</b>
Net profit	-	-	-	<b>2,071</b>	-	<b>2,071</b>
Cash flow hedges	-	-	-	-	<b>(11)</b>	<b>(11)</b>
Fair value losses on available for sale financial assets	-	-	-	-	<b>(4)</b>	<b>(4)</b>
Fair value losses on available for sale financial assets transferred to income on disposal	-	-	-	-	<b>8</b>	<b>8</b>
Dividends	-	-	-	<b>(1,376)</b>	-	<b>(1,376)</b>
Shares issued under share option scheme and agency share purchase plan	<b>67</b>	-	-	-	-	<b>67</b>
Share-based compensation	-	-	<b>79</b>	-	-	<b>79</b>
Purchase of shares held by employee share-based trusts	-	<b>(10)</b>	-	-	-	<b>(10)</b>
Transfer of vested shares from employee share-based trusts	-	<b>64</b>	<b>(64)</b>	-	-	-
<b>Balance at 30 November 2017</b>	<b>14,065</b>	<b>(297)</b>	<b>200</b>	<b>3,315</b>	<b>(66)</b>	<b>17,217</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 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	-	-	-	<b>959</b>	-	<b>959</b>
Cash flow hedges	-	-	-	-	<b>(1)</b>	<b>(1)</b>
Fair value losses on available for sale financial assets	-	-	-	-	<b>(10)</b>	<b>(10)</b>
Fair value gains on available for sale financial assets transferred to income on disposal	-	-	-	-	<b>(26)</b>	<b>(26)</b>
Dividends	-	-	-	<b>(1,124)</b>	-	<b>(1,124)</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>	-	-	-
<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>



羅兵咸永道

**INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE YEAR ENDED 30 NOVEMBER 2017 TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED**

*(incorporated in Hong Kong with limited liability)*

**Opinion**

**What we have audited**

We have audited the Supplementary Embedded Value Information (the "EV Information") of AIA Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 244 to 263, which comprises:

- the consolidated EV results as at and for the year ended 30 November 2017;
- the sensitivity analysis as at and for the year then ended; and
- a summary of significant methodology and assumptions and other explanatory notes.

**Our opinion**

In our opinion, the EV Information of the Group as at and for the year ended 30 November 2017 is prepared, in all material respects, in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information.

**Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the EV Information section of our report.

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

**Independence**

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

**Emphasis of Matter – Basis of Preparation**

We draw attention to Sections 4 and 5 of the EV Information, which describes the EV basis of preparation. As a result, the EV Information may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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### Other Matter

The EV Information includes comparative information. The comparative information for the three-month periods ended 29 February 2016, 31 May 2016, 31 August 2016 and 30 November 2016 has not been audited.

The Group has prepared a separate set of consolidated financial statements for the year ended 30 November 2017 in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA and with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”), on which we issued a separate auditor’s report to the shareholders of the Company dated 27 February 2018.

### Other Information

The Directors of the Company are responsible for the other information. The other information comprises the Group Chief Executive and President’s Report, Financial Review, Business Review, Regulatory and International Developments, Consolidated Financial Statements and our auditor’s report thereon, and Glossary (but does not include the EV Information of AIA Group Limited and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report, and the Financial Highlights, Chairman’s Statement, Risk Management, Our People, Corporate Social Responsibility, Statement of Directors’ Responsibilities, Board of Directors, Executive Committee, Report of the Directors, Corporate Governance Report, Remuneration Report, Information for Shareholders and Corporate Information, which are expected to be made available to us after that date.

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

In connection with our audit of the EV Information, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the EV Information or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Financial Highlights, Chairman’s Statement, Risk Management, Our People, Corporate Social Responsibility, Statement of Directors’ Responsibilities, Board of Directors, Executive Committee, Report of the Directors, Corporate Governance Report, Remuneration Report, Information for Shareholders and Corporate Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate action considering our legal rights and obligations.

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**Responsibilities of Directors and Those Charged With Governance for the EV Information**

The Directors of the Company are responsible for the preparation of the EV Information in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information and for such internal control as the Directors determine is necessary to enable the preparation of the EV Information that is free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's EV Information reporting process.

**Auditor's Responsibilities for the Audit of the EV Information**

Our objectives are to obtain reasonable assurance about whether the EV Information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this EV Information.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the EV Information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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**Auditor's Responsibilities for the Audit of the EV Information** (continued)

- Evaluate the appropriateness of the EV basis of preparation used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the EV Information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the EV Information of the entities or business activities within the Group to express an opinion on the EV Information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Lars Christian Jordy Nielsen.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong

27 February 2018

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**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 an implicit overall level of allowance for 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 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 2017	As at 30 November 2016	Growth CER	Growth AER
<b>Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)</b>	<b>51,775</b>	<b>43,650</b>	<b>15%</b>	<b>19%</b>
<b>Embedded value (EV)</b>	<b>50,131</b>	<b>42,114</b>	<b>16%</b>	<b>19%</b>
<b>Adjusted net worth (ANW)</b>	<b>20,496</b>	<b>16,544</b>	<b>24%</b>	<b>24%</b>
<b>Value of in-force business (VIF)</b>	<b>29,635</b>	<b>25,570</b>	<b>11%</b>	<b>16%</b>
	Year ended 30 November 2017	Year ended 30 November 2016	YoY CER	YoY AER
<b>Value of new business (VONB)</b>	<b>3,512</b>	<b>2,750</b>	<b>28%</b>	<b>28%</b>
<b>Annualised new premiums (ANP)</b>	<b>6,092</b>	<b>5,123</b>	<b>19%</b>	<b>19%</b>
<b>VONB margin</b>	<b>56.8%</b>	<b>52.8%</b>	<b>4.1 pps</b>	<b>4.0 pps</b>
<b>EV operating profit</b>	<b>6,997</b>	<b>5,887</b>	<b>19%</b>	<b>19%</b>
<b>Operating return on EV (Operating ROEV)</b>	<b>16.6%</b>	<b>15.4%</b>	<b>1.1 pps</b>	<b>1.2 pps</b>

Note:

(1) The results are after adjustment to reflect the consolidated reserving and capital requirements and the present value of future after-tax unallocated Group Office expenses.

