AIA GROUP LIMITED
友邦保險控股有限公司

MAKING A REAL DIFFERENCE.

LONGER, HEALTHIER, BETTER LIVES.

ANNUAL REPORT 2016

STOCK CODE : 1299

THE REAL LIFE COMPANY

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$185 billion as of 30 November 2016.

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

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

Notes:
(1) Explanations of certain terms and abbreviations used in this report are set forth in the Glossary.
(2) Unless otherwise specified, 2015 and 2016 refer to the financial year of the Group, which ends on 30 November of the year indicated.

KEY MILESTONES

1919

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.

2010

2015

2016

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.

2011
AIA Group Limited became a constituent stock of the Hang Seng Index.

We launched a sponsored Level 1 American Depositary 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.

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.

We opened a representative office in Cambodia.

2016

AIA LEADERSHIP CENTRE
The AIA Leadership Centre opened in Bangkok. The first-of-its-kind training centre will strengthen and develop AIA's senior talent pool.

AIA TOPS MDRT AGAIN
AIA became the only company in the world to have the largest number of Million Dollar Round Table (MDRT) members for two consecutive years.

GROWING PRESENCE IN INDIA
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.

AIA AT-A-GLANCE[1]

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

THE ONLY INTERNATIONAL LIFE INSURER HEADQUARTERED AND LISTED IN HONG KONG AND

100% FOCUSED ON ASIA-PACIFIC

PRESENCE IN

18 MARKETS

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

THE

LARGEST LISTED COMPANY ON THE HONG KONG STOCK EXCHANGE

WHICH IS INCORPORATED AND HEADQUARTERED IN HONG KONG

THE

SECOND LARGEST LIFE INSURER IN THE WORLD

#1 WORLDWIDE FOR MDRT MEMBERS;

THE ONLY COMPANY TO TOP THE TABLE FOR TWO CONSECUTIVE YEARS

SERVING THE HOLDERS OF MORE THAN

30 MILLION INDIVIDUAL POLICIES

AND OVER

16 MILLION PARTICIPATING MEMBERS OF GROUP INSURANCE SCHEMES

PROVIDES PROTECTION TO PEOPLE ACROSS THE REGION WITH TOTAL SUM ASSURED OF OVER **US$1 TRILLION**

MADE

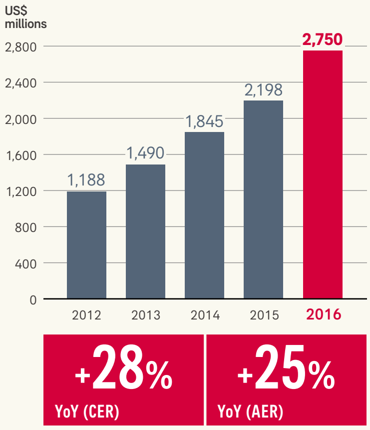
13 MILLION

BENEFIT PAYMENTS DURING 2016, HELPING CUSTOMERS AND THEIR FAMILIES TO COPE WITH CHALLENGES AT DIFFERENT LIFE STAGES

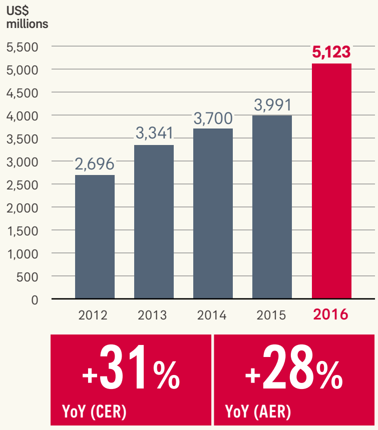
Note:
(1) All the figures on this page are as of 30 November 2016.

2016 RESULTS AT-A-GLANCE*

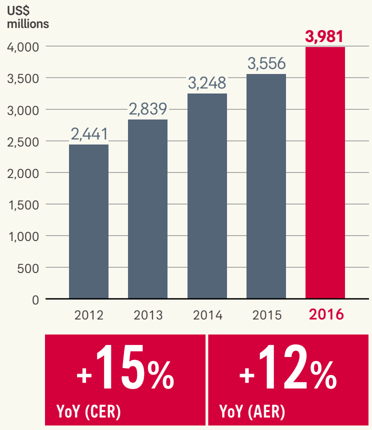
VALUE OF NEW BUSINESS (VONB)(1)



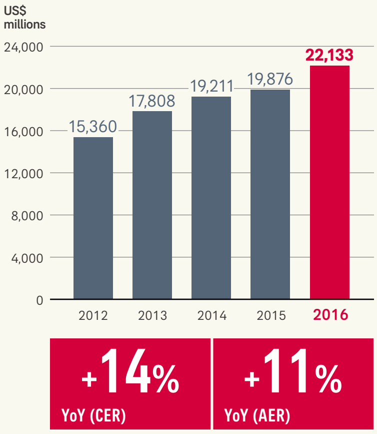
ANNUALISED NEW PREMIUMS (ANP)(2)



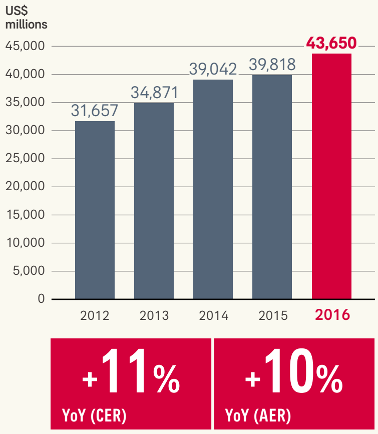
OPERATING PROFIT AFTER TAX (OPAT)(3)(6)



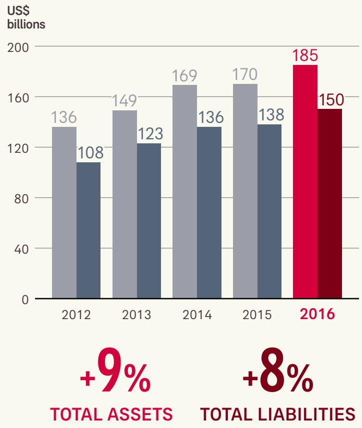
TOTAL WEIGHTED PREMIUM INCOME (TWPI)(4)



EV EQUITY(5)



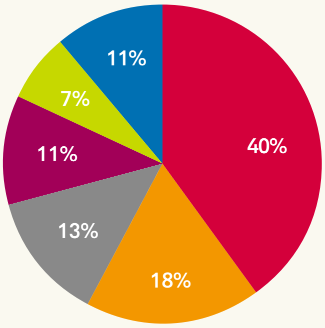
TOTAL ASSETS(6) AND TOTAL LIABILITIES



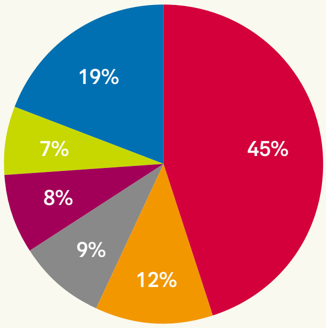
Note:
* Percentages shown indicate changes in 2016 compared with 2015.

2016 BREAKDOWN BY MARKET SEGMENT

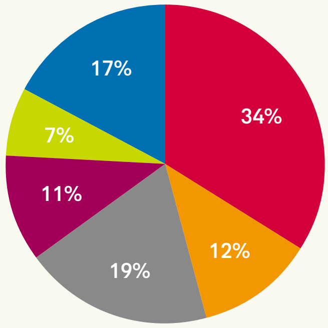
VALUE OF NEW BUSINESS (VONB)(1)(7)



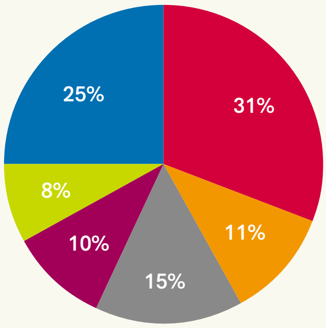
ANNUALISED NEW PREMIUMS (ANP)(2)



OPERATING PROFIT AFTER TAX (OPAT)(3)



TOTAL WEIGHTED PREMIUM INCOME (TWPI)(4)



- HONG KONG
- CHINA
- THAILAND
- SINGAPORE
- MALAYSIA
- OTHER MARKETS(8)

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) OPAT and total assets from 2012 to 2015 have been adjusted to reflect the revised definition of operating profit and accounting policies change for real estate, as highlighted in notes 47 and 48 to the financial statements.

(7) Based on local statutory basis and before unallocated Group Office expenses, VONB by segment includes pension business.

(8) 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.

CONTENTS

OVERVIEW

FINANCIAL AND OPERATING REVIEW

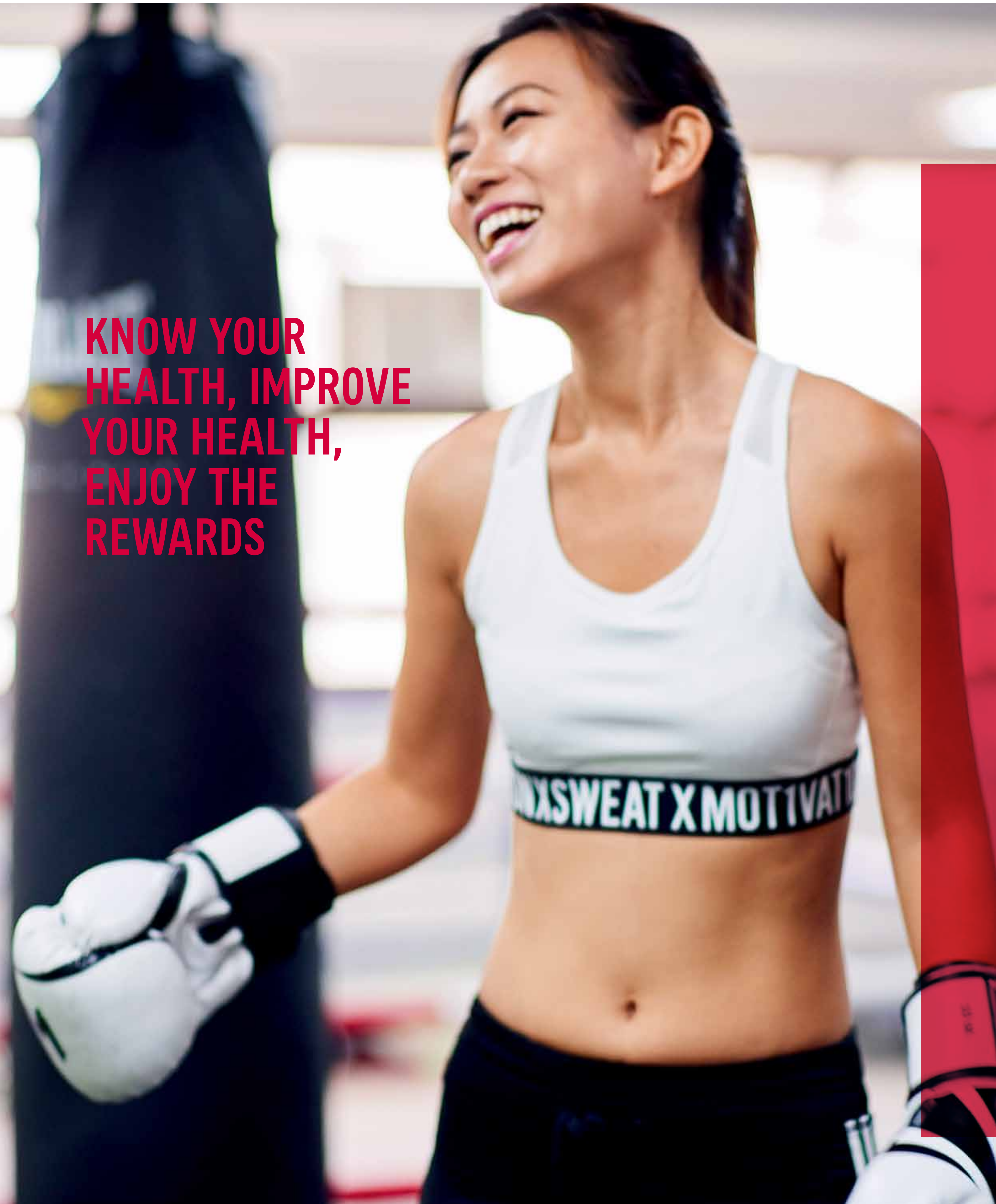
CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

At AIA, we believe in the power of life insurance protection and long-term savings to make a positive difference in people's lives. We do this through our products, services and actively encouraging healthy living and wellness of our customers, employees and agents and the communities in which they live and work.

WE ARE COMMITTED TO HELPING PEOPLE TO LIVE LONGER, HEALTHIER, BETTER LIVES



KNOW YOUR HEALTH, IMPROVE YOUR HEALTH, ENJOY THE REWARDS

REAL PRIORITIES

AIA Vitality gives people the knowledge, tools and motivation to improve their health.

By better understanding their personal health and working towards improving it, they enjoy longer and better lives, with the added incentive of enjoying great benefits, including travel, entertainment, shopping and lifestyle rewards.

AIA VITALITY

REAL COMMITMENT

AIA IS THE ONLY COMPANY IN THE WORLD TO TOP THE MDRT LIST FOR TWO CONSECUTIVE YEARS

In holding on to our 2015 #1 ranking, AIA made history in 2016 as the only multinational company to top the prestigious Million Dollar Round Table (MDRT) list for two consecutive years. MDRT is recognised as the global standard of excellence in the life insurance and financial services business, whose members are required to demonstrate exceptional professional knowledge, strict ethical conduct and exceptional client service. The achievement reflects the success of AIA's Premier Agency strategy, leading to significant investments in agency training and development.

AIA VITALITY | MALAYSIA

With the introduction of AIA Vitality, a science-backed wellness programme, AIA is committed to helping people live longer, healthier, better lives. Real change begins with small steps and AIA offers support at every step along the way.

REAL INNOVATION

AIA ACCELERATOR

Building on the great success of the inaugural AIA Accelerator, AIA Accelerator 2.0 expands on the original programme's scope into the areas of customer engagement and CSR. AIA is committed to supporting innovative entrepreneurs who have demonstrated passion and expertise in helping improve people's lives, now and into the future.

THE EXCEPTIONAL SUCCESS OF iPoS LED AIA TO ELEVATE THIS PLATFORM TO A NEW LEVEL WITH AN INTERACTIVE MOBILE OFFICE (iMO)

INNOVATION AT AIA

At AIA, innovation goes beyond products and services. We launched the AIA Leadership Centre, the first-of-its-kind training centre and a state-of-the-art learning space designed to strengthen and develop AIA's senior talent pool. The AIA Leadership Centre provides AIA with a powerful new capability to develop leaders who deliver on our strategic goals and empower our people to make a real difference in the communities in which we operate.

CSR AT AIA

Our commitment to a wide-ranging and impactful CSR programme is a key component of our vision to be the world's pre-eminent life insurance provider and key to our purpose of playing a leadership role in driving economic and social development across the region.

REAL SUPPORT

WE ARE PROUD OF THE WORK BEING DONE BY OUR EMPLOYEES AND AGENTS TO GIVE BACK TO OUR COMMUNITIES, AND STRIVE TO PROVIDE THEM WITH THE ENCOURAGEMENT AND RESOURCES NEEDED TO SUPPORT A DIVERSE RANGE OF INITIATIVES ACROSS THE REGION

REAL PRIDE

AIA GRAND SUMMIT

WE ARE PROUD OF WHAT OUR AGENTS, EMPLOYEES, AND PARTNERS ARE DOING TO HELP PEOPLE IN THE REGION LIVE LONGER, HEALTHIER, BETTER LIVES BY DISTRIBUTING OUR PRODUCTS AND SERVICES AND ACTIVELY ENCOURAGING HEALTHY LIVING AND WELLNESS.

OVERVIEW

CHAIRMAN'S STATEMENT

It gives me great pleasure to report that 2016 was another year of excellent progress and growth for AIA.

Global politics, economics and capital markets all took unexpected turns in 2016. Throughout this uncertainty, AIA has remained focused on maintaining our established track record of successfully executing our growth strategy to create sustainable value for our shareholders. This has been demonstrated once again by the exceptional results delivered in 2016 across all of our financial metrics.

AIA has been in Asia for close to a century and strives to play a leadership role in supporting economic and social development across the region. We are here to serve our customers by meeting their ever-changing needs for financial security with our products and services and by focusing on helping people live longer, healthier, better lives. This enables us to continue to deliver consistent and sustainable results through the many market cycles we have faced over our long history. I would like to thank our customers and our shareholders for their continuing confidence, support and trust in AIA.

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

The Board intends to follow AIA's prudent, sustainable and progressive dividend policy from this higher base allowing for future growth opportunities and the financial flexibility of the Group. It is one of the many positive aspects of AIA's franchise that we are able to finance significant profitable growth while ensuring that our shareholders benefit directly from the Group's success through our dividend policy.

An important focus of the Board is to ensure that AIA continues to meet the highest international standards of corporate governance. We believe that strong governance is fundamental to our sustainable growth and to maintaining confidence in our organisation from all our stakeholders. Equally important is a sound risk management framework that ensures the prudent and efficient running of the organisation while, at the same time, meeting the highest regulatory expectations and standards.

Effective financial management and leveraging our financial strength have ensured our very strong capital position. As at 30 November 2016, the solvency ratio for our principal regulated operating company AIA Co. remained strong at 404 per cent and the Group's free surplus above required regulatory capital was US$9.8 billion.

My previous re-appointment as Non-executive Chairman was for two years from January 2015. The Board has invited me to remain as Chairman and I am very pleased to accept.

AIA is exceptionally well positioned to benefit from the demographic, social and economic progress across Asia. The Board is keenly aware that converting these opportunities into the excellent results we have achieved since our IPO requires well-grounded strategies, high levels of technical expertise and focused implementation. I would like to convey the Board's deep appreciation for the dedication and commitment of the Group's employees, agents and partners without which our sustainable success would not be possible.

Special thanks are due, as in past years, to our Group Chief Executive and President Mark Tucker and his team for the excellent leadership they provide in achieving these outstanding results.

Edmund Sze-Wing Tse
Non-executive Chairman
24 February 2017

Mr. Edmund Sze-Wing Tse
Non-executive Chairman

GROUP CHIEF EXECUTIVE AND PRESIDENT'S REPORT

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

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

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

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

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

The term "protection gap" is used to indicate the shortfall in the levels of insurance cover needed to safeguard the population against the risks of early mortality, disability, out-of-pocket medical expenses and poverty in old age.

This is the challenge that AIA seeks to meet, with an emphasis first and foremost on providing financial protection against mortality, as the most serious threat to family welfare and the most immediate customer need. It is an unparalleled opportunity for the life insurance industry and one that I believe AIA, with our distribution scale, trusted brand, financial resources and people capabilities, is in an advantaged position to meet.

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

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

2016 PERFORMANCE HIGHLIGHTS (ON A CONSTANT EXCHANGE RATE BASIS)

Hong Kong had another very successful year with a 42 per cent increase in VONB driven by higher activity and productivity levels in our agency distribution, combined with excellent growth in our partnership distribution channel. Our Hong Kong business also benefited from increased volumes of business from

Mainland Chinese customers. While we focus on sales across a number of different customer segments in Hong Kong, we continue to monitor closely any developments relating to customers visiting from Mainland China to ensure that we maintain robust compliance with ongoing measures.