## 2. EV RESULTS

### 2.1 Embedded Value by Business Unit

The EV as at 30 November 2017 is presented consistently with the segment information in the IFRS financial statements.

#### Summary of EV by Business Unit (US\$ millions)

Business Unit	As at 30 November 2017				
	ANW <sup>(1)</sup>	VIF before CoC	CoC	VIF after CoC	EV
AIA Hong Kong	6,509	11,033	897	10,136	<b>16,645</b>
AIA Thailand	4,356	4,700	787	3,913	<b>8,269</b>
AIA Singapore	2,446	3,632	706	2,926	<b>5,372</b>
AIA Malaysia	1,165	1,495	216	1,279	<b>2,444</b>
AIA China	2,098	4,689	–	4,689	<b>6,787</b>
Other Markets	4,805	3,204	983	2,221	<b>7,026</b>
Group Corporate Centre	8,312	(117)	–	(117)	<b>8,195</b>
<b>Subtotal</b>	<b>29,691</b>	<b>28,636</b>	<b>3,589</b>	<b>25,047</b>	<b>54,738</b>
Adjustment to reflect consolidated reserving and capital requirements <sup>(2)</sup>	(9,195)	5,640	84	5,556	<b>(3,639)</b>
After-tax value of unallocated Group Office expenses	–	(968)	–	(968)	<b>(968)</b>
<b>Total</b>	<b>20,496</b>	<b>33,308</b>	<b>3,673</b>	<b>29,635</b>	<b>50,131</b>

Business Unit	As at 30 November 2016				
	ANW <sup>(1)</sup>	VIF before CoC	CoC	VIF after CoC	EV
AIA Hong Kong	4,685	9,731	622	9,109	13,794
AIA Thailand	3,880	3,488	656	2,832	6,712
AIA Singapore	2,084	3,286	424	2,862	4,946
AIA Malaysia	1,071	1,229	184	1,045	2,116
AIA China	2,732	2,753	–	2,753	5,485
Other Markets	4,252	2,827	1,020	1,807	6,059
Group Corporate Centre	7,273	(177)	(1)	(176)	7,097
<b>Subtotal</b>	<b>25,977</b>	<b>23,137</b>	<b>2,905</b>	<b>20,232</b>	<b>46,209</b>
Adjustment to reflect consolidated reserving and capital requirements <sup>(2)</sup>	(9,433)	6,294	(8)	6,302	(3,131)
After-tax value of unallocated Group Office expenses	–	(964)	–	(964)	(964)
<b>Total</b>	<b>16,544</b>	<b>28,467</b>	<b>2,897</b>	<b>25,570</b>	<b>42,114</b>

#### Notes:

- (1) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS financial statements.
- (2) Adjustment to reflect consolidated reserving and capital requirements as described in Section 4.4 of this report.

**2. EV RESULTS** (continued)**2.2 Reconciliation of ANW to IFRS Equity**

Derivation of the consolidated ANW from IFRS equity (US\$ millions)

	As at 30 November 2017	As at 30 November 2016
<b>IFRS equity attributable to shareholders of the Company</b>	<b>41,994</b>	34,984
Elimination of IFRS deferred acquisition and origination costs assets	<b>(21,847)</b>	(18,898)
Difference between IFRS policy liabilities and local statutory policy liabilities	<b>9,116</b>	9,646
Difference between net IFRS policy liabilities and local statutory policy liabilities	<b>(12,731)</b>	(9,252)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	<b>348</b>	336
Elimination of intangible assets	<b>(1,864)</b>	(1,743)
Recognition of deferred tax impacts of the above adjustments	<b>1,891</b>	1,602
Recognition of non-controlling interests impacts of the above adjustments	<b>53</b>	50
<b>ANW (Business Unit)</b>	<b>29,691</b>	25,977
Adjustment to reflect consolidated reserving requirements, net of tax	<b>(9,195)</b>	(9,433)
<b>ANW (Consolidated)</b>	<b>20,496</b>	16,544

**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 2017		As at 30 November 2016	
	Business Unit	Consolidated	Business Unit	Consolidated
Free surplus	<b>21,311</b>	<b>12,303</b>	19,089	9,782
Required capital	<b>8,380</b>	<b>8,193</b>	6,888	6,762
<b>ANW</b>	<b>29,691</b>	<b>20,496</b>	25,977	16,544

The Company's subsidiaries, AIA Company Limited (AIA Co.) and AIA International Limited (AIA International), are both subject to the Hong Kong reserving and capital requirements. In addition, AIA International, which is incorporated in Bermuda, is subject to the Bermuda Monetary Authority (BMA) reserving and capital requirements with effect from 1 December 2016. These regulatory and other consolidated reserving and capital requirements apply in addition to the relevant local requirements applicable to our Business Units.

**2. EV RESULTS** (continued)

**2.4 Earnings Profile**

The tables below show 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 consolidated reserving and capital requirements.

**Profile of projected after-tax distributable earnings for the Group's in-force business (US\$ millions)**

Expected period of emergence	As at 30 November 2017	
	Undiscounted	Discounted
1 – 5 years	<b>18,256</b>	<b>15,063</b>
6 – 10 years	<b>14,409</b>	<b>7,913</b>
11 – 15 years	<b>14,280</b>	<b>5,311</b>
16 – 20 years	<b>13,203</b>	<b>3,382</b>
21 years and thereafter	<b>124,840</b>	<b>6,159</b>
<b>Total</b>	<b>184,988</b>	<b>37,828</b>

Expected period of emergence	As at 30 November 2016	
	Undiscounted	Discounted
1 – 5 years	15,490	13,012
6 – 10 years	12,214	6,833
11 – 15 years	11,795	4,532
16 – 20 years	11,278	2,956
21 years 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\$37,828 million (2016: US\$32,332 million) plus the free surplus of US\$12,303 million (2016: US\$9,782 million) shown in Section 2.3 of this report is equal to the EV of US\$50,131 million (2016: US\$42,114 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 2017 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 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 2017 was US\$3,512 million, an increase of US\$762 million, or 28 per cent on actual exchange rates, from US\$2,750 million for the year ended 30 November 2016.

**Summary of VONB by Business Unit (US\$ millions)**

Business Unit	Year ended 30 November 2017			Year ended 30 November 2016		
	VONB before CoC	CoC	VONB after CoC <sup>(1)</sup>	VONB before CoC	CoC	VONB after CoC <sup>(1)</sup>
AIA Hong Kong	1,708	149	<b>1,559</b>	1,464	303	1,161
AIA Thailand	434	53	<b>381</b>	427	43	384
AIA Singapore	358	47	<b>311</b>	355	39	316
AIA Malaysia	239	19	<b>220</b>	217	19	198
AIA China	899	71	<b>828</b>	592	56	536
Other Markets	480	72	<b>408</b>	385	64	321
<b>Total before unallocated Group Office expenses (Business Unit)</b>	<b>4,118</b>	<b>411</b>	<b>3,707</b>	<b>3,440</b>	<b>524</b>	<b>2,916</b>
Adjustment to reflect consolidated reserving and capital requirements	(87)	(22)	<b>(65)</b>	(60)	(23)	(37)
<b>Total before unallocated Group Office expenses (Consolidated)</b>	<b>4,031</b>	<b>389</b>	<b>3,642</b>	<b>3,380</b>	<b>501</b>	<b>2,879</b>
After-tax value of unallocated Group Office expenses	(130)	–	<b>(130)</b>	(129)	–	(129)
<b>Total</b>	<b>3,901</b>	<b>389</b>	<b>3,512</b>	<b>3,251</b>	<b>501</b>	<b>2,750</b>

Note:

(1) 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 2017 and 30 November 2016 were US\$22 million and US\$19 million respectively.

**2. EV RESULTS** (continued)**2.5 Value of New Business** (continued)

The table below shows the breakdown of the VONB, ANP, VONB margin, and the margin on a PVNBP basis (PVNBP margin) for the Group, by quarter, for business written in the year ended 30 November 2017.

The VONB margin and PVNBP margin are defined as VONB, excluding pension business, expressed as a percentage of ANP and PVNBP, respectively. The VONB for pension business is excluded from the margin calculation to be consistent with the definition of ANP and PVNBP.

The Group VONB margin for the year ended 30 November 2017 was 56.8 per cent compared with 52.8 per cent for the year ended 30 November 2016. The Group PVNBP margin for the year ended 30 November 2017 was 10 per cent compared with 9 per cent for the year ended 30 November 2016.

**Breakdown of VONB, ANP, VONB margin and PVNBP margin (US\$ millions)**

	VONB after CoC	ANP	VONB Margin	PVNBP Margin
<b>Year</b>				
<b>Values for 2017</b>				
12 months ended 30 November 2017	<b>3,512</b>	<b>6,092</b>	<b>56.8%</b>	<b>10%</b>
<b>Values for 2016</b>				
12 months ended 30 November 2016	2,750	5,123	52.8%	9%
<b>Quarter</b>				
<b>Values for 2017</b>				
3 months ended 28 February 2017	<b>884</b>	<b>1,779</b>	<b>49.2%</b>	<b>9%</b>
3 months ended 31 May 2017	<b>869</b>	<b>1,417</b>	<b>60.6%</b>	<b>10%</b>
3 months ended 31 August 2017	<b>824</b>	<b>1,367</b>	<b>59.1%</b>	<b>10%</b>
3 months ended 30 November 2017	<b>935</b>	<b>1,529</b>	<b>60.0%</b>	<b>10%</b>
<b>Values for 2016 (Unaudited)</b>				
3 months ended 29 February 2016	578	1,103	51.6%	9%
3 months ended 31 May 2016	682	1,252	53.7%	9%
3 months ended 31 August 2016	689	1,333	50.7%	9%
3 months ended 30 November 2016	801	1,435	54.8%	10%

**2. EV RESULTS** (continued)**2.5 Value of New Business** (continued)

The table below shows the VONB (excluding pension business), ANP, and VONB margin by Business Unit.

**Summary of VONB excluding pension, ANP and VONB margin by Business Unit (US\$ millions)**

Business Unit	Year ended 30 November 2017			Year ended 30 November 2016		
	VONB Excluding Pension	ANP	VONB Margin	VONB Excluding Pension	ANP	VONB Margin
AIA Hong Kong	1,515	2,849	<b>53.2%</b>	1,120	2,294	48.8%
AIA Thailand	381	518	<b>73.6%</b>	384	471	81.5%
AIA Singapore	311	433	<b>71.8%</b>	316	427	74.1%
AIA Malaysia	218	348	<b>62.5%</b>	195	341	57.1%
AIA China	828	968	<b>85.5%</b>	536	621	86.4%
Other Markets	401	976	<b>41.2%</b>	319	969	32.9%
<b>Total before unallocated Group Office expenses (Business Unit)</b>	<b>3,654</b>	<b>6,092</b>	<b>60.0%</b>	<b>2,870</b>	<b>5,123</b>	<b>56.0%</b>
Adjustment to reflect consolidated reserving and capital requirements	(65)	–		(37)	–	
<b>Total before unallocated Group Office expenses (Consolidated)</b>	<b>3,589</b>	<b>6,092</b>	<b>58.9%</b>	<b>2,833</b>	<b>5,123</b>	<b>55.3%</b>
After-tax value of unallocated Group Office expenses	(130)	–		(129)	–	
<b>Total</b>	<b>3,459</b>	<b>6,092</b>	<b>56.8%</b>	<b>2,704</b>	<b>5,123</b>	<b>52.8%</b>