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

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

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

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

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

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

GROUP-WIDE OVERVIEW

DISTRIBUTION

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

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

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

MARKETING AND PRODUCT INNOVATION

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

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

Mr. Mark Edward Tucker
Group Chief Executive and President

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

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

INVESTMENT MANAGEMENT

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

TECHNOLOGY AND OPERATIONS

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

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

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

ENGAGEMENT WITH PEOPLE

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

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

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

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

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

OUTLOOK

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

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

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

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

Mark Edward Tucker
Group Chief Executive and President
24 February 2017

FINANCIAL AND OPERATING REVIEW

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

Mr. Garth Jones
Group Chief Financial Officer

FINANCIAL REVIEW

SUMMARY AND KEY FINANCIAL HIGHLIGHTS

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

VALUE GROWTH

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

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

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

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

IFRS EARNINGS

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

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

CAPITAL AND DIVIDENDS

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

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

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

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

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

NEW BUSINESS GROWTH

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

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

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

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

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

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

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

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

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

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

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

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

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

EMBEDDED VALUE (EV) EQUITY

EV OPERATING PROFIT

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

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

EV Operating Profit Per Share – Basic

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

EV Operating Profit Per Share – Diluted

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

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

EV MOVEMENT

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

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

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

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

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

US$ millions, unless otherwise stated	2016		
	ANW	VIF	EV
Opening EV	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)
EV operating profit	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)
Total EV profit	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)
Closing EV	16,544	25,570	42,114

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

EV Equity

US$ millions, unless otherwise stated	As at 30 November 2016	As at 30 November 2015
EV	**42,114**	38,198
Goodwill and other intangible assets [(1)]	**1,536**	1,620
EV Equity	**43,650**	39,818

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

EV AND VONB SENSITIVITIES

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

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

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

IFRS PROFIT

IFRS Operating Profit After Tax (OPAT)[(1)] by Segment

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

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

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

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

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

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

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

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

Total Weighted Premium Income (TWPI) by Segment

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

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

Investment Return

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

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

Operating Expenses

US$ millions, unless otherwise stated	2016	2015	YoY CER	YoY AER
Operating expenses	**1,752**	1,638	**10%**	7%

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

Net Profit [1]

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

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

IFRS NON-OPERATING MOVEMENT

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

Movement in Shareholders' Allocated Equity

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

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

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

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

IFRS EARNINGS PER SHARE (EPS)

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

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

IFRS Earnings Per Share – Basic

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

IFRS Earnings Per Share – Diluted

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

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

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

CAPITAL

FREE SURPLUS GENERATION

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

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

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

The following table summarises the change in free surplus:

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

NET FUNDS TO GROUP CORPORATE CENTRE

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

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

The movements in working capital are summarised as follows:

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

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

IFRS BALANCE SHEET

Consolidated Statement of Financial Position

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

Movement in Shareholders' Equity

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

Total Investments

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

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

Unit-Linked Contracts and Consolidated Investment Funds

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

Policyholder and Shareholder Investments

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

ASSETS

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

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

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

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

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

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

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

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

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

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

LIABILITIES

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

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

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

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

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

REGULATORY CAPITAL

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

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

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

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

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

GLOBAL MEDIUM TERM NOTE PROGRAMME

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

CREDIT RATINGS

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

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

DIVIDENDS

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

BUSINESS REVIEW

01

01
In 2016, AIA became the only company to be ranked number one in the world for MDRT members for two consecutive years.

DISTRIBUTION

AGENCY

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

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

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

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

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

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

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

PARTNERSHIPS

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

Intermediary Channels

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

Bancassurance

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

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

Direct Marketing

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

GROUP INSURANCE

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

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

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

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

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

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

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

MARKETING

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

CUSTOMER ENGAGEMENT

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

Our shirt sponsorship agreement with Tottenham Hotspur Football Club (Spurs) plays a vital role in AIA's promotion of healthy lifestyles by encouraging active participation in sport. The partnership with Spurs was recognised in the "Best Sponsorship of a Sport, Team or Event of the Year"

01

02

01-02
AIA celebrated its 85th anniversary in Hong Kong by hosting the AIA Vitality Weekly Challenge.

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

01

category at the 2016 Asian Sports Industry Awards. AIA also organised various customer and employee engagement events in 2016 to foster positive values of teamwork, discipline and sportsmanship. These events included the AIA Championship, a regional five-a-side football tournament that has attracted participants across Asia.

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

PRODUCT DEVELOPMENT

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

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

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

TECHNOLOGY AND OPERATIONS

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

DRIVING OPERATIONAL EFFICIENCY AND PRODUCTIVITY

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

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

SIMPLIFYING CUSTOMER INTERACTIONS

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

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

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

PROMOTING INNOVATION

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

01
In Singapore, we launched the first 2-in-1 Savest™ plan combining unit-linked and participating benefits.

02-03
We organised the AIA Accelerator programme for the second year, with the goal of delivering innovation through the use of new and emerging technologies to support business evolution and help drive social and economic development.

02

03

HONG KONG

FINANCIAL HIGHLIGHTS

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

	2016	2015	YoY (CER)	YoY (AER)
VONB[(1)]	1,161	820	42%	42%
VONB MARGIN[(2)]	48.8%	62.0%	(13.2) pps	(13.2) pps
ANP	2,294	1,263	82%	82%
TWPI	6,873	5,115	34%	34%
OPERATING PROFIT AFTER TAX	1,334	1,147	16%	16%

US$ MILLIONS, UNLESS OTHERWISE STATED

Notes:
(1) VONB figures shown in the table 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.

BUSINESS HIGHLIGHTS

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

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

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

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

REAL LOVE

AIA continued to inspire people to cherish their loved ones through mini-films. Based on real life, the film tells the story of Hong Kong's first world champion bowler, Wu Siu Hong, and his fight against cancer, conveying the message that "Love is in Every Moment".

THAILAND

REAL STRENGTH

AIA's new television commercial brings to life AIA Vitality programme's compelling concept – that pursuing a healthy lifestyle provides not only physical but material rewards, with premium discounts and a variety of lifestyle privileges.

FINANCIAL HIGHLIGHTS

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

BUSINESS HIGHLIGHTS

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

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

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

Metric	2016	2015	YoY (CER)	YoY (AER)
VONB[(1)]	384	395	1%	(3)%
VONB MARGIN[(2)]	81.5%	75.8%	5.4 pps	5.7 pps
ANP	471	520	(6)%	(9)%
TWPI	3,327	3,324	4%	-
OPERATING PROFIT AFTER TAX	768	681	17%	13%

US$ MILLIONS, UNLESS OTHERWISE STATED

Notes:
(1) VONB figures shown in the table 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.

SINGAPORE

FINANCIAL HIGHLIGHTS

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

BUSINESS HIGHLIGHTS

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

Metric	2016	2015	YoY (CER)	YoY (AER)
VONB[1]	316	341	(7)%	(7)%
VONB MARGIN[2]	74.1%	72.4%	1.4 pps	1.7 pps
ANP	427	471	(9)%	(9)%
TWPI	2,276	2,283	1%	-
OPERATING PROFIT AFTER TAX	453	426	6%	6%

US$ MILLIONS, UNLESS OTHERWISE STATED

Notes:
(1) VONB figures shown in the table 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.

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

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

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

REAL UNDERSTANDING

AIA Singapore developed the Savest™ concept based on the understanding that consumers today are seeking the best of both worlds - an effective wealth management solution that allows customers to save as well as to invest.

MALAYSIA

REAL CHALLENGES

AIA launched AIA Vitality in Malaysia to provide participants with the knowledge, tools and motivation to improve their health. The programme integrates health and wellness benefits with AIA's life insurance and Takaful solutions, allowing AIA to play a more active role in empowering and motivating Malaysians to take much better care of their health.

FINANCIAL HIGHLIGHTS

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

BUSINESS HIGHLIGHTS

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

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

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

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

Metric	2016	2015	YoY (CER)	YoY (AER)
VONB[(1)]	198	172	23%	15%
VONB MARGIN[(2)]	57.1%	57.9%	(0.8) pps	(0.8) pps
ANP	341	292	25%	17%
TWPI	1,795	1,825	6%	(2)%
OPERATING PROFIT AFTER TAX	265	267	6%	(1)%

US$ MILLIONS, UNLESS OTHERWISE STATED

Notes:
(1) VONB figures shown in the table 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.

CHINA

FINANCIAL HIGHLIGHTS

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

BUSINESS HIGHLIGHTS

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

Metric	2016	2015	YoY (CER)	YoY (AER)
VONB[1]	536	366	54%	46%
VONB MARGIN[2]	86.4%	83.5%	2.9 pps	2.9 pps
ANP	621	438	49%	42%
TWPI	2,384	2,028	24%	18%
OPERATING PROFIT AFTER TAX	469	384	29%	22%

US$ MILLIONS, UNLESS OTHERWISE STATED

Notes:
(1) VONB figures shown in the table 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.

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

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

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

REAL ASPIRATIONS

AIA truly understands the protection and wealth aspiration needs of Chinese families, providing tailored solutions to help customers achieve their goals of comfortable retirement and comprehensive medical coverage.

OTHER MARKETS

01

02

01
In November 2016, we expanded our bancassurance footprint in Sri Lanka by entering into a new long-term exclusive bancassurance partnership with DFCC Bank.

02
AIA Vitality remains a critical component of our customer proposition as an independent protection specialist in Australia.

VONB[1]

2016	321	YoY (CER)	10%
2015	296	YoY (AER)	8%

VONB MARGIN[2]

2016	32.9%	YoY (CER)	3.3 pps
2015	29.4%	YoY (AER)	3.5 pps

ANP

2016	969	YoY (CER)	(1)%
2015	1,007	YoY (AER)	(4)%

TWPI

2016	5,478	YoY (CER)	6%
2015	5,301	YoY (AER)	3%

OPERATING PROFIT AFTER TAX

2016	662	YoY (CER)	17%
2015	588	YoY (AER)	13%

US$ MILLIONS, UNLESS OTHERWISE STATED

Notes:
(1) VONB figures shown in the table 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.

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

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

FINANCIAL HIGHLIGHTS

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

BUSINESS HIGHLIGHTS

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

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

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

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

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

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

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

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

RISK MANAGEMENT

OVERVIEW

The Group recognises the importance of sound risk management in every aspect of our business and for all our stakeholders. For our policyholders it provides the security of knowing that we will always be there for them; for our investors it is key to protecting and enhancing the long-term value of their investment. Also for our regulators it is supportive of industry growth and 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 main 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.

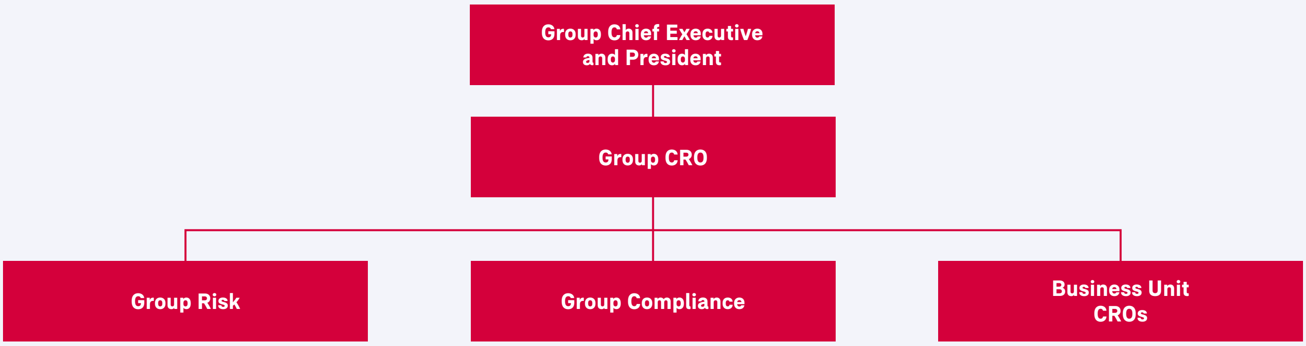
RISK CULTURE

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 with Risk Champions appointed to coordinate risk management-related matters. The Group Chief Risk Officer (CRO) has overall accountability for the Risk and Compliance function

The Risk and Compliance Organisational Structure is shown below:



across the Group. Each local 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 local 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 local CROs are, in most cases, also members of their respective local Executive Committees.

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… and the 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 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.

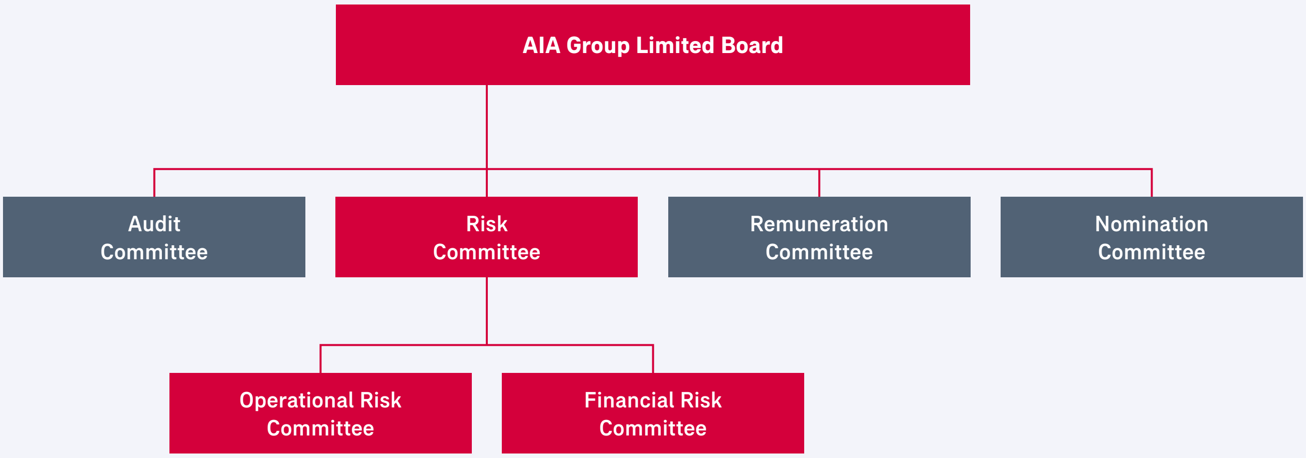
The First Line is made up of the business decision-takers who are responsible for ensuring that effective and appropriate processes are in place at all times to effectively identify, assess and manage risk in a manner consistent with the RMF. In particular, the amount of risk taken at each level of the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

The Second Line consists of the Risk & Compliance function. This function is independent of the First Line (under a Group Chief Risk Officer who reports direct to the Group Chief Executive and President) 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 Group Internal Audit (GIA) function, which reports to the Audit Committee of the AIA Group Limited 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

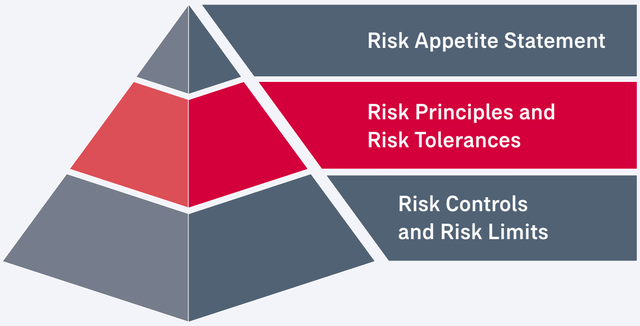
The Risk Committee oversees risk management across the Group and advises the Board on all risk-related issues requiring Board attention. The members of the Risk Committee are all Board directors, with the majority of members including the Committee Chairman being Independent Non-executive Directors. 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	*"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."*
Financial Strength	*"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."*
Liquidity	*"AIA will maintain sufficient liquidity to meet our expected financial commitments as they fall due."*
Earnings Volatility	*"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."*
Business Practice	*"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."*

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		
Investment	**Insurance**	**ALM**			
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	

Strategic Risks

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 and investment 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.

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

The rate of policy termination deviating 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

The risk of the cost of selling new business and of administering the in-force book exceeding the assumptions made in pricing.

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

Morbidity and Mortality

The occurrence and/or amounts of medical/death claims are higher than the assumptions made in pricing or reserving.

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

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

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

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

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 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

Operational risk arises from business processes including inadequate procedures or policies, employee errors, system failures, fraud, criminal activity or from other 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 in the earlier 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 DEVELOPMENTS

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

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

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

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

OUR PEOPLE

01

02

Our commitment to helping customers live longer, healthier, better lives extends to our employees and distribution partners.

We are acutely aware that our ability to sustain our success depends on our people. Our vision to be the world's pre-eminent insurance provider and a global leader in our industry is supported by our more than 20,000 employees and many thousands of agents. Guided by our operating philosophy of 'Doing the Right Thing, in the Right Way, with the Right People... and the results will come,' we have built a culture that encourages each and every person at AIA to be the best they can be. While the development of our people is both the focus of our efforts and its own reward, we are gratified to have had several AIA businesses around the region receive 'Best Employer' awards in their markets, as well as to have AIA Group be recognised as 'Regional Best Employer 2016, Asia Pacific' by Aon Hewitt.

DEVELOPING OUR LEADERS

Each year we conduct a very thorough and in-depth Organisation and People Review to assess the depth, quality and performance of our current leadership as well as the continuing progress of our future leaders. In 2016, this process encompassed the review of over 1,300 senior leadership positions across 20 business entities and 11 functions. This disciplined and ongoing process enables the Group to ensure that capable leaders emerge to fill key roles as they arise. In addition, our ability to develop our employees and agents has burnished the Group's reputation as an employer of choice enabling us to attract excellent recruitment candidates and to retain key leaders.

As part of our continuing focus on leadership development, we officially opened the AIA Leadership Centre (ALC) in Bangkok in March 2016, with an exclusive focus on developing AIA executives, distribution leaders and functional specialists. The ALC is a world-class facility that provides a range of programmes designed to enhance the quality, effectiveness and professionalism of our leaders. The curriculum includes programmes focusing on:

- **Executive Leadership** – Targeting AIA's current and future senior executives, these programmes accelerate effective and sustainable leadership as well as general management capabilities;

01
The ALC provides a range of programmes designed to enhance the quality, effectiveness and professionalism of our leaders.

02
AIA Group was recognised as 'Regional Best Employer 2016, Asia Pacific' by Aon Hewitt.

03
A wide array of wellness programmes for our workforce were conducted throughout the year.

- **Distribution Leadership** – Designed for AIA's senior distribution executives, senior agents and partners, these programmes develop leadership and the technical skills required to produce consistent best-in-class results; and
- **Technical/Professional Leadership** – Designed to develop technical capabilities within AIA core functions to promote technical and operational excellence.

PROMOTING PERSONAL AND PROFESSIONAL GROWTH

The ability to develop our people is both a core strength of AIA and a foundational element of our ability to deliver sustainable, high-quality results over the longer term. To enhance the capability of our emerging managers, in 2016 we launched the People Manager Accelerator Programme. Focus areas of the programme include structuring accountabilities, energising change, engaging with care and respect and exercising influence. Peer network sessions are also offered to enable managers to connect across various departments and share both experiences and best practice.

We also launched career roadmaps for several key functions during the year. Six functional baseline career roadmap models – including success profiles of roles, a career map and a development guide – were designed and rolled out. Eight entities have embarked on the career customisation roadmap, to be implemented by next year. In addition, career mobility and stretch assignments are encouraged to enhance the capability of the Group's pool of emerging talent. To that end, we launched and enhanced structured functional mobility programmes that encourage employees to take on different roles within the Group. During 2016 more than 850 internal assignments and transfers have taken place across the Group.

RECOGNISING PERFORMANCE

An effective Total Rewards Programme is vital to attracting and retaining talented and engaged people. Our reward programmes are designed to encourage our people to deliver the right outcomes in the right ways, all in support of the delivery of sustainable increases in real value for our customers and investors.

Alongside the appropriate levels of performance-based reward in our remuneration structure, in 2016 we updated the Performance Development Dialogue, a unique AIA performance management process that encourages managers to focus on supporting team members' development through discussing not only 'what' is to be delivered, but also 'how' the key deliverables are executed. Performance levels achieved, both in relation to what is delivered and how it is delivered, influence performance assessment and with that, rewards recognition. In addition, all recognition and benefit programmes are regularly assessed to ensure that they are appropriate and competitive relative to market practice.

Included in our rewards programme is an Employee Share Purchase Plan (ESPP) designed to encourage our employees to become AIA shareholders, thus further aligning the interests of our employees with those of our shareholders. In 2016, the employee participation rate for ESPP grew to the highest levels to date. In addition, the Employee Insurance Purchase Plan protects our staff while helping them to prepare for their future.

ENGAGING OUR WORKFORCE

To encourage our employees to lead healthier, better lives, we offered a wide array of wellness programmes throughout the year, while integrating work, personal and wellness priorities. These programmes included complimentary AIA Vitality memberships, wellness-themed activity days, team challenges, health check-ups sponsored by affiliated partners and work-life integration consultations.

AIA's annual employee engagement survey is a key tool in measuring our success in engaging our employees. In 2016, 99 per cent of our workforce responded to the survey and the Group recorded engagement scores surpassing global financial services and insurance industry benchmarks. As in past years, the results for each team are shared to identify key focus areas for improvement and strategies are developed to ensure that employees at all levels are connected with the wider vision, mission and purpose of the Group and can see how their work supports the Group's wider achievements.