**2.6 Analysis of EV Movement****Analysis of movement in EV (US\$ millions)**

	Year ended 30 November 2017			Year ended 30 November 2016			YoY AER
	ANW	VIF	EV	ANW	VIF	EV	EV
<b>Opening EV</b>	16,544	25,570	<b>42,114</b>	15,189	23,009	38,198	10%
Value of new business	(546)	4,058	<b>3,512</b>	(695)	3,445	2,750	28%
Expected return on EV	4,023	(706)	<b>3,317</b>	3,440	(586)	2,854	16%
Operating experience variances	313	72	<b>385</b>	303	62	365	5%
Operating assumption changes	(229)	148	<b>(81)</b>	26	3	29	n/m
Finance costs	(136)	–	<b>(136)</b>	(111)	–	(111)	23%
<b>EV operating profit</b>	<b>3,425</b>	<b>3,572</b>	<b>6,997</b>	<b>2,963</b>	<b>2,924</b>	<b>5,887</b>	<b>19%</b>
Investment return variances	1,242	275	<b>1,517</b>	(67)	30	(37)	n/m
Effect of changes in economic assumptions	(7)	(183)	<b>(190)</b>	6	(242)	(236)	(19)%
Other non-operating variances	420	(750)	<b>(330)</b>	(142)	120	(22)	n/m
<b>Total EV profit</b>	<b>5,080</b>	<b>2,914</b>	<b>7,994</b>	<b>2,760</b>	<b>2,832</b>	<b>5,592</b>	<b>43%</b>
Dividends	(1,376)	–	<b>(1,376)</b>	(1,124)	–	(1,124)	22%
Other capital movements	134	–	<b>134</b>	(5)	–	(5)	n/m
Effect of changes in exchange rates	114	1,151	<b>1,265</b>	(276)	(271)	(547)	n/m
<b>Closing EV</b>	<b>20,496</b>	<b>29,635</b>	<b>50,131</b>	<b>16,544</b>	<b>25,570</b>	<b>42,114</b>	<b>19%</b>

**2. EV RESULTS** (continued)**2.6 Analysis of EV Movement** (continued)

EV operating profit grew by 19 per cent on actual exchange rates to US\$6,997 million (2016: US\$5,887 million) compared with 2016. The growth reflected a combination of a higher VONB of US\$3,512 million (2016: US\$2,750 million) and a higher expected return on EV of US\$3,317 million (2016: US\$2,854 million). Overall operating experience variances and operating assumption changes were again positive at US\$304 million (2016: US\$394 million). Finance costs were US\$136 million (2016: US\$111 million).

The VONB is calculated at the point of sale for business written during the year before deducting the amount attributable to non-controlling interests. The expected return on EV is the expected change in the EV over the year plus the expected return on the VONB from the point of sale to 30 November 2017 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 year and that expected based on the operating assumptions.

The main operating experience variances, net of tax, were US\$385 million (2016: US\$365 million), reflecting:

- Expense variances of US\$54 million (2016: US\$12 million);
- Mortality and morbidity claims variances of US\$197 million (2016: US\$200 million); and
- Persistency and other variances of US\$134 million (2016: US\$153 million).

The effect of changes in operating assumptions during the year was US\$(81) million (2016: US\$29 million).

The EV profit of US\$7,994 million (2016: US\$5,592 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 year and the expected investment returns. This amounted to US\$1,517 million (2016: US\$(37) million) from the net effect of short-term capital market movements on the Group's investment portfolio and statutory reserves compared with the expected returns.

The effect of changes in economic assumptions amounted to US\$(190) million (2016: US\$(236) million).

Other non-operating variances amounted to US\$(330) million (2016: US\$(22) million) which comprised a decrease in EV of US\$183 million due to changes in regulatory requirements, including the strengthening of risk-based capital requirements in Singapore and the newly published mortality tables in Thailand, and others including modelling-related enhancements.

The Group paid total shareholder dividends of US\$1,376 million (2016: US\$1,124 million). Other capital movements increased EV by US\$134 million (2016: reduced EV by US\$5 million).

Foreign exchange movements were US\$1,265 million (2016: US\$(547) million).

**Operating ROEV (US\$ millions)**

Operating return on EV (Operating ROEV) is calculated as EV operating profit expressed as a percentage of the opening EV and was 16.6% (2016: 15.4%) for the year ended 30 November 2017.

	Year ended 30 November 2017	Year ended 30 November 2016	YoY CER	YoY AER
EV operating profit	<b>6,997</b>	5,887	19%	19%
Opening EV	<b>42,114</b>	38,198	12%	10%
<b>Operating ROEV</b>	<b>16.6%</b>	15.4%	1.1 pps	1.2 pps



**2. EV RESULTS** (continued)**2.7 EV Equity**

The EV Equity grew to US\$51,775 million at 30 November 2017, an increase of 19 per cent on actual exchange rates from US\$43,650 million as at 30 November 2016.