03

CORPORATE SOCIAL RESPONSIBILITY

At AIA, we are deeply committed to helping people in our communities. This is intimately connected with our aspiration to help people to lead longer, healthier, better lives and to play a leadership role in driving the social and economic development of the markets in which we operate.

PROMOTING HEALTHY LIVING

Regular exercise is a key contributor to healthy living and at AIA we encourage everyone in our communities to take part in a wide range of physical activities.

In May, approximately 12,000 runners took part in The Music Run™ by AIA in Shenzhen, including customers, employees, agents and partners of AIA in China together with their friends and families. This followed the second edition of The Music Run™ by AIA in Singapore, held in April, at which more than 10,000 people walked, ran and danced to their favourite music. These events built on the momentum achieved in 2015 when AIA sponsored Music Runs in Thailand, Malaysia and the Philippines.

In Malaysia, more than 25,000 runners and spectators enjoyed the "Men's Health Women's Health Night Run" by AIA Vitality, held in Penang, Putrajaya and Johor. Runners were cheered on by percussionists and a marching band stationed along the route.

In China, AIA supported "The Most Nostalgic Road Running Race" through title sponsorship of the "2016 Shanghai International EasyRun" by AIA. More than 4,000 runners wearing AIA red took part in the 10km race, during which AIA provided insurance services to all runners.

For a second consecutive year, AIA in Hong Kong acted as the principal sponsor of the "Oxfam Trailwalker," a prominent annual fundraising event. We were very proud of the 29 groups comprising 116 employees and financial planners that participated in the gruelling 100km challenge.

Also in Hong Kong, AIA sponsored the inaugural "Hong Kong Disneyland 10K Weekend by AIA Vitality." The initiative welcomed participants of all ages and offered them a special way of experiencing Hong Kong Disneyland, with Disney characters in sports outfits cheering on the runners along the course.

To support Indonesia's tourism industry, in 2016 AIA sponsored the "Toba International Detour 2016" – a series of music and sports activities to promote the beautiful Lake Toba region in North Sumatra.

In July, AIA introduced "GO! Vitality" to encourage healthier lifestyles amongst our Group Office employees. Activities included nutrition, running, posture assessments, an express health check and a variety of workshops.

ENGAGING COMMUNITIES THROUGH FOOTBALL

At the core of our association with football is our long-term partnership with English Premier League Club Tottenham Hotspur (Spurs). Working together, both AIA and Spurs engaged with local and regional communities to convey the value of teamwork, discipline and sportsmanship to positively impact lives. To date, we have initiated more than 250 football-related activities across 15 AIA markets, and engaged tens of thousands of people across the region.

Following a successful tour of Asia in 2015, Spurs visited Australia in 2016 – running special youth clinics, including one conducted with 30 children from the Special Olympics. Spurs players joined AIA employees, families and friends for a special "AIA Family Day" where more than AUD10,000 was raised for the Royal Children's Hospital – following which some of the players visited children at the local hospital.

Under the banner of "Real Dreams Never Stop," the AIA Football Clinic returned to Thailand for a fifth consecutive year to inspire youngsters to take up the sport and sharpen their skills. This year, AIA joined with Bangkok Glass F.C., a leading football club in Thailand's Premier League, to offer an exciting opportunity for 700 young Thai football lovers (aged 8-13 years and from more than 40 schools in Bangkok and its vicinity) to join an exclusive training session with professional coaches.

Further programmes were developed to create pathways for aspiring young footballers, from the grass-roots level to the elite. In June 2016, AIA and the Oceania Football Confederation announced the launch of a new pilot initiative "The Oceania Football Education Programme – powered by AIA" in New Zealand to support aspiring young Asian and Pacific footballers. The partnership sees

01

01
In Hong Kong, AIA sponsored the inaugural 'Hong Kong Disneyland 10K Weekend by AIA Vitality.'

AIA supporting a scholarship programme that enables 13 participants from around Asia-Pacific to spend two terms in Auckland, where they will benefit from some of the best coaching and facilities available in the region. The scholarship provides funding to cover education – including English language training – coaching, accommodation and living costs of all participants to attend One Tree Hill College, while participating in the Oceania Football Academy.

Partnering with the China Youth Development Foundation for the third year, AIA launched the "2016 AIA China Youth Football Development Programme," with the goal of improving football skills at the grass-roots level. Following the launch, 25 high school volunteers, who received football training from professional institutions, visited 13 elementary schools in Guangdong, Jiangsu and Yunnan to share their knowledge of the sport with local children. This was also the first time that the programme included Yunnan province, providing many young people an opportunity to receive formal football training for the first time.

Also in China, AIA launched the "AIA-Tom Byer Football Partnership." With support from AIA, Tom Byer, a world-famous youth football coach, shared his concept of early-education football training and the importance of parental involvement at the introductory stage to help children stay active, while cultivating a healthy and happy learning environment.

SUPPORTING EDUCATION… CONNECTING BODY AND MIND

Many of AIA's businesses have long-lasting partnerships and programmes through which they support the education of children and young adults.

In the Philippines, frequent torrential rains and high humidity cause damage to many public schools. In 2016, the Philam Foundation continued its partnership with the Department of Education, building fully furnished classrooms for calamity-stricken schools – setting an example for rebuilding the nation. After typhoons devastated the provinces of Nueva Ecija, Aurora, and Camarines Sur, Philam Life helped the students of Palayan City Central School, Setan Elementary School, and Severo High School by building new classrooms in partnership with the Public Safety Savings and Loan Association, Inc, Philippine Veterans Affairs Office, Happy Hearts Fund and the Republic of the Philippines' Office of the Vice President. The Philam Foundation has donated 121 classrooms since 2011, to date bringing the total number of public school students that could benefit from the partnership to 6,000.

Also in the Philippines, Philam Life partnered with World Vision, an international humanitarian organisation, to enable children to receive lifetime sponsorships. Through the help of sponsors and donors, World Vision improves the lives of impoverished children and their communities by giving them access to opportunities for a full and better life.

In Indonesia, AIA invited more than 145 school students to visit KidZania – an education and entertainment centre for children to role-play more than 100 professions to spark their interest in exploring future careers. AIA also presented to students a collection of books donated by employees through the Company's "1,000 Books for AIA Village" programme, launched in early 2016. In Singapore, AIA also hosted an "AIA Insurance Office" at the venue to encourage early interest in financial literacy.

03

04

01

02

01
The Philam Foundation has donated 121 classrooms since 2011, to date bringing the total number of public school students that could benefit from the partnership to 6,000.

02
In Thailand, AIA volunteers contributed through the long-running CSR programme 'AIA Sharing a Life Day.'

03
AIA, jointly with Bangkok Glass F.C., offered an exclusive training session for 700 young Thai football lovers.

04
In China, AIA launched the 'AIA-Tom Bayer Football Partnership.'

In Vietnam, more than 200,000 children drop out of school each year, primarily because of the long distances they need to travel to and from school each day. In 2016 AIA continued to support its "Real Life Journey" initiative to continue to raise funds to provide bicycles to children to encourage them to continue their educations. In 2016 alone, more than 1,000 bicycles were donated across 12 locations nationwide.

In Thailand, the AIA School Library programme aims to help students and community members to enhance their extracurricular learning experiences. Since 2005, AIA Thailand has built 34 libraries throughout the country to provide learning opportunities for students and the general public while also providing scholarships and a variety of learning and development aids to various schools.

EMPOWERING COMMUNITIES

Building strong, harmonious and safe communities enables environmental, economic and social development. AIA is committed to helping empower communities across the region to thrive and create a better future for all.

In Thailand, AIA continued its long-running CSR programme "AIA Sharing a Life Day." For the third consecutive year, AIA volunteers contributed through various community service activities at four locations in Bangkok and six others across Thailand. Areas of focus included improving landscapes and facilities in each locale, such as renovating playgrounds, parks and school buildings. The projects also employed mobile medical units for health checks, and provided sports equipment to community youth. The initiative also educated the public about potential critical illnesses, and members of the public were offered health check-ups. Also in 2016, AIA partnered with the Kanchanabaramee Foundation to provide free mammography services to high-risk women. Combining our support of this initiative with our partnership with Spurs, the team wore special "AIA Sharing A Life" shirts for a match against West Bromwich Albion – bringing this valuable initiative to the attention of people across the globe. The match-worn shirts were auctioned raising approximately THB1.2 million.

In Hong Kong, AIA launched a "Let's Work Together" campaign to encourage further diversity in the workplace and promote equal job opportunities for people with disabilities. AIA partnered with CareER, a non-profit organisation and registered charity supporting people with disabilities to achieve their employment goals. The partnership produced a series of videos highlighting the enormous potential of people with disabilities.

In Australia, four million tonnes of food ends up in landfills each year, yet two million people still rely on food relief. To help fight hunger, AIA forged a new community partnership with OzHarvest, a food rescue charity. OzHarvest collects quality excess food from commercial outlets, converts it to nutritious meals, and delivers it to 600 charities, providing much-needed assistance across Australia. In 2016, groups of AIA employees in Sydney and Melbourne volunteered to transform food otherwise destined for landfills into hundreds of meals for those most in need.

In Sri Lanka, where more than one million Poson pilgrims use the reservoirs in and around the sacred city of Anuradhapura for bathing every summer, AIA strengthened its long-running local Poson Safety Programme by deploying more lifesavers to address the threat posed by bad weather. In 2016 – the programme's 23rd consecutive year – 600 lifeguards helped ensure the safety of all participants.

ESG REPORT

We are pleased to announce AIA's first Environmental, Social and Governance (ESG) Report which describes AIA's approach and priorities in managing its 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.

CORPORATE GOVERNANCE

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 87 to 101 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 the 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:
Dr. Narongchai Akrasanee
Professor Lawrence Juen-Yee Lau
Ms. Swee-Lian Teo
Mr. Mohamed Azman Yahya
Mr. Mark Edward Tucker
Mr. Edmund Sze-Wing Tse
Mr. Jack Chak-Kwong So
Mr. Chung-Kong Chow
Mr. John Barrie Harrison
Mr. George Yong-Boon Yeo

NON-EXECUTIVE CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. Edmund Sze-Wing Tse

Aged 79, is the Non-executive Chairman and a Non-executive Director of the Company. He was appointed Non-executive Director of the Company on 27 September 2010 and was elected Non-executive Chairman on 1 January 2011. He is also the Chairman of AIA Foundation. Mr. Tse's appointments during almost 55 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.

EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE AND PRESIDENT

Mr. Mark Edward Tucker

Aged 59, is an Executive Director and the Group Chief Executive and President of the Company. Mr. Tucker joined the Group in July 2010 and is also Chairman and Chief Executive Officer of AIA Co. and AIA International. Mr. Tucker spearheaded AIA's record-breaking IPO on 29 October 2010, serving as Executive Chairman and Group Chief Executive Officer of the Company from 12 October 2010 to 31 December 2010. In addition to his responsibilities with AIA, Mr. Tucker has been an Independent Director of The Goldman Sachs Group, Inc. since November 2012. Mr. Tucker is an Honorary Professor at the Chinese University of Hong Kong. He serves on the Asia Business Council and the Advisory Board of the Asia Global Institute. He is also a member of the International Advisory Boards of the Lingnan College, Sun Yat-Sen University in China, the Discovery Group of South Africa and the Edinburgh Festival International. Mr. Tucker was a non-executive director of the Court of The Bank of England from June 2009 to May 2012, also serving as a member of its Financial Stability Committee and Audit and Risk Committee. Mr. Tucker served as Group Chief Executive of Prudential plc from 2005 to 2009 and was the founder and Chief Executive of Prudential Corporation Asia Limited from 1994 to 2003 and an Executive Director of Prudential plc from 1999 to 2003. From 2004 to 2005, Mr. Tucker served as Group Finance Director of HBOS plc. Mr. Tucker qualified as an Associate of the Institute of Chartered Accountants in England and Wales (ACA) in 1985.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jack Chak-Kwong So

Aged 71, 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. He has been a member of the Chinese People's Political Consultative Conference since 2008. Mr. So was awarded the Gold Bauhinia Star by the HKSAR Government in 2011. He is also an Honorary Consultant to the Mayor of San Francisco. 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 and served as the Chairman of the Hong Kong Film Development Council from 2007 to 2013.

Mr. Chung-Kong Chow

Aged 66, 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 Hong Kong from 1 July 2012, the Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption from 1 January 2013 and the Chairman of the Advisory Committee on Admission of Quality Migrants and Professionals of the HKSAR from 1 July 2016. 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 60, 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 Hong Kong Exchanges and Clearing Limited, Cathay Pacific Airways Limited (both listed on the Hong Kong Stock Exchange), The London Metal Exchange Limited and LME Clear Limited. He is also an independent non-executive director of BW Group Limited and has been Vice Chairman of BW LPG Limited since 2013. He was appointed an Honorary Court Member of The Hong Kong University of Science and Technology with effect from 20 September 2016. 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 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 62, 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. He has been a member of the International Advisory Committee of Mitsubishi Corporation since June 2014 and a non-executive director of Wilmar International Limited since November 2014. He is a member of the Board of Trustees of the World Economic Forum and the International Advisory Board of the Berggruen Institute on Governance. 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 53, 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 and the Non-executive Chairman of Ranhill Holdings Berhad, both of which 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 is also a member of the Capital Market Advisory Group of the Malaysian Securities Commission and a member of the Malaysian Special Economic Committee. 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 72, 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, as well as Vice-Chairman of the Our Hong Kong Foundation. 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 is 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, as well as the Vice-Chairman of China Center for International Economic

Exchanges, Beijing. 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 57, 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, Executive Resource and Compensation Committee and Risk Committee of Singapore Telecommunications Limited, which is listed on the Singapore Exchange. She is also a non-executive director and Chairlady of 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. 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 71, 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.

EXECUTIVE COMMITTEE

From left to right:
Mitchell New
Mark Konyn
Ng Keng Hooi
Gordon Watson
Mark Edward Tucker
Garth Jones
Shulamite Khoo
William Lisle
Mark Saunders
Simeon Preston
Cheong Jin Keat

Mr. Mark Edward Tucker
Mr. Tucker's biography is set out above.

Mr. Garth Jones
Aged 54, 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. Ng Keng Hooi
Aged 62, is the Regional Chief Executive responsible for the Group's businesses operating in China, Thailand, Singapore, Indonesia, Taiwan and Brunei as well as Group Agency Distribution. He is a director of various companies within the Group, including AIA Co. and AIA International. He joined the Group in October 2010. Prior to joining the Group, Mr. Ng was Group Chief Executive Officer and a director of Great Eastern Holdings Limited from December 2008. Mr. Ng worked for Prudential plc from 1989 to 2008, serving in a variety of senior roles, including 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. He has been a Fellow of the Society of Actuaries (U.S.) since 1985.

Mr. Gordon Watson
Aged 53, is the Regional Chief Executive responsible for the Group's businesses operating in Hong Kong, Australia, the Philippines, Vietnam, New Zealand and Macau as well as the Group Corporate Solutions business, Group Health Care business, Group Partnership Distribution and the AIA Vitality. He is a director of various companies within the Group, including AIA Co. and AIA International, and serves as the Chairman of The Philippine American Life and General Insurance (PHILAM LIFE) Company. Mr. Watson rejoined the Group in January 2011. He worked in various parts of AIG (including within AIA) for over 30 years, during which time he served as Global Vice Chairman of ALICO and Chairman and Chief Executive Officer of ALICO Asia. He also served as Global Chief Operating Officer and as Chairman of ALICO Japan. He is a Fellow of the Chartered Insurance Institute and Chartered Institute of Marketing.

Mr. William Lisle

Aged 51, is the Regional Chief Executive responsible for the Group's businesses operating in Malaysia, Korea, Sri Lanka, India and Cambodia. 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. Simeon Preston

Aged 46, is the Group Chief Operations Officer responsible at the Group level for technology, operations and innovation. He is a director of various companies within the Group. He joined the Group in September 2010. Prior to joining the Group, Mr. Preston served as a senior partner in the financial services practice of global management consultants Bain & Company, where he specialised in the Asia life insurance sector. He previously spent almost nine years with consulting firm Marakon Associates, becoming a partner in 2006.

Ms. Shulamite Khoo

Aged 55, 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 a director of a subsidiary of the Company, Chair of AIA Leadership Centre Supervisory Council and is also responsible for the Group Corporate Security function. She joined the Group in January 2011. Prior to joining the Group, Ms. Khoo was Group Executive Vice President, Global Head of Human Resources and Group Executive Management of the AXA Group, based in Paris. Previously, she occupied various senior roles covering life insurance operations and human resources with Prudential Singapore and was Regional Head of Human Resources for Prudential Corporation Asia Limited based in Hong Kong. Ms. Khoo is a member of the International Advisory Panel of the Singapore Public Service Division (Prime Minister's Office). She is a Chartered Fellow of the Chartered Institute of Personnel and Development.

Mr. Mitchell New

Aged 53, 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. He joined the Group in April 2011. Prior to joining the Group, Mr. New occupied various senior roles with Manulife Financial, where he was most recently Senior Vice President and Chief Legal Officer for Asia, based in Hong Kong. He was also previously Senior Vice President and General Counsel to Manulife's Canadian division.

Mr. Mark Saunders

Aged 53, is the Group Chief Strategy and Marketing Officer responsible for the Group's strategy, customer propositions, corporate transactions and marketing functions at the Group level. He joined the Group in April 2014. 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 office. Prior to joining Towers Watson, 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). Mr. Saunders has been involved in the insurance industry in Asia since 1989. He is a Fellow of the Institute and Faculty of Actuaries and Fellow of five other professional actuarial bodies.

Dr. Mark Konyn

Aged 55, is the Group Chief Investment Officer responsible for providing oversight to the management of the investment portfolios of the Group. He is a director of various companies within the Group. 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.

Mr. Cheong Jin Keat (Tony)

Aged 52, is the Group Chief Risk Officer responsible for the Group's risk and compliance functions. He is also a director of a subsidiary of the Company. Mr. Cheong initially joined the Group in May 2016 as Regional Business Development & Special Projects Director. Prior to joining the Group, Mr. Cheong was Group Chief Financial Officer at Great Eastern Life. He also previously held senior management positions at Prudential Corporation Asia Limited, including General Manager, Finance, Actuarial and Operations of Prudential Singapore and Chief Financial Officer of Prudential Malaysia. Mr. Cheong is a Fellow of the Institute and Faculty of Actuaries (UK).

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 2016.

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 2016 and the state of the Group's affairs at that date are set out in the financial statements on pages 115 to 228 of this Annual Report.

BUSINESS REVIEW

The review of the business of the Group, including a description of principal risks and uncertainties facing the Group and an indication of likely future development in the Group's businesses, for the year ended 30 November 2016 as required by Schedule 5 to the Hong Kong Companies Ordinance is contained in the Financial Review (pages 25 to 39), Business Review (pages 41 to 57), Risk Management (pages 58 to 66), Our People (pages 68 to 69), Corporate Social Responsibility (pages 70 to 73) sections under Financial and Operating Review as well as note 41 and note 44 to the financial statements. These discussions form part of this report.

The Group is licensed to conduct insurance business and 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, they are generally laws and regulations regarding, among other things, corporate governance, solvency, investment management, financial reporting and distribution. The Group dedicates resources and personnel to ensure compliance with relevant laws and regulations. In particular, during the year ended 30 November 2016, the Group has complied with the relevant laws and regulations that have a significant impact on the operations of the Group 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 Company that have occurred since 30 November 2016 are set out in note 44 to the financial statements.

DIVIDENDS

An interim dividend of 21.90 Hong Kong cents per share (2015:18.72 Hong Kong cents per share) was paid on 31 August 2016. The Board has recommended a final dividend of 63.75 Hong Kong cents per share (2015: 51.00 Hong Kong cents per share) for the year ended 30 November 2016. If approved, the proposed final dividend together with the interim dividend will represent a total dividend of 85.65 Hong Kong cents per share (2015: 69.72 Hong Kong cents per share) for the year ended 30 November 2016.

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 2016 (being the payment date of the interim dividend), 75,983,261 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 Wednesday, 31 May 2017 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 17 May 2017.

DIRECTORS

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

Non-executive Chairman and Non-executive Director
Mr. Edmund Sze-Wing Tse
Executive Director
Mr. Mark Edward Tucker (Group Chief Executive and President)
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

Their biographical information is set out on pages 78 to 81 of this Annual Report.

Dr. Narongchai Akrasanee was appointed Independent Non-executive Director of the Company on 15 January 2016 and was re-elected as Independent Non-executive Director of the Company by the shareholders at the 2016 Annual General Meeting of the Company held on 6 May 2016 in accordance with Article 104 of the Company's Articles of Association.

In accordance with Article 100 of the Company's Articles of Association, Mr. Mohamed Azman Yahya, Mr. Edmund Sze-Wing Tse and Mr. Jack Chak-Kwong So 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 the requirement of Rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Change
Mr. Jack Chak-Kwong So	• Resigned as a non-executive director of Huanxi Media Group Limited (listed on the Hong Kong Stock Exchange) with effect from 30 September 2016 • Ceased to be an advisor to The Hong Kong and China Gas Company Limited with effect from 1 January 2017
Mr. John Barrie Harrison	• Appointed as an Honorary Court Member of The Hong Kong University of Science and Technology with effect from 20 September 2016
Mr. Mohamed Azman Yahya	• Appointed as Non-executive Chairman of Sepang International Circuit Sdn Bhd with effect from 18 October 2016 • Resigned as a director of PLUS Expressways International Berhad with effect from 1 February 2017 • Resigned as an Independent Non-executive Director of Scomi Group Berhad (listed on Bursa Malaysia Securities Berhad) with effect from 1 March 2017
Professor Lawrence Juen-Yee Lau	• Appointed as Chairman of the Council of Shenzhen Finance Institute of The Chinese University of Hong Kong, Shenzhen with effect from 12 January 2017
Ms. Swee-Lian Teo	• Appointed as a member of Corporate Governance Council of the Monetary Authority of Singapore with effect from 27 February 2017
Dr. Narongchai Akrasanee	• Appointed as Chairman of Advisory Board of AIA Thailand with effect from 1 December 2016

Save for the information 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 or any of its subsidiaries 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.

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 CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 November 2016, the Directors' and 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 [4]	Capacity
Mr. Mark Edward Tucker	25,512,500(L)[1]	Ordinary	0.21	Beneficial owner
Mr. Edmund Sze-Wing Tse	3,560,400(L)[2]	Ordinary	0.03	Beneficial owner
Mr. Chung-Kong Chow	86,000(L)[2]	Ordinary	< 0.01	Beneficial owner
Mr. Jack Chak-Kwong So	260,000(L)[2]	Ordinary	< 0.01	Interest of controlled corporation[3]
Mr. John Barrie Harrison	50,000(L)[2]	Ordinary	< 0.01	Beneficial owner
Mr. George Yong-Boon Yeo	100,000(L)[2]	Ordinary	< 0.01	Beneficial owner

Notes:

(1) The interests include 5,479,453 ordinary shares of the Company, 16,448,100 share options under the Share Option Scheme, 3,582,194 restricted share units under the Restricted Share Unit Scheme and 2,753 matching restricted stock purchase units under the Employee Share Purchase Plan.

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

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

(4) Based on 12,056,451,026 ordinary shares in issue as at 30 November 2016.

Save as disclosed above, as at 30 November 2016, none of the Directors or Chief Executive of the Company had any interests or short positions 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 CHIEF EXECUTIVE

As at 30 November 2016, the following are the persons, other than the Directors or Chief Executive of the Company, who had interests or short positions in the shares or 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 2) Long Position (L) Short Position (S) Lending Pool (P)	Class	Percentage of the total number of shares in issue (Note 3) Long Position (L) Short Position (S) Lending Pool (P)	Capacity
JPMorgan Chase & Co.	1,140,955,379(L) 67,419,367(S) 775,293,224(P)	Ordinary	9.46(L) 0.56(S) 6.43(P)	Note 1
The Capital Group Companies, Inc.	961,995,290(L)	Ordinary	7.98(L)	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 held by JPMorgan Chase & Co. were held in the following capacities:

Capacity	Number of shares (Long position)	Number of shares (Short position)
Beneficial owner	141,779,073	67,419,367
Investment manager	223,688,656	–
Trustee (other than a bare trustee)	194,426	–
Custodian corporation/approved lending agent	775,293,224	–

(2) 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.	5,335,972	230,200	3,251,131	43,286,053	5,363,000	7,112,200	4,965,606	49,488,961
BlackRock, Inc.	-	-	-	281,400	-	-	-	3,238,000

(3) Based on 12,056,451,026 ordinary shares in issue as at 30 November 2016.

Save as disclosed above, as at 30 November 2016, no person, other than the Directors and Chief Executive of the Company, whose interests are set out in the section entitled "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares", had any interests or short positions 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 his service contract, Mr. Mark Edward Tucker (by virtue of his role 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 Mr. Tucker's incentive award 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 2016 or at any time during the year.

RESERVES

As at 30 November 2016, 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$2,620 million (2015: US$2,785 million).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 30 November 2016 amounted to US$2 million (2015: US$2 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 30 November 2016, 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 2016 are set out in note 33 to the financial statements.

DEBENTURES ISSUED

Details of the debentures issued during the year ended 30 November 2016 are set out in note 28 to the financial statements.

EQUITY-LINKED AGREEMENTS

During the year ended 30 November 2016, 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 2016, 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 2016, 18,964,022 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 2016, 9,550,232 share options were awarded by the Company under the Share Option Scheme adopted by the Company on 28 September 2010 (as amended). 7,174,665 share options were exercised during the year and the Company issued 7,174,665 new shares accordingly. The proceeds received amounted to approximately US$26 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 2016, 1,164,179 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). 694,583 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 Agency Share Purchase Plan (ASPP) was adopted by the Company on 23 February 2012 (ASPP Adoption Date). Under the ASPP, certain agents of the Group were selected to participate in the plan. Those agents selected for participation may elect to purchase 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 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 matching 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 2016, 1,366,682 matching RSSUs were awarded by the Company, 927,042 matching RSSUs vested and 927,042 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 2016, a total of 1,968,732 new shares were issued under the ASPP, representing 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 2016, 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 2016, 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 16,849,376 shares and sale of 276,401 forfeited shares of the Company under the Restricted Share Unit Scheme and the Employee Share Purchase Plan at a total consideration of approximately US$88 million and US$2 million respectively, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 30 November 2016. These purchases and sales were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled. Please refer to note 38 to the financial statements for details.

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 2016.

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
Non-executive Chairman
24 February 2017

CORPORATE GOVERNANCE REPORT

CORE PRINCIPLES

The Board believes that strong corporate governance is essential for delivering sustainable value, enhancing a culture of business integrity and maintaining 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 their requisite skills and expertise 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.

The Company complied with all applicable code provisions of the Corporate Governance Code throughout the year ended 30 November 2016.

The Company has also adopted its own Directors' and Chief Executives' Dealing Policy (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. With a single exception based on an inadvertent omission on the part of a member of the Board to notify the Company in respect of a purchase of shares in the Company resulting in a late filing of a statutory Disclosure of Interests Notice (which has been reported to the Hong Kong Stock Exchange), 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 Policy throughout the year ended 30 November 2016.

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.

During the year, the Board updated the terms of reference of the Audit Committee and the Risk Committee to reflect best practices and reviewed the Company's compliance with the Corporate Governance Code, including the necessary disclosures in its reports to shareholders. The Board also adopted and/or updated various policies as recommended by the Audit Committee and the Risk Committee for better corporate governance.

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.

BOARD COMPOSITION

As of 30 November 2016 and up to the date of this Corporate Governance Report, the Board consists of ten members, comprising one Executive Director and nine Non-executive Directors, eight of whom are 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 78 to 81 of this Annual Report.

BOARD INDEPENDENCE

More than 75% (8 out of 10) of the Board are Independent Non-executive Directors. 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. 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 2016 annual general meeting of the Company (2016 AGM) during the year are as follows:

	No. of Meetings Attended / No. of Meetings Held					
Name of Director	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	2016 AGM
Non-executive Chairman and Non-executive Director						
Mr. Edmund Sze-Wing Tse(1)	6/6	–	1/1	3/3	4/4	1
Executive Director, Group Chief Executive and President						
Mr. Mark Edward Tucker(2)	6/6	–	–	–	4/4	1
Independent Non-executive Directors						
Mr. Jack Chak-Kwong So	6/6	3/4	1/1	3/3	–	1
Mr. Chung-Kong Chow	6/6	–	1/1	–	4/4	1
Mr. John Barrie Harrison	6/6	4/4	1/1	–	4/4	1
Mr. George Yong-Boon Yeo	5/6	4/4	1/1	3/3	–	1
Mr. Mohamed Azman Yahya	6/6	–	1/1	3/3	–	1
Professor Lawrence Juen-Yee Lau	6/6	–	1/1	–	3/4	1
Ms. Swee-Lian Teo	6/6	–	1/1	–	4/4	1
Dr. Narongchai Akrasanee(3)	6/6	4/4	1/1	–	–	1

Notes:
(1) Mr. Tse was appointed to the Remuneration Committee on 15 January 2016 and ceased to be a member of the Audit Committee on the same date. No meeting of the Remuneration Committee and the Audit Committee took place between 1 December 2015 and 14 January 2016.

(2) Mr. Tucker ceased to be a member of the Remuneration Committee on 15 January 2016. No meeting of the Remuneration Committee took place between 1 December 2015 and 14 January 2016.

(3) Dr. Narongchai was appointed to the Board, the Audit Committee and the Nomination Committee on 15 January 2016 and attended all Board, Audit Committee and Nomination Committee meetings held from his date of appointment to 30 November 2016.

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, 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.

Mr. Mark Edward Tucker, 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. Tucker 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. Tucker 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.

The segregation 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.

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.

Each Director receives 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 2016, the Board visited Jakarta, Indonesia, 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 Indonesia 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:

	Types of Training	
Name of Director	**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**
Non-executive Chairman and Non-executive Director		
Mr. Edmund Sze-Wing Tse	√	√
Executive Director, Group Chief Executive and President		
Mr. Mark Edward Tucker	√	√
Independent Non-executive Directors		
Mr. Jack Chak-Kwong So	√	√
Mr. Chung-Kong Chow	√	√
Mr. John Barrie Harrison	√	√
Mr. George Yong-Boon Yeo	√	√
Mr. Mohamed Azman Yahya	√	√
Professor Lawrence Juen-Yee Lau	√	√
Ms. Swee-Lian Teo	√	√
Dr. Narongchai Akrasanee	√	√

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. Dr. Narongchai became a member and Mr. Tse ceased to be a member of the Audit Committee on 15 January 2016. The duties performed by the Audit Committee during the year included overseeing the Group's financial reporting system and internal control system, 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 effectiveness of the internal audit function. 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 2016. The attendance records of the Audit Committee members are set out on page 95 of this Annual Report.

NOMINATION COMMITTEE

The Nomination Committee consists of nine members, including the Non-executive Chairman, Mr. Tse, who serves as chairman of the Committee, and the eight Independent Non-executive Directors, Mr. So, Mr. Chow, Mr. Harrison, Mr. Yeo, Mr. Yahya, Professor Lau, Ms. Teo and Dr. Narongchai who became a member of the Nomination Committee on 15 January 2016. The duties performed by the Nomination Committee during the year included reviewing and making recommendations to the Board on the structure, size and composition of the Board, including the skills, knowledge, experience and diversity of background of its membership, considering the nomination of Dr. Narongchai as an Independent Non-executive Director, providing oversight and direction in respect of the succession planning for directors 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 one meeting during the year ended 30 November 2016. The attendance records of the Nomination Committee members are set out on page 95 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, including three Independent Non-executive Directors, Mr. So, the Committee chairman, Mr. Yeo and Mr. Yahya, as well as Mr. Tse, the Non-executive Chairman. Mr. Tse became a member and Mr. Tucker ceased to be a member of the Remuneration Committee on 15 January 2016. The duties of the Remuneration Committee are to evaluate and make recommendations to the Board on the remuneration policy covering the Directors and senior management of the Group.

The Remuneration Committee held three meetings during the year ended 30 November 2016. The attendance records of the Remuneration Committee members are set out on page 95 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, four of whom are Independent Non-executive Directors, including Mr. Chow, the Committee chairman, Mr. Harrison, Professor Lau and Ms. Teo, as well as Mr. Tse, the Non-executive Chairman and Mr. Tucker, the Executive Director. 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. It also oversees the risk management and compliance framework, endorses the Company's risk governance structure and reviews major risks.

The Risk Committee held four meetings during the year ended 30 November 2016. The attendance records of the Risk Committee members are set out on page 95 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. During the year, the Board has reviewed, updated and 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 2016, the total estimated remuneration payable by the Group to PricewaterhouseCoopers was US$15.2 million (2015: US$13.3 million), an analysis of which is set out below:

US$ million	2016	2015
Audit services	**11.9**	11.5
Non-audit services, including:		
Audit-related services	**0.7**	0.3
Tax services	**1.4**	1.0
Other services	**1.2**	0.5
Total	**15.2**	13.3

In addition to those fees disclosed above, audit fees of US$0.8 million (2015: US$0.7 million) were payable to PricewaterhouseCoopers by funds for which the Group is the investment adviser, manager or administrator.

The Company engaged PricewaterhouseCoopers to review the Group's supplementary embedded value results for the 2017 financial year.

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 113 to 114 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors is responsible for the Company's risk management and internal control systems, as well as reviewing their effectiveness. 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 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. The Board of Directors has, through the Audit Committee, conducted review on, and is generally satisfied with the adequacy and effectiveness of the Group's 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 Company's accounting, internal audit and financial reporting functions for the year ended 30 November 2016.

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 in a timely manner. The financial calendar highlighting the key dates for shareholders is set out on page 251 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 pages 251 to 252 of this Annual Report.

2016 ANNUAL GENERAL MEETING

The most recent general meeting of the Company was the 2016 AGM which was held at the Grand Ballroom, Kowloon Shangri-La, Hong Kong, 64 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong on 6 May 2016. The Chairman and all other members of the Board, together with the Group's senior management and external auditor, attended the 2016 AGM. The poll voting results are available on the Company's website. The matters resolved at the 2016 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 2015;
- Declaration of a final dividend of 51.00 Hong Kong cents per share for the year ended 30 November 2015;
- Re-election of Ms. Teo, Dr. Narongchai and Mr. Yeo as Independent Non-executive Directors of the Company;
- Re-election of Mr. Tucker as Executive Director 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 2016 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 repurchase 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 2016 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 2016 AGM.

The forthcoming annual general meeting of the Company will be held on Friday, 12 May 2017. 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 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 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.

CONSTITUTIONAL DOCUMENTS

The Company's Articles of Association (in both English and Chinese) is available on both the websites of 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
24 February 2017

REMUNERATION REPORT

Dear Shareholders,

With great pleasure I present the Report on Remuneration for Directors and Key Management Personnel for the year ended 30 November 2016.

During the year, the Remuneration Committee (the Committee) continued to oversee the Group's executive remuneration arrangements by following a rigorous process that takes into account the Group's business priorities and performance, market practices, the regulatory environment, as well as risk management considerations, all the while obtaining professional advice from its independent advisor.

The Remuneration Committee's work in 2016 focused on the incentive schemes, so as to ensure that our remuneration programmes are aligned with our strategic priorities and risk management framework, and that such programmes allow us to attract, motivate and retain high calibre talent.

- Earlier in the year, the Committee discussed the short-term incentive (STI) payment mechanism in detail with the Risk Committee to ensure the STI scheme measures and rewards corporate performance relative to the Board's annually-agreed business plans, giving appropriate regard to the creation of sustainable shareholder value and without encouraging executives to expose the Group to levels of risk that are inappropriate in terms of the Group's risk appetite.

- In the second half of the year and as part of the on-going due diligence efforts, the Committee reviewed the use of total shareholder return (TSR) as one of the long-term incentive (LTI) performance measures to ensure that the Group's use of TSR is in line with market practices and the LTI performance measures in combination provide appropriate alignment with long-term shareholder value creation.

- Finally, during the year the Committee benchmarked the Group's employee share purchase plan (ESPP) against the market to confirm the plan's competitiveness. In light of such analysis and the ESPP's operational experience since the Group initial public offering, the Committee made several adjustments in order to better align the plan with market practice and further strengthen employee engagement. Details about the ESPP can be found later in this report.

The remuneration structure for senior Group executives remains unchanged. As in prior years, a significant proportion of total remuneration awarded is subject to multi-year performance-based vesting conditions. The Committee continues to monitor the development of remuneration market practices and is satisfied that the Group's remuneration structure reflects an appropriate balance between risks and rewards in light of the Committee's 2016 review.

Overall, the Committee believes that the Group's current remuneration policies and practices should be maintained and trusts that this report provides clear and detailed information regarding such policies and practices.

Speaking for the 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
24 February 2017

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 operation of the Company's share schemes and other 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.

MEETINGS IN 2016

As at 30 November 2016, the Committee consisted of four members: three Independent Non-executive Directors, being Mr. Jack Chak-Kwong So, who is the Chairman of the Committee, Mr. George Yong-Boon Yeo, and Mr. Mohamed Azman Yahya; and one Non-Executive Director, being Mr. Edmund Sze-Wing Tse.

The Remuneration Committee held three meetings during the year ended 30 November 2016. The attendance records of the Remuneration Committee members are set out on page 95 of this Annual Report.

During the year, major activities performed by the Remuneration Committee in relation to the remuneration of the Group Chief Executive and President, Key Management Personnel, Chairman and Non-executive Directors were as follows:

- Reviewed the executive benchmark results and approved the 2016 remuneration packages for the Group Chief Executive and President and Key Management Personnel (the long-term incentive awards for the Group Chief Executive and President were subsequently approved by the Independent Non-executive Directors);
- Provided the Risk Committee with an updated summary of considerations undertaken by the Remuneration Committee in ensuring that the Group's compensation and benefits arrangements align with stakeholders' interests and avoid excessive risk-taking;
- Reviewed and approved the 2015 short-term incentive plan payout and the vesting of the 2013 long-term incentive award;
- Reviewed and approved the 2016 long-term incentive award;
- Reviewed and approved the performance measures to be used in the 2017 short-term incentive plan and the 2017 long-term incentive award;

- Reviewed and approved the peer group for benchmarking the compensation of the Group Chief Executive and President;
- Reviewed and endorsed the continued use of total shareholder return as one of the long-term incentive performance measures;
- Reviewed and approved adjustments to employee share purchase plan;
- Reviewed and approved the remuneration package for the new Group Chief Risk Officer;
- Reviewed the sabbatical leave, retirement, death and disability arrangement for Key Management Personnel supplementing the Company's approach to total remuneration and recommended the same to the Board for adoption; and
- Reviewed and approved the 2015 Remuneration Report.

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 overall 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.

OVERVIEW
FINANCIAL AND OPERATING REVIEW
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS
ADDITIONAL INFORMATION

MAIN COMPONENTS OF REMUNERATION

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

Element	Purpose	Basis of determination	Notes on practices
Basic salary	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 Key Management Personnel against relevant industry survey sources Salary increases, where applicable, typically take effect from 1 March
Short-term incentive	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 targets and maximum opportunities are determined with reference to the market appropriateness of total compensation and the roles and responsibilities of the individual	Annual short-term incentive based on the achievement of financial performance measures and relevant strategic objectives, as well as individual contribution
Long-term incentive	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
Benefits	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, for example, participation in pension schemes, medical and life insurance
Employee share purchase plan	Share purchase plan 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 at a rate approved by the Remuneration Committee Matching shares vest after three years

SHORT-TERM INCENTIVE PLAN

For 2016, short-term incentive targets were determined and communicated to the Group Chief Executive and President and Key Management Personnel at the beginning of the financial year. The performance measures for 2016 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 sum of the operating experience variances (current year performance against the operating assumptions for calculating embedded value or EV) and operating assumption changes (value of future operating outperformance considered permanent enough for recognition in the current year) 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 weighting of the three performance measures described above is 60 per cent, 10 per cent and 30 per cent for VONB, EEV Growth and OPAT respectively. Based on the level of achievement of the performance measures, short-term incentive awards in respect of 2016 will be paid to the Group Chief Executive and President and Key Management Personnel in March 2017. The total value of short-term incentive awards accrued for the Group Chief Executive and President and Key Management Personnel for the year ended 30 November 2016 was US$14,434,273. This amount is included in note 39 to the financial statements as the "Bonuses" to the Group Chief Executive and President and as part of the "Salaries and other short-term employee benefits" to the Key Management Personnel.