**Derivation of EV Equity from EV (US\$ millions)**

	As at 30 November 2017	As at 30 November 2016	Growth CER	Growth AER
EV	<b>50,131</b>	42,114	16%	19%
Goodwill and other intangible assets <sup>(1)</sup>	<b>1,644</b>	1,536	4%	7%
<b>EV Equity</b>	<b>51,775</b>	43,650	15%	19%

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 2017 and the VONB for the year ended 30 November 2017 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 2017 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 2017); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 30 November 2017).

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 2017 and the values of debt instruments held at 30 November 2017 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)

As the Group operates in multiple geographical markets in the Asia-Pacific region, the EV results for the Group are translated from multiple currencies to US dollar which is the Group's presentation currency. In order to provide sensitivity results for EV and VONB of the impact of foreign currency movements, a change of 5 per cent to the US dollar is included.

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 2017 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 2017 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 (US\$ millions)**

Scenario	As at 30 November 2017		As at 30 November 2016	
	EV	Ratio	EV	Ratio
<b>Central value</b>	<b>50,131</b>		42,114	
<i>Impact of:</i>				
200 bps increase in risk discount rates	<b>(6,146)</b>	<b>(12.3)%</b>	(5,193)	(12.3)%
200 bps decrease in risk discount rates	<b>9,884</b>	<b>19.7%</b>	8,089	19.2%
10% increase in equity prices	<b>719</b>	<b>1.4%</b>	725	1.7%
10% decrease in equity prices	<b>(725)</b>	<b>(1.4)%</b>	(734)	(1.7)%
50 bps increase in interest rates	<b>29</b>	<b>0.1%</b>	148	0.4%
50 bps decrease in interest rates	<b>(442)</b>	<b>(0.9)%</b>	(378)	(0.9)%
5% appreciation in the presentation currency	<b>(1,558)</b>	<b>(3.1)%</b>	(1,081)	(2.6)%
5% depreciation in the presentation currency	<b>1,558</b>	<b>3.1%</b>	1,081	2.6%
10% increase in lapse/discontinuance rates	<b>(779)</b>	<b>(1.6)%</b>	(678)	(1.6)%
10% decrease in lapse/discontinuance rates	<b>889</b>	<b>1.8%</b>	792	1.9%
10% increase in mortality/morbidity rates	<b>(3,678)</b>	<b>(7.3)%</b>	(3,445)	(8.2)%
10% decrease in mortality/morbidity rates	<b>3,607</b>	<b>7.2%</b>	3,462	8.2%
10% decrease in maintenance expenses	<b>555</b>	<b>1.1%</b>	523	1.2%
Expense inflation set to 0%	<b>581</b>	<b>1.2%</b>	550	1.3%

**3. SENSITIVITY ANALYSIS** (continued)**Sensitivity of VONB (US\$ millions)**

Scenario	Year ended 30 November 2017		Year ended 30 November 2016	
	VONB	Ratio	VONB	Ratio
<b>Central value</b>	<b>3,512</b>		2,750	
<i>Impact of:</i>				
200 bps increase in risk discount rates	<b>(988)</b>	<b>(28.1)%</b>	(796)	(28.9)%
200 bps decrease in risk discount rates	<b>1,871</b>	<b>53.3%</b>	1,424	51.8%
50 bps increase in interest rates	<b>181</b>	<b>5.2%</b>	177	6.4%
50 bps decrease in interest rates	<b>(250)</b>	<b>(7.1)%</b>	(226)	(8.2)%
5% appreciation in the presentation currency	<b>(106)</b>	<b>(3.0)%</b>	(82)	(3.0)%
5% depreciation in the presentation currency	<b>106</b>	<b>3.0%</b>	82	3.0%
10% increase in lapse rates	<b>(186)</b>	<b>(5.3)%</b>	(134)	(4.9)%
10% decrease in lapse rates	<b>195</b>	<b>5.6%</b>	150	5.5%
10% increase in mortality/morbidity rates	<b>(343)</b>	<b>(9.8)%</b>	(336)	(12.2)%
10% decrease in mortality/morbidity rates	<b>330</b>	<b>9.4%</b>	328	11.9%
10% decrease in maintenance expenses	<b>82</b>	<b>2.3%</b>	84	3.1%
Expense inflation set to 0%	<b>56</b>	<b>1.6%</b>	56	2.0%

**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 Co., a company incorporated in Hong Kong and a subsidiary of the Company, and AIA International, a company incorporated in Bermuda and an indirect subsidiary of the Company. 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 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., and the New Zealand branch of AIA International;
- AIA Cambodia refers to AIA (Cambodia) Life Insurance Plc., a subsidiary of AIA International;
- 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.;

**4. METHODOLOGY** (continued)**4.1 Entities Included in This Report** (continued)

- AIA Philippines 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.

In addition, the financial results from the entity Tata AIA Life Insurance Company Limited (Tata AIA), which is 49 per cent owned by AIA International, 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 market-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 an implicit overall level of allowance for 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 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.

**4. METHODOLOGY** (continued)**4.2 Embedded Value and Value of New Business** (continued)

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\$22 million for the year ended 30 November 2017 (2016: US\$19 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.

**4.3 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 and Subsidiaries 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 and subsidiaries of these entities. In addition, AIA International, which is incorporated in Bermuda, is subject to the BMA reserving and capital requirements with effect from 1 December 2016. These regulatory and other consolidated reserving and capital requirements apply in addition to the relevant local requirements applicable to our Business Units.

The EV and VONB results for the Group shown in Section 2 of this report have been adjusted to reflect the consolidated reserving and capital requirements. This approach was taken so as to reflect the distribution of profits from AIA Co. and AIA International after allowing for the Hong Kong, BMA, local regulatory and other reserving and capital requirements as applied by the Group. The EV and VONB for each Business Unit reflect the local reserving and capital requirements, as discussed in Section 4.6 of this report, before a Group-level adjustment to reflect the consolidated reserving and capital requirements.