LONG-TERM INCENTIVE PLAN

The Restricted Share Unit Scheme and the Share Option Scheme were adopted on 28 September 2010 and are effective for a period of 10 years from the date of adoption. Summary details are provided in the pages that follow and in detail 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 the magnitude of overall variable remuneration, the competitiveness of the total remuneration package, the roles, responsibilities, performance and potential of the individual.

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 Restricted Share Unit 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 Restricted Share Unit 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 2016, the Company awarded 18,964,022 restricted share units under the Restricted Share Unit Scheme.

Performance Measures and Vesting
Vesting of performance-based restricted share unit awards will be contingent on the extent of achievement of three-year performance targets as outlined below for the following metrics:

- 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.

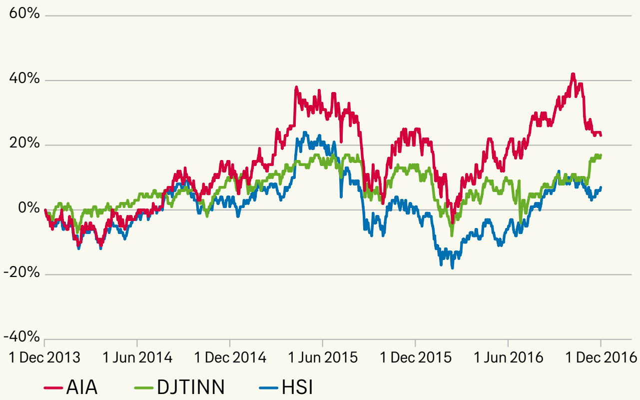
Total shareholder return (TSR) is the compound annual return from the ownership of a share over a period of time, measured by calculating the change in the share price and the gross value of dividends received (and reinvested) during that period. AIA's TSR will be calculated in the same way and compared 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 for restricted share units awarded in 2015 and thereafter) 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 early 2016, after assessing the performance of the Company over the period from 1 December 2012 to 30 November 2015, the Remuneration Committee approved the vesting of the 2013 restricted share unit awards at 62.75% of the maximum level.

The 2014 restricted share unit awards will vest on 5 March 2017. The chart below shows AIA's TSR compared with the DJTINN during the period from 1 December 2013 to 30 November 2016, which is the same period the performance will be measured against for the purpose of the 2014 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 TSR PERFORMANCE AGAINST DJTINN AND HSI



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) [1]	Vesting date(s) (day / month / year)	Restricted share units outstanding as at 1 December 2015	Restricted share units awarded during the year ended 30 November 2016	Restricted share units vested during the year ended 30 November 2016	Restricted share units reclassified / cancelled / lapsed during the year ended 30 November 2016 [10]	Restricted share units outstanding as at 30 November 2016
Group Chief Executive and President Mr. Mark Edward Tucker	1/6/2011	See note [2]	268,717	–	(268,717)	–	–
	11/3/2013	11/3/2016 [3]	1,314,873	–	(825,083)	(489,790)	–
	5/3/2014	5/3/2017 [3]	1,261,874	–	–	–	1,261,874
	12/3/2015	12/3/2018 [3]	1,061,627	–	–	–	1,061,627
	9/3/2016	9/3/2019 [3]	–	1,258,693	–	–	1,258,693
Key Management Personnel (excluding Group Chief Executive and President)	1/6/2011	See note [2]	1,491,032	–	(1,419,817)	(71,215)	–
	11/3/2013	11/3/2016 [3]	2,194,253	–	(1,158,740)	(1,035,513)	–
	5/3/2014	5/3/2017 [3]	1,901,799	–	–	(417,655)	1,484,144
	14/4/2014	14/4/2017 [3]	203,016	–	–	–	203,016
	14/4/2014	See note [4]	243,619	–	(243,619)	–	–
	12/3/2015	12/3/2018 [3]	1,634,469	–	–	(260,587)	1,373,882
	12/3/2015	12/3/2017 [5]	54,696	–	–	(21,896)	32,800
	1/9/2015	See note [6]	678,753	–	–	–	678,753
	9/3/2016	9/3/2019 [3]	–	1,848,365	–	(95,826)	1,752,539
	17/10/2016	1/8/2019 [8]	–	101,217	–	–	101,217
	17/10/2016	See note [9]	–	62,812	–	–	62,812
Other eligible employees and participants	1/6/2011	See note [2]	603,710	–	(647,913)	44,203	–
	11/3/2013	11/3/2016 [3]	12,934,058	–	(8,111,538)	(4,822,520)	–
	1/8/2013	1/8/2016 [3]	237,040	–	(130,965)	(106,075)	–
	1/8/2013	11/3/2016 [3]	75,865	–	(47,606)	(28,259)	–
	5/3/2014	5/3/2017 [3]	13,565,011	–	(72,833)	(1,033,916)	12,458,262
	11/9/2014	11/9/2017 [3]	48,724	–	–	–	48,724
	11/9/2014	5/3/2017 [3]	4,193	–	–	–	4,193
	12/3/2015	12/3/2018 [3]	12,584,603	–	(34,726)	(1,051,340)	11,498,537
	12/3/2015	12/3/2017 [5]	1,268,530	–	(6,757)	(46,067)	1,215,706
	1/9/2015	1/9/2018 [3]	20,316	–	–	–	20,316
	9/3/2016	9/3/2019 [3]	–	15,224,179	(1,587)	(714,265)	14,508,327
	9/3/2016	See note [7]	–	313,752	(156,876)	–	156,876
	1/8/2016	9/3/2019 [3]	–	79,134	–	–	79,134
	1/8/2016	1/8/2019 [3]	–	75,870	–	–	75,870

Notes:

(1) 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 dates for awards made during the year ended 30 November 2013 were determined to be 11 March 2013 and 1 August 2013. The measurement dates 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. These measurement dates were determined in accordance with IFRS 2.

(2) 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 April 2014, one-third vested on 1 April 2015 and one-third vested on 1 April 2016.

(3) The vesting of these restricted share units is subject to the achievement of performance conditions shown on page 107 of this Annual Report.

(4) 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 14 April 2015 and one-half vested on 14 April 2016.

(5) 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 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 will vest 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). One-half of restricted share units vested on 30 November 2016 and one-half will vest on 30 November 2017.

(8) 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.

(9) 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 will vest on 1 August 2017, one-third will vest on 1 August 2018, and one-third will vest on 1 August 2019.

(10) These restricted share units lapsed or were reclassified during the year ended 30 November 2016. The reclassification of restricted share units was a result of two executives who were 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 2016.

SHARE OPTION SCHEME

The objective of the Share Option Scheme is to align the interests of Scheme participants with those of the Company's shareholders. Under the Share Option 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 2016, the Company awarded 9,550,232 share options under the Share Option Scheme to employees and officers of the Company and employees, officers and directors of a number of its subsidiaries. The exercise price of such share options was determined by applying 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.

The total number of 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 options 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 Share Option 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 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 2013 became exercisable on 11 March 2016. The share options awarded in 2016 will vest in 2019. Details of the valuation of the share options are set out in note 38 to the financial statements.

The table below summarises the movements in share options awards.

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day / month / year) [1]	Period during which share options exercisable (day / month / year)	Share options outstanding as at 1 December 2015	Share options awarded during the year ended 30 November 2016	Share options vested during the year ended 30 November 2016	Share options reclassified / cancelled / lapsed during the year ended 30 November 2016 [10]	Share options exercised during the year ended 30 November 2016	Exercise price (HK$)	Share options outstanding as at 30 November 2016	Weighted average closing price of shares immediately before the dates on which share options were exercised (HK$)
Group Chief Executive and President Mr. Mark Edward Tucker	1/6/2011	1/4/2014 - 31/5/2021 [2]	2,149,724	–	–	–	–	27.35	2,149,724	n/a
	1/6/2011	1/4/2014 - 31/5/2021 [3]	2,418,439	–	806,147	–	–	27.35	2,418,439	n/a
	15/3/2012	15/3/2015 - 14/3/2022 [4]	2,152,263	–	–	–	–	28.40	2,152,263	n/a
	11/3/2013	11/3/2016 - 10/3/2023 [5]	2,183,144	–	2,183,144	–	–	34.35	2,183,144	n/a
	5/3/2014	5/3/2017 - 4/3/2024 [6]	2,169,274	–	–	–	–	37.56	2,169,274	n/a
	12/3/2015	12/3/2018 - 11/3/2025 [8]	2,028,555	–	–	–	–	47.73	2,028,555	n/a
	9/3/2016	9/3/2019 - 8/3/2026 [9]	–	3,346,701	–	–	–	41.90	3,346,701	n/a
Key Management Personnel (excluding Group Chief Executive and President)	1/6/2011	1/4/2014 - 31/5/2021 [2]	3,220,349	–	–	(481,491)	(1,617,251)	27.35	1,121,607	48.54
	1/6/2011	1/4/2014 - 31/5/2021 [3]	4,954,656	–	1,746,510	(605,313)	(2,554,773)	27.35	1,794,570	48.44
	15/3/2012	15/3/2015 - 14/3/2022 [4]	3,243,832	–	–	(474,411)	(1,165,217)	28.40	1,604,204	49.70
	11/3/2013	11/3/2016 - 10/3/2023 [5]	3,489,345	–	2,912,103	(654,179)	(722,260)	34.35	2,112,906	48.42
	5/3/2014	5/3/2017 - 4/3/2024 [6]	3,133,429	–	–	(582,061)	–	37.56	2,551,368	n/a
	14/4/2014	14/4/2017 - 13/4/2024 [7]	332,282	–	–	–	–	39.45	332,282	n/a
	12/3/2015	12/3/2018 - 11/3/2025 [8]	3,003,103	–	–	(377,896)	–	47.73	2,625,207	n/a
	9/3/2016	9/3/2019 - 8/3/2026 [9]	–	4,914,557	–	(254,789)	–	41.90	4,659,768	n/a
Other eligible employees and participants	1/6/2011	1/4/2014 - 31/5/2021 [2]	482,848	–	–	481,491	(75,002)	27.35	889,337	50.13
	1/6/2011	1/4/2014 - 31/5/2021 [3]	2,058,072	–	972,933	524,277	(560,213)	27.35	2,022,136	49.06
	15/3/2012	15/3/2015 - 14/3/2022 [4]	744,422	–	–	474,411	(159,958)	28.40	1,058,875	48.71
	11/3/2013	11/3/2016 - 10/3/2023 [5]	911,433	–	1,274,541	440,045	(283,176)	34.35	1,068,302	47.59
	5/3/2014	5/3/2017 - 4/3/2024 [6]	915,443	–	36,815	136,726	(36,815)	37.56	1,015,354	45.50
	12/3/2015	12/3/2018 - 11/3/2025 [8]	867,491	–	17,139	(4,870)	–	47.73	862,621	n/a
	9/3/2016	9/3/2019 - 8/3/2026 [9]	–	1,288,974	–	125,422	–	41.90	1,414,396	n/a

Notes:

(1) 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. These measurement dates were determined in accordance with IFRS 2.

(2) The vesting of share options is service-based only. All share options vested on 1 April 2014.

(3) 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.

(4) The vesting of share options is service-based only. All share options vested on 15 March 2015.

(5) The vesting of share options is service-based only. All share options vested on 11 March 2016.

(6) The vesting of share options is service-based only. All share options will vest on 5 March 2017.

(7) The vesting of share options is service-based only. All share options will vest on 14 April 2017.

(8) The vesting of share options is service-based only. All share options will vest on 12 March 2018.

(9) The closing price of the Company's shares immediately before the date on which share options were awarded was HK$41.40. The vesting of share options is service-based only. All share options will vest on 9 March 2019.

(10) These share options lapsed or were reclassified during the year ended 30 November 2016. The reclassification of share options was a result of two executives who were 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 2016.

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 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 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 base salary or HK$117,000, whichever is lower. Upon vesting of the matching RSPUs, those employees who are still in employment with the Group will receive one matching share for each RSPU which he or she holds. The matching 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 2016, 1,164,179 matching RSPUs were awarded by the Company, 694,583 matching RSPUs vested and no new shares have been issued pursuant to the ESPP. Since the ESPP Adoption Date and up to 30 November 2016, a total of 1,897,377 matching RSPUs vested under the ESPP, representing 0.016 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

GROUP CHIEF EXECUTIVE AND PRESIDENT / EXECUTIVE DIRECTOR

The Group Chief Executive and President, Mr. Mark Edward Tucker, is the sole Executive Director on the Company's Board. He receives his remuneration exclusively for his role as Group Chief Executive and President and receives no separate fees for his role as a Board Director or for acting as a director of any subsidiary companies.

The table below provides details of target remuneration for the Group Chief Executive and President during the years 2015 and 2016. Details of the remuneration cost incurred by the Company during the period from 1 December 2015 to 30 November 2016 are included in note 39 to the financial statements.

		Target Pay Opportunity		
US$	Basic salary	Target short-term incentive	Target long-term incentive	Total
Group Chief Executive and President				
Mr. Mark Edward Tucker				
Year 2016	1,545,300	2,318,000	6,567,500	10,430,800
Year 2015	1,471,500	2,207,300	6,253,900	9,932,700

NON-EXECUTIVE DIRECTORS

Remuneration for the Non-executive Director and Independent Non-executive Directors was paid in respect of the period from 1 December 2015 to 30 November 2016 and included the fees for their services provided to the Board Committees.

All remuneration of the Non-executive Director and Independent Non-executive Directors was on a flat annual fee basis, with no variable component linked to either corporate or individual performance and therefore with no financial incentive to promote the assumption by the Group of inappropriate levels of risk. Details of the Non-executive Directors' remuneration cost incurred by the Company during the year ended 30 November 2016 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 2016 was US$48,708,048. Details of remuneration during the year are included in note 39 to the financial statements.

FINANCIAL STATEMENTS

CONTENTS

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SHAREHOLDERS OF AIA GROUP LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of AIA Group Limited (the "Company") and its subsidiaries set out on pages 115 to 228, which comprise the consolidated statement of financial position as at 30 November 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

Auditor's responsibility (continued)

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

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

Opinion

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

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
24 February 2017

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

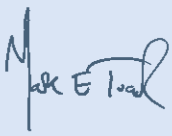
US$m	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
Net profit	**4,212**	2,792
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Fair value gains/(losses) on available for sale financial assets (net of tax of: 2016: US$8m; 2015: US$(48)m)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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

Approved and authorised for issue by the Board of Directors on 24 February 2017.



Mark Edward Tucker
Director

Edmund Sze-Wing Tse
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$m	Note	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Other comprehensive income: Fair value reserve	Other comprehensive income: Foreign currency translation reserve	Other comprehensive income: Property revaluation reserve	Other comprehensive income: Others	Non-controlling interests	Total equity
Balance at 1 December 2015, as previously reported		**13,971**	**(321)**	**(11,978)**	**24,708**	**4,414**	**(1,381)**	**–**	**(12)**	**139**	**29,540**
Retrospective adjustments for IAS 40		–	–	–	1,586	–	(8)	140	–	164	1,882
Balance at 1 December 2015, as adjusted		**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)
Total comprehensive income/(expense) for the year		**–**	**–**	**–**	**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)
Balance at 30 November 2016		**13,998**	**(351)**	**(11,954)**	**29,334**	**5,352**	**(1,812)**	**449**	**(32)**	**326**	**35,310**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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

1. CORPORATE INFORMATION

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

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

- IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. In addition, a revised expected credit losses model will replace the incurred loss impairment model in IAS 39. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity's risk management strategies. The Group is yet to fully assess the impact of the standard on its financial position and results of operations. The standard is mandatorily effective for annual periods beginning on or after 1 January 2018.

- On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied. The Group will evaluate available alternatives in determining the adoption date of the relevant standard. Based on the amendments to IFRS 4, the Group is eligible for electing the temporary option to defer the effective date of IFRS 9.

- IFRS 16, Leases, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is yet to assess the full impact of the standard on its financial position and results of operations. The standard is mandatorily effective for annual periods beginning on or after 1 January 2019.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Operating profit

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

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

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

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

2.3 Basis of consolidation

Subsidiaries

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

Investment funds

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

Employee share-based trusts

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

Non-controlling interests

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

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

Associates and joint ventures

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

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

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

The Company’s investments

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts

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

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

Product classification

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

2.4.1 Insurance contracts and investment contracts with DPF

Premiums

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

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

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

Unearned revenue liability

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

Deferred profit liability

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

Deferred acquisition costs

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

Deferred sales inducements

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

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

Unbundling

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

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

Bifurcation

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

Benefits and claims

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

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

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

Liability adequacy testing

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

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

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

Financial guarantees

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

2.4.2 Investment contracts

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

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

Investment contract fee revenue

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.2 Investment contracts (continued)

Deferred origination costs

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

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

Investment contract liabilities

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

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

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

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

Deferred fee income liability

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

2.4.3 Insurance and investment contracts

Reinsurance

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

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

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

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

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

Value of business acquired (VOBA)

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

Shadow accounting

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

Other assessments and levies

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments

2.5.1 Classification of and designation of financial instruments

Financial assets and liabilities at fair value through profit or loss

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

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

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

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

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

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

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

Available for sale financial assets

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

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

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

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

Realised gains and losses on financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Classification of and designation of financial instruments (continued)

Recognition of financial instruments

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

Derecognition and offset of financial assets

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

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

Loans and receivables

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

Term deposits

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

Cash and cash equivalents

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

2.5.2 Fair values of non-derivative financial instruments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.3 Impairment of financial assets

General

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

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

Available for sale financial instruments

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

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

Loans and receivables

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

2.5.4 Derivative financial instruments

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

Derivative instruments for economic hedging

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.4 Derivative financial instruments (continued)

Embedded derivatives

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

2.6 Segment reporting

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

2.7 Foreign currency translation

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

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

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

2.8 Property, plant and equipment

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment (continued)

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

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

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

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

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

2.9 Investment property

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

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

2.10 Goodwill and other intangible assets

Goodwill

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

Other intangible assets

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Impairment of non-financial assets

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

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

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

2.12 Securities lending including repurchase agreements

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

Assets sold under repurchase agreements (repos)

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

Assets purchased under agreements to resell (reverse repos)

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Collateral

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

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

2.14 Borrowings

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

2.15 Income taxes

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Revenue

Investment return

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

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

Other fee and commission income

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

2.17 Employee benefits

Annual leave and long service leave

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

Post-retirement benefit obligations

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

Share-based compensation and cash incentive plans

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

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

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

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

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

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

2.18 Provisions and contingencies

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Leases

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

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

2.20 Share capital

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

Share issue costs

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

Dividends

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

2.21 Presentation of the consolidated statement of financial position

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

2.22 Earnings per share

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Fiduciary activities

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

2.24 Consolidated statement of cash flow

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

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

2.25 Related party transactions

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

3.1 Product classification

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

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

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

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

3.3 Deferred acquisition and origination costs

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.4 Liability adequacy testing

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

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

3.5 Fair value measurement

3.5.1 Fair value of financial assets

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

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.5 Fair value measurement (continued)

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

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

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

3.6 Impairment of financial assets

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.7 Impairment of goodwill and other intangible assets

For the purposes of impairment testing, goodwill and other intangible assets are grouped into cash-generating units. These assets are tested for impairment by comparing the carrying amount of the cash-generating unit, including goodwill, to the recoverable amount of that cash-generating unit. The determination of the recoverable amount requires significant judgement regarding the selection of appropriate valuation techniques and assumptions. Further details of the impairment of goodwill during the year are provided in note 13.