**4. METHODOLOGY** (continued)**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 consolidated reserving and capital requirements have the effect of reducing the level of any future projected statutory losses. Based on the assumptions described in Section 5 of this report, and allowing for the consolidated statutory reserving and capital requirements, 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.

**4.6 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.

**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
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 Philippines	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
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

Note:

(1) On 22 November 2016, the China Association of Actuaries (CAA) issued new guidance for embedded value calculations. The new guidance was applied to the EV calculations for AIA China with effect from 30 November 2016. Consistent with prior reporting periods, VONB is calculated as at the point of sale and therefore the new guidance is reflected in the VONB for AIA China with effect from 1 December 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 results.

**Capital Requirements on Consolidation**

The Group has an undertaking to the Hong Kong Insurance Authority (HKIA) to maintain required capital not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of AIA Hong Kong and no less than 100% of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong.

AIA International and its subsidiaries hold required capital at no less than 120% of the BMA regulatory capital requirements.

## 5. ASSUMPTIONS

### 5.1 Introduction

This section summarises the assumptions used by the Group to determine the EV as at 30 November 2017 and the VONB for the year ended 30 November 2017 and highlights certain differences in assumptions between the EV as at 30 November 2016 and the EV as at 30 November 2017.

### 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.

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 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 an implicit overall level of allowance for risk.

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 2017	As at 30 Nov 2016
AIA Australia	<b>2.50</b>	2.72
AIA China	<b>3.90</b>	2.95
AIA Hong Kong <sup>(1)</sup>	<b>2.44</b>	2.38
AIA Indonesia	<b>6.52</b>	8.14
AIA Korea	<b>2.48</b>	2.15
AIA Malaysia	<b>3.91</b>	4.41
AIA Philippines	<b>5.56</b>	4.52
AIA Singapore	<b>2.13</b>	2.30
AIA Sri Lanka	<b>10.31</b>	14.11
AIA Taiwan	<b>1.00</b>	1.12
AIA Thailand	<b>2.55</b>	2.69
AIA Vietnam	<b>5.45</b>	6.30

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. 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 2017	As at 30 Nov 2016	10-year government bonds		Local equities	
			As at 30 Nov 2017	As at 30 Nov 2016	As at 30 Nov 2017	As at 30 Nov 2016
AIA Australia	<b>7.35</b>	7.35	<b>3.00</b>	3.00	<b>7.50</b>	7.50
AIA China	<b>9.75</b>	9.55	<b>3.70</b>	3.50	<b>9.30</b>	9.30
AIA Hong Kong <sup>(1)</sup>	<b>7.30</b>	7.00	<b>2.80</b>	2.50	<b>7.60</b>	7.60
AIA Indonesia	<b>13.00</b>	13.50	<b>7.50</b>	8.00	<b>12.00</b>	12.50
AIA Korea	<b>8.60</b>	8.60	<b>2.70</b>	2.70	<b>7.20</b>	7.20
AIA Malaysia	<b>8.75</b>	8.75	<b>4.20</b>	4.20	<b>8.80</b>	8.80
AIA Philippines	<b>11.30</b>	11.00	<b>4.80</b>	4.50	<b>10.00</b>	9.70
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>	12.00
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>	8.60	<b>3.20</b>	3.20	<b>9.00</b>	9.00
AIA Vietnam	<b>12.30</b>	12.80	<b>6.50</b>	7.00	<b>11.80</b>	12.30

Note:

(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.

**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-operating expenses, based on actual acquisition and maintenance expenses in the year ended 30 November 2017. 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 2017	As at 30 November 2016
AIA Australia	<b>3.0</b>	3.0
AIA China	<b>2.0</b>	2.0
AIA Hong Kong	<b>2.0</b>	2.0
AIA Indonesia	<b>6.0</b>	6.0
AIA Korea	<b>3.5</b>	3.5
AIA Malaysia	<b>3.0</b>	3.0
AIA Philippines	<b>3.5</b>	3.5
AIA Singapore	<b>2.0</b>	2.0
AIA Sri Lanka	<b>6.5</b>	6.5
AIA Taiwan	<b>1.2</b>	1.2
AIA Thailand	<b>2.0</b>	2.0
AIA Vietnam	<b>5.0</b>	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.

**5.10 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 2017	As at 30 November 2016
AIA Australia	<b>30.0</b>	30.0
AIA China	<b>25.0</b>	25.0
AIA Hong Kong	<b>16.5</b>	16.5
AIA Indonesia	<b>25.0</b>	25.0
AIA Korea	<b>24.2</b>	24.2
AIA Malaysia	<b>24.0</b>	24.0
AIA Philippines	<b>30.0</b>	30.0
AIA Singapore	<b>17.0</b>	17.0
AIA Sri Lanka	<b>28.0</b>	28.0
AIA Taiwan	<b>17.0</b>	17.0
AIA Thailand	<b>20.0</b>	20.0
AIA Vietnam	<b>20.0</b>	20.0

**5. ASSUMPTIONS** (continued)**5.10 Taxation** (continued)

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 2017 is calculated after deducting any remittance taxes payable on the anticipated distribution of both the ANW and VIF.

**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 with effect from 30 November 2016. Consistent with prior reporting periods, VONB is calculated as at the point of sale and the new guidance is reflected in the VONB for AIA China with effect from 1 December 2016.

**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 2017 and 30 November 2016 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 1 January 2018, AIA International completed the transfer of its insurance business in Korea from a branch to a wholly-owned subsidiary, AIA Life Insurance Co. Ltd.