4. EXCHANGE RATES

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

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

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

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

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

5. OPERATING PROFIT AFTER TAX

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

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

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

6. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS

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

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

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

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

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

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

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

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

7. SEGMENT INFORMATION

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

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

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

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

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

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

7. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
Year ended 30 November 2016								
ANP	2,294	471	427	341	621	969	–	5,123
TWPI	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
Total revenue	8,960	4,327	3,683	2,162	2,930	4,680	323	27,065
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
Total expenses	7,515	3,372	3,152	1,831	2,330	3,801	283	22,284
Share of losses from associates and joint venture	–	–	–	–	–	(5)	–	(5)
Operating profit before tax	1,445	955	531	331	600	874	40	4,776
Tax on operating profit before tax	(101)	(187)	(78)	(64)	(131)	(192)	(10)	(763)
Operating profit after tax	1,344	768	453	267	469	682	30	4,013
Operating profit after tax attributable to:								
Shareholders of AIA Group Limited	1,334	768	453	265	469	662	30	3,981
Non-controlling interests	10	–	–	2	–	20	–	32
Key operating ratios:								
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								
Total assets	**52,916**	**26,800**	**31,087**	**12,409**	**18,672**	**33,011**	**10,179**	**185,074**
Total liabilities	**45,166**	**21,163**	**28,345**	**11,079**	**15,064**	**25,881**	**3,066**	**149,764**
Total equity	**7,750**	**5,637**	**2,742**	**1,330**	**3,608**	**7,130**	**7,113**	**35,310**
Shareholders' allocated equity	**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	–	–	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[1]	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
Total revenue	**27,065**	**42**	**1,089**	**28,196**	**Total revenue**
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
Total expenses	**22,284**	**(59)**	**1,094**	**23,319**	**Total expenses**
Share of losses from associates and joint venture	(5)	–	–	(5)	Share of losses from associates and joint venture
Operating profit before tax	**4,776**	**101**	**(5)**	**4,872**	**Profit before tax**

Note:

(1) Include unit-linked contracts.

7. SEGMENT INFORMATION (continued)

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

7. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets[2]	Group Corporate Centre	Total
30 November 2015 – As adjusted								
Total assets	45,265	24,758	30,134	12,679	17,091	30,381	9,450	169,758
Total liabilities	38,135	20,124	27,693	11,307	14,032	24,085	2,960	138,336
Total equity	7,130	4,634	2,441	1,372	3,059	6,296	6,490	31,422
Shareholders' allocated equity	5,713	3,679	2,247	1,362	2,644	4,458	6,602	26,705
Net capital (out)/in flows	(850)	(708)	(329)	(188)	(1)	(119)	1,371	(824)
Total assets include:								
Investments in associates and joint venture	–	–	1	6	–	130	–	137

Notes:

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

(2) Includes Korea.

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

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

Note:

(1) Include unit-linked contracts.

8. REVENUE

Investment return

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

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

US$m	Year ended 30 November 2016	Year ended 30 November 2015
Foreign exchange gains	**36**	195

Other operating revenue

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

9. EXPENSES

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

Note:

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

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

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

Finance costs may be analysed as:

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

9. EXPENSES (continued)

Employee benefit expenses consist of:

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

10. INCOME TAX

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

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

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

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

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

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

10. INCOME TAX (continued)

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

Note:

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

10. INCOME TAX (continued)

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

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

Notes:

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

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

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

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

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

11. EARNINGS PER SHARE

Basic

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

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

Diluted

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

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

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

Operating profit after tax per share

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

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

12. DIVIDENDS

Dividends to shareholders of the Company attributable to the year:

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

Note:

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

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

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

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

13. INTANGIBLE ASSETS

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

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

Impairment tests for goodwill

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

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

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

14. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

US$m	Year ended 30 November 2016	Year ended 30 November 2015
Group		
Investments in associates	**650**	137
Investment in joint venture	**–**	–
Total	**650**	137

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

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

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

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

All associates and joint venture are unlisted.

Aggregated financial information of associates

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

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

15. PROPERTY, PLANT AND EQUIPMENT

US$m	Property held for own use	Computer hardware	Fixtures and fittings and others	Total
Cost or revaluation				
At 1 December 2014 – As previously reported	557	224	370	1,151
Effect of change in accounting policies	64	–	–	64
At 1 December 2014 – As adjusted	621	224	370	1,215
Additions	14	18	46	78
Disposals	–	(18)	(38)	(56)
Net transfers from investment property	29	–	–	29
Foreign exchange movements	(49)	(17)	(21)	(87)
At 30 November 2015 – As adjusted	**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)**
At 30 November 2016	**905**	**188**	**464**	**1,557**
Accumulated depreciation				
At 1 December 2014 – As previously reported	(196)	(181)	(233)	(610)
Effect of change in accounting policies	(7)	–	–	(7)
At 1 December 2014 – As adjusted	(203)	(181)	(233)	(617)
Depreciation charge for the year	(17)	(24)	(37)	(78)
Disposals	–	17	26	43
Net transfers from investment property	(1)	–	–	(1)
Foreign exchange movements	21	16	16	53
At 30 November 2015 – As adjusted	**(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**
At 30 November 2016	**–**	**(160)**	**(265)**	**(425)**
Net book value				
At 30 November 2015 – As adjusted	415	35	129	579
At 30 November 2016	**905**	**28**	**199**	**1,132**

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

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

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

16. INVESTMENT PROPERTY

US$m	
Fair value	
At 1 December 2014 – As previously reported	1,384
Effect of change in accounting policies	2,255
At 30 November 2014 – As adjusted	3,639
Additions and capitalised subsequent expenditures	86
Disposals	(2)
Net transfers to property, plant and equipment	(28)
Net transfers to other assets	(15)
Fair value gain	73
Foreign exchange movements	(94)
At 30 November 2015 – As adjusted	**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	**3,910**

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

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

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

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

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

17. REINSURANCE ASSETS

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

18. DEFERRED ACQUISITION AND ORIGINATION COSTS

US$m	As at 30 November 2016	As at 30 November 2015
Carrying amount		
Deferred acquisition costs on insurance contracts	**18,351**	16,424
Deferred origination costs on investment contracts	**418**	470
Value of business acquired	**129**	198
Total	**18,898**	17,092

	Year ended 30 November 2016	Year ended 30 November 2015
Movements in the year		
At beginning of financial year	**17,092**	16,593
Deferral and amortisation of acquisition and origination costs	**2,057**	1,490
Foreign exchange movements	**(172)**	(1,151)
Impact of assumption changes	**(6)**	33
Other movements	**(73)**	127
At end of financial year	**18,898**	17,092

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

19. FINANCIAL INVESTMENTS

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

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

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

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

Debt securities

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

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

Note:

(1) Unless otherwise identified individually.

19. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following:

		Policyholder and shareholder						
		Participating funds	Other policyholder and shareholder			Unit-linked	Consolidated investment funds[3]	
US$m	Rating	FVTPL	FVTPL	AFS	Subtotal	FVTPL	FVTPL	Total
30 November 2016								
Government bonds – issued in local currency								
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[1]		–	–	639	639	2	–	641
Subtotal		4,445	10	28,498	32,953	817	–	33,770
Government bonds – foreign currency								
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
Subtotal		185	57	2,716	2,958	222	–	3,180
Government agency bonds[2]								
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
Subtotal		3,200	12	8,720	11,932	223	231	12,386

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)

	Policyholder and shareholder						
	Participating funds	Other policyholder and shareholder			Unit-linked	Consolidated investment funds[3]	
US$m	FVTPL	FVTPL	AFS	Subtotal	FVTPL	FVTPL	Total
30 November 2016							
Corporate bonds							
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
Subtotal	10,611	168	49,405	60,184	1,295	1,667	63,146
Structured securities[4]							
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
Subtotal	266	116	753	1,135	1	–	1,136
Total[5]	18,707	363	90,092	109,162	2,558	1,898	113,618

Notes:
(3) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.
(4) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
(5) Debt securities of US$3,964m are restricted due to local regulatory requirements.

19. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

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

Notes:

(1) Of the total government bonds issued in local currency listed as “Other” at 30 November 2015, 58 per cent are rated as investment grade and a further 24 per cent are rated BB- and above. The remaining are rated below BB-.

(2) The presentation of the table has been adjusted to conform to the current year presentation.

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

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

19. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

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

Notes:

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

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

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

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

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

19. FINANCIAL INVESTMENTS (continued)

Equity securities

Equity securities by type comprise the following:

US$m	Policyholder and shareholder: Participating funds FVTPL	Policyholder and shareholder: Other policyholder and shareholder FVTPL	Subtotal	Unit-linked FVTPL	Consolidated investment funds[1] FVTPL	Total
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**
Total	**5,451**	**9,262**	**14,713**	**15,494**	**4**	**30,211**

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

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

Debt and equity securities

US$m	As at 30 November 2016	As at 30 November 2015
Debt securities		
Listed	**86,105**	76,490
Unlisted	**27,513**	28,150
Total	**113,618**	104,640
Equity securities		
Listed	**16,394**	13,878
Unlisted[1]	**13,817**	13,281
Total	**30,211**	27,159

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

19. FINANCIAL INVESTMENTS (continued)

Interests in structured entities

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

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

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

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

Notes:

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

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

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

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

19. FINANCIAL INVESTMENTS (continued)

Loans and deposits

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

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

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

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

20. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Foreign exchange contracts

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

Interest rate swaps

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

Other derivatives

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

Netting adjustment

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

Collateral under derivative transactions

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

21. FAIR VALUE MEASUREMENT

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: Fair value through profit or loss	Fair value: Available for sale	Cost/ amortised cost	Total carrying value	Total fair value
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
Financial assets		**53,844**	**90,092**	**12,356**	**156,292**	**156,296**

	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
Financial liabilities		**8,382**	**9,457**	**17,839**	**17,858**

21. FAIR VALUE MEASUREMENT (continued)

Fair value of financial instruments (continued)

US$m	Notes	Fair value: Fair value through profit or loss	Fair value: Available for sale	Cost/ amortised cost	Total carrying value	Total fair value
30 November 2015						
Financial investments	19					
Loans and deposits		–	–	7,211	7,211	7,222
Debt securities		23,700	80,940	–	104,640	104,640
Equity securities		27,159	–	–	27,159	27,159
Derivative financial instruments	20	73	–	–	73	73
Reinsurance receivables	17	–	–	257	257	257
Other receivables	22	–	–	1,731	1,731	1,731
Accrued investment income	22	–	–	1,350	1,350	1,350
Cash and cash equivalents	24	–	–	1,992	1,992	1,992
Financial assets		50,932	80,940	12,541	144,413	144,424

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	26	6,573	543	7,116	7,116
Borrowings	28	–	3,195	3,195	3,217
Obligations under repurchase agreements	29	–	3,085	3,085	3,085
Derivative financial instruments	20	695	–	695	695
Other liabilities	32	1,214	3,443	4,657	4,657
Financial liabilities		8,482	10,266	18,748	18,770

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

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

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

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

21. FAIR VALUE MEASUREMENT (continued)

Fair value measurements on a recurring basis

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

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

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

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

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

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

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

Determination of fair value

Loans and receivables

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

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

Debt securities and equity securities

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

21. FAIR VALUE MEASUREMENT (continued)

Determination of fair value (continued)

Derivative financial instruments

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

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

Property held for own use and investment property

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

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

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance receivables

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

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

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

Other assets

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

21. FAIR VALUE MEASUREMENT (continued)

Determination of fair value (continued)

Investment contract liabilities

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

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

Borrowings

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

Other liabilities

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

Fair value hierarchy for fair value measurement on a recurring basis

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

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

21. FAIR VALUE MEASUREMENT (continued)

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

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

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

	Fair value hierarchy			
US$m	Level 1	Level 2	Level 3	Total
30 November 2016				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	–	–	905	905
Investment property	–	–	3,910	3,910
Financial assets				
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
Total assets on a recurring fair value measurement basis	28,443	112,858	7,450	148,751
% of Total	*19.1*	*75.9*	*5.0*	*100.0*
Financial liabilities				
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
Total liabilities on a recurring fair value measurement basis	–	1,883	6,499	8,382
% of Total	*–*	*22.5*	*77.5*	*100.0*

21. FAIR VALUE MEASUREMENT (continued)

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

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

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

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

21. FAIR VALUE MEASUREMENT (continued)

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

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

Level 3 assets and liabilities

US$m	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
At 1 December 2015 – As adjusted	**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)	–	–
At 30 November 2016	**905**	**3,910**	**1,947**	**688**	**–**	**(6,499)**
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	**(15)**	**288**	**(25)**	**(26)**	**–**	**–**

21. FAIR VALUE MEASUREMENT (continued)

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

Level 3 assets and liabilities (continued)

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

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

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

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

21. FAIR VALUE MEASUREMENT (continued)

Significant unobservable inputs for level 3 fair value measurements

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

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

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

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

Valuation processes

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

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

21. FAIR VALUE MEASUREMENT (continued)

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

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

US$m	Fair value hierarchy Level 1	Level 2	Level 3	Total
30 November 2016				
Assets for which the fair value is disclosed				
Financial assets				
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**
Total assets for which the fair value is disclosed	**2,459**	**6,347**	**3,554**	**12,360**
Liabilities for which the fair value is disclosed				
Financial liabilities				
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**
Total liabilities for which the fair value is disclosed	**3,790**	**5,110**	**576**	**9,476**

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

22. OTHER ASSETS

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

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

23. IMPAIRMENT OF FINANCIAL ASSETS

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

Available for sale debt securities

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

The carrying amounts of available for sale debt securities that are individually determined to be impaired at 30 November 2016 was US$18m (2015: US$31m).

Loans and receivables

The Group's primary potential credit risk exposure in respect of loans and receivables arises in respect of policy loans and a portfolio of mortgage loans on residential and commercial real estate (see note 19 Financial investments for further details). The Group's credit exposure on policy loans is mitigated because, if and when the total indebtedness on any policy, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Group has a first lien on all policies which are subject to policy loans.

The carrying amounts of loans and receivables that are individually determined to be impaired at 30 November 2016 was US$18m (2015: US$20m).

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

24. CASH AND CASH EQUIVALENTS

US$m	As at 30 November 2016	As at 30 November 2015
Cash	**1,120**	1,493
Cash equivalents	**522**	499
Total[(1)]	**1,642**	1,992

Note:

(1) Of cash and cash equivalents, US$412m (2015: US$428m) are held to back unit-linked contracts and US$92m (2015: US$22m) are held by consolidated investment funds.

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

25. INSURANCE CONTRACT LIABILITIES

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

US$m	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
At beginning of financial year	**115,969**	113,202
Valuation premiums and deposits	**23,962**	21,300
Liabilities released for policy termination or other policy benefits paid and related expenses	**(13,647)**	(13,240)
Fees from account balances	**(1,491)**	(1,261)
Accretion of interest	**3,810**	3,624
Foreign exchange movements	**(1,733)**	(7,859)
Change in net asset values attributable to policyholders	**1,434**	107
Disposal of a subsidiary	**–**	(22)
Other movements	**(118)**	118
At end of financial year	**128,186**	115,969

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

US$m	Year ended 30 November 2016	Year ended 30 November 2015 (As adjusted)
Deferred profit	**5,761**	5,100
Unearned revenue	**2,906**	2,874
Policyholders' share of participating surplus	**6,731**	6,447
Liabilities for future policyholder benefits	**112,788**	101,548
Total	**128,186**	115,969

25. INSURANCE CONTRACT LIABILITIES (continued)

Business description

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

Type of contract		Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows	Key reportable segments
Traditional participating life assurance with DPF	Participating funds	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the aggregate amount of which is determined by the performance of a distinct fund of assets and liabilities. The timing of dividend and bonus declarations is at the discretion of the insurer. Local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations	• Investment performance • Expenses • Mortality • Surrenders	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	• Investment performance • Expenses • Mortality • Surrenders • Morbidity	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	• Mortality • Morbidity • Lapses • Expenses	All(1)
Accident and health		These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole	• Mortality • Morbidity • Lapses • Expenses	All(1)
Unit-linked		Unit-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitised funds	Benefits are based on the value of the unitised funds and death benefits	• Investment performance • Lapses • Expenses • Mortality	All(1)
Universal life		The customer pays flexible premiums subject to specified limits accumulated in an account balance which are credited with interest at a rate set by the insurer, and a death benefit which may be varied by the customer	Benefits are based on the account balance and death benefit	• Investment performance • Crediting rates • Lapses • Expenses • Mortality	All(1)

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.

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

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

25. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions (continued)

Valuation interest rates

As at 30 November 2016 and 2015, the ranges of applicable valuation interest rates for traditional insurance contracts, which vary by territory, year of issuance and products, within the first 20 years are as follows:

	As at 30 November 2016	As at 30 November 2015
Hong Kong	**3.50% – 7.50%**	3.50% – 7.50%
Thailand	**3.25% – 9.00%**	3.25% – 9.00%
Singapore	**2.00% – 7.00%**	2.00% – 7.00%
Malaysia	**3.70% – 5.43%**	3.70% – 8.90%
China	**2.75% – 7.00%**	2.75% – 7.00%
Korea	**2.85% – 6.50%**	3.08% – 6.50%
Philippines	**2.20% – 9.20%**	2.20% – 9.20%
Indonesia	**3.02% – 9.00%**	3.10% – 10.80%
Vietnam	**5.07% – 12.25%**	5.07% – 12.25%
Australia	**3.40% – 7.11%**	3.83% – 7.11%
New Zealand	**2.97% – 5.75%**	3.83% – 5.75%
Taiwan	**1.75% – 6.50%**	1.75% – 6.50%
Sri Lanka	**7.10% – 10.78%**	7.95% – 11.00%

26. INVESTMENT CONTRACT LIABILITIES

US$m	Year ended 30 November 2016	Year ended 30 November 2015
At beginning of financial year	**7,116**	7,937
Effect of foreign exchange movements	**(56)**	(170)
Investment contract benefits	**245**	(336)
Fees charged	**(138)**	(189)
Net withdrawals and other movements	**(139)**	(126)
At end of financial year(1)	**7,028**	7,116

Note:
(1) Of investment contract liabilities, US$558m (2015: US$636m) represents deferred fee income.

27. EFFECT OF CHANGES IN ASSUMPTIONS AND ESTIMATES

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

US$m	As at 30 November 2016	As at 30 November 2015
(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax		
0.5 pps increase in investment return	**20**	18
0.5 pps decrease in investment return	**(27)**	(17)
10% increase in expenses	**(7)**	(5)
10% increase in mortality rates	**(36)**	(27)
10% increase in lapse/discontinuance rates	**(22)**	(18)

Future policy benefits for traditional life insurance policies (including investment contracts with DPF) are calculated using a net level premium valuation method with reference to best estimate assumptions set at policy inception date unless a deficiency arises on liability adequacy testing. There is not any impact of the above assumption sensitivities on the carrying amount of traditional life insurance liabilities as the sensitivities presented would not have triggered a liability adequacy adjustment. During the years presented there were not any effect of changes in assumptions and estimates on the Group’s traditional life products.

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

The impact of changes in assumptions on the valuation of insurance and investment contracts with DPF was US$20m increase in profit (2015: US$8m increase).

28. BORROWINGS

US$m	As at 30 November 2016	As at 30 November 2015
Bank and other loans	**1**	323
Medium term notes	**3,459**	2,872
Total	**3,460**	3,195

At 30 November 2016 and 2015, the Group did not have assets pledged as security with respect to amounts disclosed as bank loans above. Interest expense on borrowings is shown in note 9. Further information relating to interest rates and the maturity profile of borrowings is presented in note 36.

The following table summarises the Group's outstanding medium term notes at 30 November 2016:

Issue date	Nominal amount	Interest rate	Tenor
13 March 2013[1]	US$500m	1.750%	5 years
13 March 2013[1]	US$500m	3.125%	10 years
11 March 2014[1]	US$500m	2.250%	5 years
11 March 2014[1]	US$500m	4.875%	30 years
11 March 2015[1]	US$750m	3.200%	10 years
16 March 2016[1]	US$750m	4.500%	30 years

Note:
(1) These medium term notes are listed on The Stock Exchange of Hong Kong Limited.

The net proceeds from issuance during the year ended 30 November 2016 are used for general corporate purposes.

The Group has access to an aggregate of US$2,050m unsecured committed credit facilities, which includes a US$300m revolving three-year credit facility expiring in 2019 and a US$1,750m five-year credit facility expiring in 2021. The credit facilities will be used for general corporate purposes. There were nil outstanding borrowings under these credit facilities as of 30 November 2016 (2015: nil).

29. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

The securities related to these agreements are not de-recognised from the Group's consolidated statement of financial position, but are retained within the appropriate financial asset classification. During the term of the repurchase agreements, the Group is restricted from selling or pledging the transferred debt securities. The following table specifies the amounts included within financial investments subject to repurchase agreements which do not qualify for de-recognition at each year end:

US$m	As at 30 November 2016	As at 30 November 2015
Debt securities – AFS	**2,045**	2,522
Debt securities – FVTPL	**98**	677
Total	**2,143**	3,199

29. OBLIGATIONS UNDER REPURCHASE AGREEMENTS (continued)

Collateral

At 30 November 2016, the Group had pledged debt securities with carrying value of US$6m (2015: US$7m). Cash collateral of US$1m (2015: US$8m) were held based on the market value of the securities transferred. In the absence of default, the Group does not sell or repledge the debt securities collateral received and they are not recognised in the consolidated statement of financial position.