In September 2017, the Group reached an agreement, subject to securing all necessary regulatory and governmental approvals, to acquire Commonwealth Bank of Australia's (CBA) life insurance business in Australia and life and health insurance businesses in New Zealand. The transaction includes 20-year strategic bancassurance partnerships with CBA in Australia and ASB Bank Limited in New Zealand. The transaction will expand the Group's distribution capabilities and customer reach in Australia and New Zealand markets. As announced on 21 September 2017, the gross consideration to be paid with respect to the proposed transaction is expected to be approximately US\$3.0 billion payable in cash on completion of the proposed transaction and subject to certain adjustments at completion. After taking into account the expected proceeds from reinsurance agreements and the expected free surplus of the acquired businesses, the final net cash outlay by AIA is expected to be approximately US\$1.5 billion.

In December 2017, the Group entered into a 15-year extension of the existing exclusive regional bancassurance agreement with Public Bank Berhad, a leading Malaysian banking group, extending the partnership from 2023 to 2037.

The Board has resolved to change the Company's financial year-end date from 30 November to 31 December. Accordingly, the next financial year-end date of the Company will be 31 December 2018. The next audited Supplementary Embedded Value Information will cover a 12-month period from 1 January 2018 to 31 December 2018.

On 27 February 2018, a Committee appointed by the Board of Directors proposed a final dividend of 74.38 Hong Kong cents per share (2016: 63.75 Hong Kong cents per share).

**ADDITIONAL INFORMATION**  
**INFORMATION FOR SHAREHOLDERS**

**ANALYSIS OF REGISTERED SHAREHOLDER ACCOUNTS**

Size of registered shareholding	30 November 2017			
	Number of shareholder accounts	% of total number of shareholder accounts	Number of shares	% of total number of shares
1,000 shares or below	<b>16,637</b>	<b>79.54</b>	<b>6,333,355</b>	<b>0.05</b>
1,001 – 5,000 shares	<b>3,630</b>	<b>17.35</b>	<b>8,277,331</b>	<b>0.07</b>
5,001 – 10,000 shares	<b>409</b>	<b>1.96</b>	<b>3,155,600</b>	<b>0.03</b>
10,001 – 100,000 shares	<b>232</b>	<b>1.11</b>	<b>5,441,761</b>	<b>0.05</b>
100,001 shares or above	<b>9</b>	<b>0.04</b>	<b>12,051,333,409</b>	<b>99.80</b>
	<b>20,917</b>	<b>100.00</b>	<b>12,074,541,456</b>	<b>100.00</b>

**FINANCIAL CALENDAR**

Announcement of 2017 Full Year Results	27 February 2018
Book Close Period for the AGM	15 May 2018 to 18 May 2018 (both days inclusive)
Date of the AGM	18 May 2018
Announcement of 2018 Interim Results	24 August 2018

**ANNUAL GENERAL MEETING**

The AGM will be held at 11:00 a.m. (Hong Kong time) on Friday, 18 May 2018 at the Grand Ballroom, 2/F, New World Millennium Hong Kong Hotel, 72 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong. Details of the business to be transacted at the AGM are set out in the circular to the shareholders of the Company to be sent together with this Annual Report.

Details of voting results at the AGM can be found on the websites of both the Hong Kong Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) and the Company at [www.aia.com](http://www.aia.com) on Friday, 18 May 2018 after the AGM.

**FINAL DIVIDEND**

The Board has recommended a final dividend of 74.38 Hong Kong cents per share (2016: 63.75 Hong Kong cents per share) for the year ended 30 November 2017. If approved, the proposed final dividend together with the interim dividend will represent a total dividend of 100.00 Hong Kong cents per share (2016: 85.65 Hong Kong cents per share) for the year ended 30 November 2017.

Subject to shareholders' approval at the AGM, the final dividend will be payable on Friday, 8 June 2018 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 24 May 2018.

**Relevant Dates for the Final Dividend**

Ex-dividend date	23 May 2018
Record date	24 May 2018
Payment date	8 June 2018

## ANNUAL STATEMENT ISSUED PURSUANT TO THE OFFSHORE FUND TAX EXEMPTION REGIME IN SINGAPORE

An indirect wholly-owned subsidiary of the Company, AIA Investment Management Private Limited, was incorporated in Singapore on 15 June 2016. Its businesses include the management of certain assets of the Company and its subsidiaries and branches, and it is required by the Income Tax (Exemption of Income of Prescribed Persons Arising from Funds Managed by Fund Manager in Singapore) Regulations 2010 to issue an annual statement to each shareholder of the Company. To comply with the above legal requirement in Singapore, an annual statement containing the profit and market capitalisation information of the Company is available on the Company's website. You may visit the Company's website by clicking "Annual Statement issued pursuant to The Offshore Fund Tax Exemption Regime In Singapore" under the sub-section headed "Shareholder Centre" in the section headed "Investor Relations" to view the annual statement.

## SHARE REGISTRAR

If you have any enquiries relating to your shareholding, please contact the Company's share registrar with the contact details set out below:

Computershare Hong Kong Investor Services Limited  
 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong  
 Telephone: +852 2862 8555  
 Email: [hkinfo@computershare.com.hk](mailto:hkinfo@computershare.com.hk) (for general enquiries)  
       [aia.ecom@computershare.com.hk](mailto:aia.ecom@computershare.com.hk) (for printed copies of the Company's corporate communications)  
 Website: [www.computershare.com](http://www.computershare.com)

## ANNUAL REPORT

This Annual Report is printed in English and Chinese and is available on the website of the Company. If you would like to have a printed version of this Annual Report, please contact the Company's share registrar using the contact details given above.

The Company makes every effort to ensure consistency between the Chinese and English versions of this Annual Report. In the event of any inconsistency, however, the English version shall prevail.