The Group did not have any securities lending transactions outstanding as at 30 November 2016 and 2015.

At 30 November 2016, the obligations under repurchase agreements were US$1,984m (2015: US$3,085m).

30. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Offsetting, enforceable master netting agreements and similar agreements

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

US$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position: Financial instruments	Related amounts not set off in the consolidated statement of financial position: Cash collateral received	Net amount
30 November 2016						
Financial assets:						
Derivative assets	**107**	**–**	**107**	**(5)**	**(6)**	**96**
Reverse repurchase agreements	**224**	**–**	**224**	**(224)**	**–**	**–**
Total	**331**	**–**	**331**	**(229)**	**(6)**	**96**

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: Financial instruments	Related amounts not set off in the consolidated statement of financial position: Cash collateral received	Net amount
30 November 2015						
Financial assets:						
Derivative assets	73	–	73	(2)	(8)	63
Reverse repurchase agreements	155	–	155	(155)	–	–
Total	228	–	228	(157)	(8)	63

30. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

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

US$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
30 November 2016						
Financial liabilities:						
Derivative liabilities	**644**	**–**	**644**	**(440)**	**(188)**	**16**
Repurchase agreements	**1,984**	**–**	**1,984**	**(1,984)**	**–**	**–**
Total	**2,628**	**–**	**2,628**	**(2,424)**	**(188)**	**16**

US$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
30 November 2015						
Financial liabilities:						
Derivative liabilities	695	–	695	(439)	(189)	67
Repurchase agreements	3,085	–	3,085	(3,085)	–	–
Total	3,780	–	3,780	(3,524)	(189)	67

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
At 1 December 2014	124	89	213
Charged to the consolidated income statement	8	89	97
Charged to other comprehensive income	12	–	12
Exchange differences	(9)	(4)	(13)
Released during the year	(2)	(5)	(7)
Utilised during the year	(19)	(40)	(59)
Other movements	3	(1)	2
At 30 November 2015	**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)**
At 30 November 2016	**145**	**108**	**253**

Other provisions

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

32. OTHER LIABILITIES

US$m	**As at 30 November 2016**	As at 30 November 2015
Trade and other payables	**2,980**	3,032
Third-party interests in consolidated investment funds	**1,239**	1,214
Reinsurance payables	**504**	411
Total	**4,723**	4,657

Third-party interests in consolidated investment funds consist of third-party unit holders' interests in consolidated investment funds which are reflected as a liability since they can be put back to the Group for cash.

Trade and other payables are generally expected to be settled within 12 months after the end of the reporting period. The realisation of third-party interests in investment funds cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds held to back insurance and investment contract liabilities and are subject to market risk and the actions of third-party investors.

33. SHARE CAPITAL AND RESERVES

Share capital

	As at 30 November 2016		As at 30 November 2015	
	Million shares	US$m	Million shares	US$m
At beginning of the financial year	**12,048**	**13,971**	12,045	13,962
Shares issued under share option scheme and agency share purchase plan	**8**	**27**	3	9
At end of the financial year	**12,056**	**13,998**	12,048	13,971

The Company issued 7,174,665 shares under share option scheme (2015: 2,190,404 shares) and 927,042 shares under agency share purchase plan (2015: 1,041,690 shares) during the year ended 30 November 2016.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the year ended 30 November 2016 with the exception of 16,849,376 shares (2015: 16,867,524 shares) of the Company purchased by and 276,401 shares (2015: 204,295 shares) of the Company sold by the employee share-based trusts. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

During the year ended 30 November 2016, 13,664,506 shares (2015: 14,734,751 shares) were transferred to eligible directors, officers and employees of the Group from the employee share-based trusts under share-based compensation plans as a result of vesting. As at 30 November 2016, 78,056,013 shares (2015: 75,147,538 shares) of the Company were held by the employee share-based trusts.

Reserves

Fair value reserve

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

Foreign currency translation reserve

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

Employee share-based trusts

Trusts have been established to acquire shares of the Company for distribution to participants in future periods through the share-based compensation plans. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts".

Property revaluation reserve

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

Other reserves

Other reserves mainly include the impact of merger accounting for business combinations under common control and share-based compensation.

34. NON-CONTROLLING INTERESTS

US$m	As at 30 November 2016	As at 30 November 2015 (As adjusted)
Equity shares in subsidiaries	**59**	59
Share of earnings	**257**	221
Share of other reserves	**10**	23
Total	**326**	303

35. GROUP CAPITAL STRUCTURE

Capital Management Approach

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

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

Regulatory Solvency

The Group is in compliance with the solvency and capital adequacy requirements applied by its regulators. The Group's primary insurance regulator at the AIA Company Limited (AIA Co.) and AIA International Limited (AIA International) levels is the Hong Kong Office of the Commissioner of Insurance (HKOCI), which requires that AIA Co. and AIA International meet the solvency margin requirements of the Hong Kong Insurance Companies Ordinance (HKICO). The HKICO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. AIA has given a revised undertaking to the HKOCI to maintain an excess of assets over liabilities for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement (previously 150%) in each of AIA Co. and AIA International. For clarity there is no change in the undertaking in respect of the Hong Kong business or the Hong Kong statutory minimum solvency margin requirement for AIA.

The capital positions of the Group's two principal operating companies as of 30 November 2016 and 2015 are as follows:

	30 November 2016			30 November 2015		
US$m	Total available capital	Regulatory minimum capital	Solvency ratio	Total available capital	Regulatory minimum capital	Solvency ratio
AIA Co.	**6,699**	**1,659**	**404%**	6,761	1,579	428%
AIA International	**6,237**	**2,072**	**301%**	6,388	1,794	356%

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

The Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries and their parent entity operate and, in relation to subsidiaries, in which they are incorporated. The various regulators overseeing the Group actively monitor our local solvency positions. AIA Co. and AIA International submit annual filings to the HKOCI of their solvency margin position based on their annual audited financial statements, and the Group's other operating units perform similar annual filings with their respective local regulators.

35. GROUP CAPITAL STRUCTURE (continued)

Regulatory Solvency (continued)

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

Capital and Regulatory Orders Specific to the Group

As of 30 November 2016, the requirements and restrictions summarised below may be considered material to the Group and remain in effect unless otherwise stated.

Hong Kong Office of the Commissioner of Insurance

AIA Group Limited has given to the Insurance Authority an undertaking that AIA Group Limited will:

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

(ii) notify the Insurance Authority in writing as soon as the Company becomes aware of any person (a) becoming a controller (within the meaning of Section 9(1)(c)(ii) of the HKICO) of AIA Co. and AIA International through the acquisition of our shares traded on the HKSE; or (b) ceasing to be a controller (within the meaning of Section 9(1)(c)(ii) of the HKICO) of AIA Co. and AIA International through the disposal of our shares traded on the HKSE;

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

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

36. RISK MANAGEMENT

Risk management framework

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

Insurance risk

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

Lapse

The rate of policy termination deviating from the Group's expectation.

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

Expense

The risk of the cost of selling new business and of administering the in-force book exceeding the assumptions made in pricing.

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

Morbidity and Mortality

The occurrence and/or amounts of medical/death claims are higher than the assumptions made in pricing or reserving.

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

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

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

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

36. RISK MANAGEMENT (continued)

Investment and financial risks

Credit risk

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

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

Interest rate risk

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

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

36. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Exposure to interest rate risk

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

US$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 2016				
Financial assets				
Loans and deposits	**1,108**	**5,929**	**25**	**7,062**
Other receivables	**164**	**–**	**1,569**	**1,733**
Debt securities	**7,342**	**106,276**	**–**	**113,618**
Equity securities	**–**	**–**	**30,211**	**30,211**
Reinsurance receivables	**–**	**–**	**335**	**335**
Accrued investment income	**–**	**–**	**1,383**	**1,383**
Cash and cash equivalents	**1,456**	**–**	**186**	**1,642**
Derivative financial instruments	**–**	**–**	**107**	**107**
Total financial assets	**10,070**	**112,205**	**33,816**	**156,091**
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**
Total financial liabilities	**1,984**	**3,459**	**12,396**	**17,839**

36. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Exposure to interest rate risk (continued)

US$m	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
30 November 2015				
Financial assets				
Loans and deposits	1,009	6,170	32	7,211
Other receivables	183	–	1,458	1,641
Debt securities	7,680	96,960	–	104,640
Equity securities	–	–	27,159	27,159
Reinsurance receivables	–	–	257	257
Accrued investment income	–	–	1,350	1,350
Cash and cash equivalents	1,826	–	166	1,992
Derivative financial instruments	–	–	73	73
Total financial assets	10,698	103,130	30,495	144,323
Financial liabilities				
Investment contract liabilities	–	–	7,116	7,116
Borrowings	472	2,723	–	3,195
Obligations under repurchase agreements	3,085	–	–	3,085
Other liabilities	15	–	4,642	4,657
Derivative financial instruments	–	–	695	695
Total financial liabilities	3,572	2,723	12,453	18,748

Equity price risk

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

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

36. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Equity price risk (continued)

Sensitivity analysis

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. Information relating to sensitivity of insurance and investment contracts with DPF is provided in note 27. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices, the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support unit-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders. Sensitivity analysis for assets held in participating funds has been calculated after allocation of returns to policyholders using the applicable minimum policyholders' participation ratios described in note 2.

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

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

	30 November 2016			30 November 2015		
US$m	**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[1]	Impact on total equity (before the effects of taxation)[1]	Impact on allocated equity (before the effects of taxation)
Equity price risk						
10 per cent increase in equity prices	**995**	**995**	**995**	792	792	792
10 per cent decrease in equity prices	**(995)**	**(995)**	**(995)**	(792)	(792)	(792)
Interest rate risk						
+ 50 basis points shift in yield curves	**(204)**	**(4,699)**	**(204)**	(123)	(3,937)	(123)
- 50 basis points shift in yield curves	**219**	**5,179**	**219**	135	4,315	135

Note:

(1) Impact on profit before tax and total equity (before the effects of taxation) of interest rate risk have been adjusted to conform to the current year basis.

36. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Foreign exchange rate risk

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

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

Foreign exchange rate net exposure

US$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
30 November 2016						
Equity analysed by original currency	**20,429**	**2,208**	**2,902**	**(2,786)**	**1,939**	**4,098**
Net notional amounts of currency derivative positions	**(7,104)**	**601**	**2,010**	**2,861**	**(187)**	**(122)**
Currency exposure	**13,325**	**2,809**	**4,912**	**75**	**1,752**	**3,976**
5% strengthening of original currency						
Impact on profit before tax	**169**	**11**	**(7)**	**35**	**(6)**	**14**
Impact on other comprehensive income	**(184)**	**99**	**252**	**(31)**	**94**	**185**
Impact on total equity	**(15)**	**110**	**245**	**4**	**88**	**199**
5% strengthening of the US dollar						
Impact on profit before tax	**169**	**21**	**(6)**	**(20)**	**7**	**(10)**
Impact on other comprehensive income	**(184)**	**(131)**	**(239)**	**16**	**(95)**	**(189)**
Impact on total equity	**(15)**	**(110)**	**(245)**	**(4)**	**(88)**	**(199)**

US$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
30 November 2015 – As adjusted						
Equity analysed by original currency	18,958	2,070	2,281	(2,789)	1,913	3,539
Net notional amounts of currency derivative positions	(6,617)	601	1,818	2,698	(177)	(21)
Currency exposure	12,341	2,671	4,099	(91)	1,736	3,518
5% strengthening of original currency						
Impact on profit before tax	134	10	5	25	(7)	21
Impact on other comprehensive income	(157)	98	200	(30)	94	155
Impact on total equity	(23)	108	205	(5)	87	176
5% strengthening of the US dollar						
Impact on profit before tax	134	24	(4)	(10)	9	(15)
Impact on other comprehensive income	(157)	(132)	(201)	15	(96)	(161)
Impact on total equity	(23)	(108)	(205)	5	(87)	(176)

36. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Liquidity risk

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

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

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

US$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
30 November 2016						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	**6,866**	**818**	**1,095**	**298**	**2,204**	**2,451**
Other receivables	**1,676**	**1,558**	**78**	**6**	**–**	**34**
Debt securities	**109,162**	**3,098**	**16,341**	**28,291**	**61,432**	**–**
Equity securities	**14,713**	**–**	**–**	**–**	**–**	**14,713**
Reinsurance receivables	**335**	**335**	**–**	**–**	**–**	**–**
Accrued investment income	**1,341**	**1,333**	**1**	**–**	**–**	**7**
Cash and cash equivalents	**1,137**	**1,137**	**–**	**–**	**–**	**–**
Derivative financial instruments	**104**	**53**	**12**	**26**	**13**	**–**
Subtotal	**135,334**	**8,332**	**17,527**	**28,621**	**63,649**	**17,205**
Financial assets (Unit-linked contracts and consolidated investment funds)	**20,757**	**–**	**–**	**–**	**–**	**20,757**
Total	**156,091**	**8,332**	**17,527**	**28,621**	**63,649**	**37,962**
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	**95,007**	**2,725**	**9,799**	**10,529**	**71,954**	**–**
Borrowings	**3,460**	**–**	**998**[1]	**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**	**–**
Subtotal	**104,472**	**7,156**	**11,052**	**12,085**	**73,216**	**963**
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	**20,743**	**–**	**–**	**–**	**–**	**20,743**
Total	**125,215**	**7,156**	**11,052**	**12,085**	**73,216**	**21,706**

Note:

(1) Includes amounts of US$498m falling due after 2 years through 5 years.

36. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Liquidity risk (continued)

US$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
30 November 2015 – As adjusted						
Financial assets (Policyholders and shareholder investments)						
Loans and deposits	7,000	784	1,344	445	2,112	2,315
Other receivables	1,613	1,511	48	2	1	51
Debt securities	100,458	3,369	14,869	27,174	55,046	–
Equity securities	12,211	–	–	–	–	12,211
Reinsurance receivables	257	257	–	–	–	–
Accrued investment income	1,309	1,300	1	–	–	8
Cash and cash equivalents	1,542	1,542	–	–	–	–
Derivative financial instruments	70	41	22	6	1	–
Subtotal	124,460	8,804	16,284	27,627	57,160	14,585
Financial assets (Unit-linked contracts and consolidated investment funds)	19,863	–	–	–	–	19,863
Total	144,323	8,804	16,284	27,627	57,160	34,448
Financial and insurance contract liabilities (Policyholders and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	85,996	2,643	9,439	10,432	63,482	–
Borrowings	3,195	150	1,318[(2)]	1,240	487	–
Obligations under repurchase agreements	3,085	3,085	–	–	–	–
Other liabilities	3,320	2,399	32	2	21	866
Derivative financial instruments	695	28	259	398	10	–
Subtotal	96,291	8,305	11,048	12,072	64,000	866
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	19,849	–	–	–	–	19,849
Total	116,140	8,305	11,048	12,072	64,000	20,715

Notes:

(1) The presentation of the above table has been adjusted to conform to current year presentation.

(2) Includes amounts of US$995m falling due after 2 years through 5 years.

37. EMPLOYEE BENEFITS

Defined benefit plans

The Group operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong, Singapore, Malaysia, Thailand, Taiwan, Indonesia, Korea, the Philippines, Sri Lanka and Vietnam. The latest independent actuarial valuations of the plans were at 30 November 2016 and were prepared by credentialed actuaries. All the actuaries are qualified members of professional actuarial organisations to render the actuarial opinions. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are 33 per cent (2015: 41 per cent) covered by the plan assets held by the trustees. The fair value of plan assets as at year end at the date of valuation was US$62m (2015: US$63m). The total expenses relating to these plans recognised in the consolidated income statement was US$11m (2015: US$8m).

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was US$67m (2015: US$60m). Employees and the employer are required to make monthly contributions equal to 1 per cent to 22 per cent of the employees' monthly basic salaries, depending on years of service and subject to any applicable caps of monthly relevant income in different jurisdictions. For defined contribution pension plans with vesting conditions, any forfeited contributions by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions are used by the employer to reduce any future contributions. The amount of forfeited contributions used to reduce the existing level of contributions is not material.

38. SHARE-BASED COMPENSATION

Share-based compensation plans

During the year ended 30 November 2016, the Group made further awards of share options, restricted share units (RSUs) and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Group under the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme) and the Employee Share Purchase Plan (ESPP). In addition, the Group made further awards of restricted stock subscription units (RSSUs) to eligible agents under the Agency Share Purchase Plan (ASPP).

RSU Scheme

Under the RSU Scheme, the vesting of the awarded RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. RSU awards are vested either entirely after a specific period of time or in tranches over the vesting period. For RSU awards that are vested in tranches, each vesting tranche is accounted for as a separate award for the purposes of recognising the expense over the vesting period. For certain RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the participants at the end of the vesting period depending on the actual achievement of the performance conditions. During the vesting period, the participants are not entitled to dividends of the underlying shares. Except in jurisdictions where restrictions apply, the awarded RSUs are expected to be settled in equity; awards that the Group has the legal or constructive obligation to settle in cash are insignificant to the Group. The maximum number of shares that can be awarded under this scheme is 301,100,000 (2015: 301,100,000), representing approximately 2.5 per cent (2015: 2.5 per cent) of the number of shares in issue at 30 November 2016.

38. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

RSU Scheme (continued)

	Year ended 30 November 2016	Year ended 30 November 2015
Number of shares		
Restricted Share Units		
Outstanding at beginning of financial year	**53,650,778**	58,590,419
Awarded	**18,964,022**	17,933,566
Forfeited	**(10,150,721)**	(8,785,462)
Vested	**(13,126,777)**	(14,087,745)
Outstanding at end of financial year	**49,337,302**	53,650,778

SO Scheme

The objectives of the SO Scheme are to align eligible participants' interests with those of the shareholders of the Company by allowing eligible participants to share in the value created at the point they exercise their options. Share option (SO) awards are vested either entirely after a specific period of time or in tranches over the vesting period approximately three to five years, during which, the eligible participants are required to remain in employment with the Group. For SO awards vested in tranches, each vesting tranche is accounted for as a separate award for the purposes of recognising the expense over the vesting period. The awarded share options expire 10 years from the date of grant and each share option entitles the eligible participant to subscribe for one ordinary share. Except in jurisdictions where restrictions apply, the awarded share options are expected to be settled in equity; awards that the Group has the legal or constructive obligation to settle in cash are insignificant to the Group. The total number of shares under options that can be awarded under the scheme is 301,100,000 (2015: 301,100,000), representing approximately 2.5 per cent (2015: 2.5 per cent) of the number of shares in issue at 30 November 2016.

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

	Year ended 30 November 2016		Year ended 30 November 2015	
	Number of share options	Weighted average exercise price (HK$)	Number of share options	Weighted average exercise price (HK$)
Share options				
Outstanding at beginning of financial year	**40,458,104**	**33.29**	37,105,919	30.67
Awarded	**9,550,232**	**41.90**	5,937,871	47.73
Exercised	**(7,174,665)**	**28.58**	(2,190,404)	27.68
Forfeited or expired	**(1,252,638)**	**39.91**	(395,282)	35.48
Outstanding at end of financial year	**41,581,033**	**35.88**	40,458,104	33.29
Share options exercisable at end of financial year	**20,592,646**	**29.44**	17,817,979	27.71

At the date the share option was exercised, the weighted average share price of the Company was HK$49.43 for the year ended 30 November 2016 (2015: HK$48.32).

38. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

SO Scheme (continued)

The range of exercise prices for the share options outstanding as of 30 November 2016 and 2015 is summarised in the table below.

	Year ended 30 November 2016		Year ended 30 November 2015	
	Number of share options outstanding	Weighted average remaining contractual life (years)	Number of share options outstanding	Weighted average remaining contractual life (years)
Range of exercise price				
HK$26 – HK$35	**20,575,507**	**5.14**	28,008,527	6.09
HK$36 – HK$45	**15,489,143**	**8.48**	6,550,428	8.27
HK$46 – HK$55	**5,516,383**	**8.28**	5,899,149	9.28
Outstanding at end of financial year	**41,581,033**	**6.80**	40,458,104	6.91

ESPP

Under the plan, eligible employees of the Group can purchase ordinary shares of the Company with qualified employee contributions and the Company will award one matching restricted stock purchase unit to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the Group. The level of qualified employee contribution is limited to not more than 8 per cent of the annual basic salary subject to a maximum of HK$117,000 per annum. The awarded matching restricted stock purchase units are expected to be settled in equity. For the year ended 30 November 2016, eligible employees paid US$14m (2015: US$12m) to purchase 2,436,497 ordinary shares (2015: 1,962,088 ordinary shares) of the Company.