For environmental and cost reasons, shareholders are encouraged to elect to receive shareholder documents electronically. You may at any time send written notice to the Company c/o the Company's share registrar or via email at [aia.ecom@computershare.com.hk](mailto:aia.ecom@computershare.com.hk) specifying your name, address and request to change your choice of language or means of receipt of all shareholder documents.

## INVESTMENT COMMUNITY AND NEWS MEDIA

Enquiries may be directed to:

Investment Community		News Media	
Lance Burbidge	+852 2832 1398	Stephen Thomas	+852 2832 6178
Feon Lee	+852 2832 4704	Allister Fowler	+852 2832 1978
Rachel Poon	+852 2832 4792	Emerald Ng	+852 2832 4720

### **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.

## BOARD OF DIRECTORS

### Independent Non-executive Chairman and Independent Non-executive Director

Mr. Edmund Sze-Wing Tse

### Executive Director, Group Chief Executive and President

Mr. Ng Keng Hooi

### 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

Dr. Narongchai Akrasanee

Mr. Cesar Velasquez Purisima

## AUDIT COMMITTEE

Mr. John Barrie Harrison (*Chairman*)

Mr. Jack Chak-Kwong So

Mr. George Yong-Boon Yeo

Dr. Narongchai Akrasanee

## NOMINATION COMMITTEE

Mr. Edmund Sze-Wing Tse (*Chairman*)

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

Dr. Narongchai Akrasanee

Mr. Cesar Velasquez Purisima

## REMUNERATION COMMITTEE

Mr. Jack Chak-Kwong So (*Chairman*)

Mr. George Yong-Boon Yeo

Mr. Mohamed Azman Yahya

Mr. Edmund Sze-Wing Tse

## RISK COMMITTEE

Mr. Chung-Kong Chow (*Chairman*)

Mr. John Barrie Harrison

Professor Lawrence Juen-Yee Lau

Ms. Swee-Lian Teo

Mr. Edmund Sze-Wing Tse

Mr. Ng Keng Hooi

## REGISTERED OFFICE

35/F, AIA Central

No. 1 Connaught Road Central

Hong Kong

## WEBSITE

[www.aia.com](http://www.aia.com)

## COMPANY SECRETARY

Mr. Mitchell New

## AUTHORISED REPRESENTATIVES

Mr. Ng Keng Hooi

Mr. Mitchell New

## SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

17M Floor

Hopewell Centre

183 Queen's Road East, Wanchai

Hong Kong

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

Citibank, N.A.

Standard Chartered Bank

## AUDITOR

PricewaterhouseCoopers

*Certified Public Accountants*

**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. ANW for AIA is stated after adjustment to reflect consolidated reserving requirements. ANW by market is stated before adjustment to reflect consolidated reserving requirements, and presented on a local statutory basis.
AER	Actual exchange rates.
AGM	2018 Annual General Meeting of the Company to be held at 11:00 a.m. (Hong Kong time) on Friday, 18 May 2018.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA Co.	AIA Company Limited, a company incorporated in Hong Kong and a subsidiary of the Company.
AIA International	AIA International Limited, a company incorporated in Bermuda and an indirect subsidiary of the Company.
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.
AIG	American International Group, Inc.
ALICO	American Life Insurance Company.
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, a share purchase plan with matching offer to facilitate and encourage AIA share ownership by agents.
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.
Board	The board of Directors.
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.
CIRC	China Insurance Regulatory Commission.
Company	AIA Group Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1299).
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. CoC for AIA is stated after adjustment to reflect consolidated capital requirements. CoC by market is stated before adjustment to reflect consolidated capital requirements, and presented on a local statutory basis.
Dealing Policy	Directors' and Chief Executives' Dealing Policy of the Company.

## ADDITIONAL INFORMATION

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.
Director(s)	The director(s) of the Company.
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. EV for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. EV by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
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 (as amended), a share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees.
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.
FRC	Financial Risk Committee.
free surplus	ANW in excess of the required capital. Free surplus for AIA is stated after adjustment to reflect consolidated reserving and capital requirements.
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.
HKIA	Insurance Authority established under the Insurance Companies (Amendment) Ordinance 2015 or prior to 26 June 2017, the Office of the Commissioner of Insurance.
HKICPA	Hong Kong Institute of Certified Public Accountants.
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 Ordinance or HKIO	Insurance 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.
Hong Kong Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited.
IAIS	International Association of Insurance Supervisors.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
IFA	Independent financial adviser.
IFRS	Standards and interpretations adopted by the IASB comprising: <ul style="list-style-type: none"> <li>• International Financial Reporting Standards;</li> <li>• IAS; and</li> <li>• Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC).</li> </ul>

## ADDITIONAL INFORMATION

ING Malaysia	ING Management Holdings (Malaysia) Sdn. Bhd.
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. It is part of iMO.
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.
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	The 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.
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.
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	Operating profit is determined using, among others, expected long-term investment return 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 used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.
operating return on EV or operating 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 operating 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.
ORC	Operational Risk Committee.
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.

## ADDITIONAL INFORMATION

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.
PVNB margin	VONB excluding pension business, expressed as a percentage of present value of new business premiums (PVNB). PVNB margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses.
RAS	Risk Appetite Statement.
regulatory minimum capital	Net assets held to meet the minimum solvency margin requirement set by the HKIO 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, adopted by the Company on 28 September 2010 (as amended), under which the Company may award restricted share units to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries.
second half	The six months from 1 June to 30 November.
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time.
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, adopted by the Company on 28 September 2010 (as amended), under which the Company may award share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries.
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.
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. VIF for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VIF by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.

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 consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB by market is stated before adjustments to reflect consolidated 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 consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB margin by market is stated before adjustments to reflect consolidated 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.