ASPP

The structure of the ASPP generally follows that of the ESPP, the key difference being that the eligible agents are required to pay a subscription price of US$1 to subscribe for each new share in the Company at the end of the vesting period. Under the plan, eligible agents of the Group can purchase ordinary shares of the Company with qualified agent contributions and the Company will award one matching restricted stock subscription unit to them at the end of the vesting period for each two shares purchased through the qualified agent contributions (agent contribution shares). Each restricted stock subscription unit entitles eligible agents to subscribe for one new share of the Company. Agent contribution shares are purchased from the open market. During the vesting period, the eligible agents must hold the contribution shares purchased during the plan cycle and maintain their agent contracts with the Group. The awarded matching restricted stock subscription units are expected to be settled in equity. The level of qualified agent contribution is subject to a maximum of US$15,000 per annum. For the year ended 30 November 2016, eligible agents paid US$17m (2015: US$14m) to purchase 2,792,549 ordinary shares (2015: 2,361,838 ordinary shares) of the Company.

Valuation methodology

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

38. SHARE-BASED COMPENSATION (continued)

Valuation methodology (continued)

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

	Year ended 30 November 2016			
	Share options	**Restricted share units**	**ESPP Restricted stock purchase units**	**ASPP Restricted stock subscription units**
Assumptions				
Risk-free interest rate	**1.25%**	**0.50% – 0.74%***	**0.47% – 0.88%**	**0.91%**
Volatility	**20%**	**20%**	**20%**	**20%**
Dividend yield	**1.8%**	**1.8%**	**1.2% – 1.8%**	**1.8%**
Exercise price (HK$)	**41.90**	**n/a**	**n/a**	**n/a**
Share option life (in years)	**10**	**n/a**	**n/a**	**n/a**
Expected life (in years)	**8.03**	**n/a**	**n/a**	**n/a**
Weighted average fair value per option/unit at measurement date (HK$)	**7.74**	**34.35**	**44.20**	**34.92**

	Year ended 30 November 2015			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	1.61%	0.56% – 0.80%*	0.44% – 0.90%	0.85%
Volatility	20%	20%	20% – 25%	20%
Dividend yield	1.2%	1.2%	1.2%	1.2%
Exercise price (HK$)	47.73	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.94	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK$)	10.15	39.27	41.67	35.98

* Applicable to RSU with market conditions.

The weighted average share price for share option valuation for awards made during the year ended 30 November 2016 is HK$41.60 (2015: HK$47.15). The total fair value of share options awarded during the year ended 30 November 2016 is US$10m (2015: US$8m).

Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards made under the RSU Scheme, SO Scheme, ESPP and ASPP by the Group for the year ended 30 November 2016 is US$84m (2015: US$79m).

39. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Directors' remuneration

The Executive Director receives compensation in the form of salaries, bonuses, contributions to pension schemes, long-term incentives, housing and other allowances, and benefits in kind subject to applicable laws, rules and regulations. Bonuses and long-term incentives represent the variable components in the Executive Director's compensation and are linked to the performance of the Group and the Executive Director. Details of share-based payment schemes are described in note 38.

US$	**Director's fees**	**Salaries, allowances and benefits in kind(1)**	**Bonuses**	**Share-based payments(2)**	**Pension scheme contribution**	**Other benefits**	**Inducement fees**	**Total**
Year ended 30 November 2016								
Executive Director								
Mr. Mark Edward Tucker(3)	**–**	**2,212,482**	**4,636,000**	**8,107,671**	**137,417**	**–**	**–**	**15,093,570**
Total	**–**	**2,212,482**	**4,636,000**	**8,107,671**	**137,417**	**–**	**–**	**15,093,570**

Notes:

(1) It includes non-cash benefits for housing, medical and life insurance, children's education, club and professional membership, company car and perquisites.

(2) Include SOs and RSUs awarded based upon the fair value at grant date assuming maximum performance levels are achieved.

(3) Mr. Mark Edward Tucker receives his remuneration exclusively for his role as Group Chief Executive and President and receives no separate fees for his role as director of the Company or for acting as a director of any subsidiary of the Company.

US$	Director's fees	Salaries, allowances and benefits in kind(1)	Bonuses	Share-based payments(2)	Pension scheme contribution	Other benefits	Inducement fees	Total
Year ended 30 November 2015								
Executive Director								
Mr. Mark Edward Tucker(3)	–	2,130,577	4,414,600	8,343,876	105,833	–	–	14,994,886
Total	–	2,130,577	4,414,600	8,343,876	105,833	–	–	14,994,886

Notes:

(1) It includes non-cash benefits for housing, medical and life insurance, children's education, club and professional membership, company car and perquisites.

(2) Include SOs and RSUs awarded based upon the fair value at grant date assuming maximum performance levels are achieved.

(3) Mr. Mark Edward Tucker receives his remuneration exclusively for his role as Group Chief Executive and President and receives no separate fees for his role as director of the Company or for acting as a director of any subsidiary of the Company.

39. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Directors' remuneration (continued)

The remuneration of Non-executive Director and Independent Non-executive Directors of the Company at 30 November 2016 and 2015 are included in the tables below:

US$	Director's fees[1]	Salaries, allowances and benefits in kind[2]	Bonuses	Share-based payments	Pension scheme contribution	Other benefits	Inducement fees	Total
Year ended 30 November 2016								
Non-executive Director								
Mr. Edmund Sze-Wing Tse	**571,230**	**97,289**	**–**	**–**	**–**	**–**	**–**	**668,519**
Independent Non-executive Directors								
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[3]	**188,566**	**–**	**–**	**–**	**–**	**–**	**–**	**188,566**
Total	**2,359,796**	**97,289**	**–**	**–**	**–**	**–**	**–**	**2,457,085**

Notes:

(1) All the directors receive the fees for their role as a director of the Company and not for acting as a director of any subsidiary of the Company.

(2) It includes non-cash benefits for housing, club membership and medical insurance and company car.

(3) Dr. Narongchai Akrasanee was appointed as Independent Non-executive Director of the Company on 15 January 2016.

39. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Directors' remuneration (continued)

US$	Director's fees[1]	Salaries, allowances and benefits in kind[2]	Bonuses	Share-based payments	Pension scheme contribution	Other benefits	Inducement fees	Total
Year ended 30 November 2015								
Non-executive Director								
Mr. Edmund Sze-Wing Tse[3]	573,388	95,383	–	–	–	–	–	668,771
Independent Non-executive Directors								
Mr. Jack Chak-Kwong So	220,000	–	–	–	–	–	–	220,000
Mr. Chung-Kong Chow	205,000	–	–	–	–	–	–	205,000
Mr. John Barrie Harrison	235,000	–	–	–	–	–	–	235,000
Mr. George Yong-Boon Yeo	210,000	–	–	–	–	–	–	210,000
Mr. Mohamed Azman Yahya	185,000	–	–	–	–	–	–	185,000
Professor Lawrence Juen-Yee Lau	190,000	–	–	–	–	–	–	190,000
Ms. Swee-Lian Teo[4]	56,740	–	–	–	–	–	–	56,740
Total	1,875,128	95,383	–	–	–	–	–	1,970,511

Notes:

(1) Save as disclosed below, all the directors receive the fees for their role as a director of the Company and not for acting as a director of any subsidiary of the Company.

(2) It includes non-cash benefits for housing, club membership, medical insurance and company car.

(3) US$22,388 which represents remuneration to Mr. Edmund Sze-Wing Tse in respect of his services as director of a subsidiary of the Company is included in his fees.

(4) Ms. Swee-Lian Teo was appointed as Independent Non-executive Director of the Company on 14 August 2015.

Remuneration of five highest-paid individuals

The aggregate remuneration of the five highest-paid individuals employed by the Group in each of the years ended 30 November 2016 and 2015 is presented in the table below.

US$	Director's fees	Salaries, allowances and benefits in kind[1]	Bonuses	Share-based payments[2]	Pension scheme contribution	Other benefits	Inducement fees	Total
Year ended								
30 November 2016	**–**	**6,148,230**	**10,114,000**	**15,870,944**	**299,748**	**–**	**–**	**32,432,922**
30 November 2015	–	7,214,483	8,937,600	16,712,069	262,242	–	–	33,126,394

Notes:

(1) 2016 and 2015 non-cash benefits include housing, medical and life insurance, medical check-up, children's education, club and professional membership, company car and perquisites.

(2) Include SOs and RSUs awarded to the five highest-paid individuals based upon the fair value at grant date assuming maximum performance levels are achieved.

39. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

Remuneration of five highest-paid individuals (continued)

The emoluments of the five individuals with the highest emoluments are within the following bands:

HK$	Year ended 30 November 2016	Year ended 30 November 2015
28,000,001 to 28,500,000	**–**	1
30,000,001 to 30,500,000	**1**	–
33,000,001 to 33,500,000	**1**	–
33,500,001 to 34,000,000	**–**	1
34,500,001 to 35,000,000	**1**	–
36,000,001 to 36,500,000	**1**	–
38,000,001 to 38,500,000	**–**	1
40,000,001 to 40,500,000	**–**	1
116,000,001 to 116,500,000	**–**	1
117,000,001 to 117,500,000	**1**	–

Key management personnel remuneration

Key management personnel have been identified as the members of the Group's Executive Committee.

US$	Year ended 30 November 2016	Year ended 30 November 2015
Key management compensation and other expenses		
Salaries and other short-term employee benefits	**26,994,421**	25,821,543
Post-employment benefits – defined contribution	**568,687**	501,124
Share-based payments(1)	**21,144,940**	23,076,292
Total	**48,708,048**	49,398,959

Note:

(1) Include SOs and RSUs awarded to the key management personnel based upon the fair value at grant date assuming maximum performance levels are achieved.

The emoluments of the key management personnel are within the following bands:

US$	Year ended 30 November 2016	Year ended 30 November 2015
Below 1,000,000	**2**	1
1,000,001 to 2,000,000	**1**	4
2,000,001 to 3,000,000	**3**	2
3,000,001 to 4,000,000	**3**	2
4,000,001 to 5,000,000	**3**	2
5,000,001 to 6,000,000	**–**	1
Over 7,000,000	**1**	1

40. RELATED PARTY TRANSACTIONS

Remuneration of directors and key management personnel is disclosed in note 39.

41. COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

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

US$m	As at 30 November 2016	As at 30 November 2015
Properties and others expiring		
Not later than one year	**120**	97
Later than one and not later than five years	**178**	121
Later than five years	**94**	42
Total	**392**	260

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

Investment and capital commitments

US$m	As at 30 November 2016	As at 30 November 2015
Not later than one year	**682**	523
Later than one and not later than five years	**10**	3
Total	**692**	526

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

Contingencies

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

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

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. The Group is exposed to the risk of losses in the event of the failure of the retrocessionaire, a subsidiary of American International Group, Inc., to honour its outstanding obligations which is mitigated by a trust agreement. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US$616m at 30 November 2016 (2015: US$684m). The liabilities and related reinsurance assets, which totalled US$3m (2015: US$4m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

42. SUBSIDIARIES

The principal subsidiary companies which materially contribute to the net income of the Group or hold a material element of its assets and liabilities are:

Name of entity	Place of incorporation and operation	Principal activity	Issued share capital	As at 30 November 2016 Group's interest %	As at 30 November 2016 NCI's interest %	As at 30 November 2015 Group's interest %	As at 30 November 2015 NCI's interest %
AIA Company Limited[1]	Hong Kong	Insurance	1,151,049,861 ordinary shares for US$5,962,084,000 issued share capital	**100%**	**–**	100%	–
AIA International Limited	Bermuda	Insurance	3,000,000 ordinary shares of US$1.20 each	**100%**	**–**	100%	–
AIA Australia Limited	Australia	Insurance	112,068,300 ordinary shares of A$193,872,800 issued share capital	**100%**	**–**	100%	–
AIA Pension and Trustee Co. Ltd.	British Virgin Islands	Trusteeship	19,500,000 ordinary shares of US$1 each	**100%**	**–**	100%	–
AIA Bhd.	Malaysia	Insurance	767,438,174 ordinary shares of RM1 each	**100%**	**–**	100%	–
AIA Singapore Private Limited	Singapore	Insurance	1,374,000,001 ordinary shares of S$1 each	**100%**	**–**	100%	–
PT. AIA Financial	Indonesia	Insurance	477,711,032 ordinary shares of Rp1,000 each	**100%**	**–**	100%	–
The Philippine American Life and General Insurance (PHILAM LIFE) Company	Philippines	Insurance	199,560,671 ordinary shares of PHP10 each and 439,329 treasury shares	**100%**	**–**	100%	–
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND1,264,300,000,000	**100%**	**–**	100%	–
AIA Insurance Lanka PLC	Sri Lanka	Insurance	Contributed capital of LKR511,921,836	**97.16%**	**2.84%**	97.16%	2.84%
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 ordinary shares of US$1 each	**90%**	**10%**	90%	10%
BPI-Philam Life Assurance Corporation	Philippines	Insurance	749,993,979 ordinary shares of PHP1 each and 6,000 treasury shares	**51%**	**49%**	51%	49%
AIA Reinsurance Limited	Bermuda	Reinsurance	250,000 common shares of US$1 each	**100%**	**–**	100%	–

Notes:

(1) The Company's subsidiary.

(2) All of the above subsidiaries are audited by PricewaterhouseCoopers.

All subsidiaries are unlisted except AIA Insurance Lanka PLC which is listed on the Main Board of the Colombo Stock Exchange.

43. CHANGE IN GROUP COMPOSITION

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

44. EVENTS AFTER THE REPORTING PERIOD

On 24 February 2017, a Committee appointed by the Board of Directors proposed a final dividend of 63.75 Hong Kong cents per share (2015: 51.00 Hong Kong cents per share).

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

US$m	As at 30 November 2016	As at 30 November 2015
Assets		
Investment in subsidiaries	**15,745**	15,742
Deposits	**–**	45
Available for sale – debt securities	**1,544**	736
Loans to/amounts due from subsidiaries	**2,903**	2,945
Other assets	**44**	13
Cash and cash equivalents	**4**	358
Total assets	**20,240**	19,839
Liabilities		
Borrowings	**3,777**	3,070
Other liabilities	**70**	201
Total liabilities	**3,847**	3,271
Equity		
Share capital	**13,998**	13,971
Employee share-based trusts	**(351)**	(321)
Other reserves	**185**	155
Retained earnings	**2,620**	2,785
Amounts reflected in other comprehensive income	**(59)**	(22)
Total equity	**16,393**	16,568
Total liabilities and equity	**20,240**	19,839

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 24 February 2017.

Mark Edward Tucker
Director

Edmund Sze-Wing Tse
Director

46. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

US$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 December 2015	**13,971**	**(321)**	**155**	**2,785**	**(22)**	**16,568**
Net profit	–	–	–	959	–	959
Cash flow hedges	–	–	–	–	(1)	(1)
Fair value losses on available for sale financial assets	–	–	–	–	(10)	(10)
Fair value gains on available for sale financial assets transferred to income on disposal	–	–	–	–	(26)	(26)
Dividends	–	–	–	(1,124)	–	(1,124)
Shares issued under share option scheme and agency share purchase plan	27	–	–	–	–	27
Share-based compensation	–	–	86	–	–	86
Purchase of shares held by employee share-based trusts	–	(86)	–	–	–	(86)
Transfer of vested shares from employee share-based trusts	–	56	(56)	–	–	–
Balance at 30 November 2016	**13,998**	**(351)**	**185**	**2,620**	**(59)**	**16,393**

US$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 December 2014	13,962	(286)	139	2,102	4	15,921
Net profit	–	–	–	1,497	–	1,497
Cash flow hedges	–	–	–	–	5	5
Fair value losses on available for sale financial assets	–	–	–	–	(31)	(31)
Dividends	–	–	–	(814)	–	(814)
Shares issued under share option scheme and agency share purchase plan	9	–	–	–	–	9
Share-based compensation	–	–	79	–	–	79
Purchase of shares held by employee share-based trusts	–	(98)	–	–	–	(98)
Transfer of vested shares from employee share-based trusts	–	63	(63)	–	–	–
Balance at 30 November 2015	13,971	(321)	155	2,785	(22)	16,568

47. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES

With effect from 1 December 2015, the Group revised its accounting policies as follows:

- Property held for own use is carried at fair value at last valuation date less accumulated depreciation. Previously, property held for own use was carried at historical cost less accumulated depreciation. When an asset is adjusted for the latest fair value, any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset. The movement of fair values is generally recognised in other comprehensive income. When such properties are sold, the amounts accumulated in other comprehensive income are transferred to retained earnings. The revised accounting policy is applied prospectively from the date of adoption, resulting in increase of US$450m and US$259m in total assets and total equity, respectively, as of 1 December 2015.

  Property held for own use is valued by independent professional valuation firm at least annually to ensure that fair value of the revalued asset does not differ materially from its carrying value. Changes in fair values are recognised in other comprehensive income and reported in the consolidated statement of financial position as property revaluation reserve.

  In conjunction with the revised real estate accounting policies, depreciation expense for property held for own use is presented as 'other expenses' for IFRS reporting and this presentation change will be applied retrospectively. Operating leasehold land relating to property held for own use will continue to be carried at cost less accumulated amortisation and impairment losses (if any) and be reported as part of 'other assets' on the consolidated statement of financial position.

- Investment property, including land and buildings, is initially recognised at cost with changes in fair values in subsequent periods recognised in the consolidated income statement. Operating leasehold land relating to investment properties is reclassified from 'other assets' to 'investment properties' accordingly on the consolidated statement of financial position. The revised accounting policy has been applied retrospectively.

The Group believes measuring property held for own use and investment property in accordance with the revised accounting policies (based on guidance in IAS 16, Property, Plant and Equipment, and IAS 40, Investment Property, respectively) provide reliable and more relevant information to the users of the financial statements than that measured based on cost model under the previous accounting policy.

47. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

The tables below show the quantitative effect of the adoption of these revised accounting policies on the consolidated financial statements. The quantitative effect of the adoption of these revised accounting policies in other financial periods is provided in note 48 of 2015 annual financial statements.

(a) Consolidated Income Statement

US$m	Year ended 30 November 2015 (As previously reported)	Reclassifications	Retrospective adjustments for IAS 40	Year ended 30 November 2015 (As adjusted)
Revenue				
Premiums and fee income	19,781	–	–	19,781
Premiums ceded to reinsurers	(1,165)	–	–	(1,165)
Net premiums and fee income	18,616	–	–	18,616
Investment return	4,462	–	73	4,535
Other operating revenue	196	–	–	196
Total revenue	23,274	–	73	23,347
Expenses				
Insurance and investment contract benefits	16,134	–	2	16,136
Insurance and investment contract benefits ceded	(942)	–	–	(942)
Net insurance and investment contract benefits	15,192	–	2	15,194
Commission and other acquisition expenses	2,468	–	–	2,468
Operating expenses	1,658	(20)	–	1,638
Finance costs	152	–	–	152
Other expenses	454	20	(26)	448
Total expenses	19,924	–	(24)	19,900
Profit before share of profit from associates and joint venture	3,350	–	97	3,447
Share of profit from associates and joint venture	–	–	–	–
Profit before tax	3,350	–	97	3,447
Income tax expense attributable to policyholders' returns	(33)	–	–	(33)
Profit before tax attributable to shareholders' profits	3,317	–	97	3,414
Tax expense	(636)	–	(19)	(655)
Tax attributable to policyholders' returns	33	–	–	33
Tax expense attributable to shareholders' profits	(603)	–	(19)	(622)
Net profit	2,714	–	78	2,792
Net profit attributable to:				
Shareholders of AIA Group Limited	2,691	–	74	2,765
Non-controlling interests	23	–	4	27
Earnings per share (US$)				
Basic	0.22	–	0.01	0.23
Diluted	0.22	–	0.01	0.23

47. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position

US$m	As at 1 December 2014 (As previously reported)	Reclassifications	Retrospective adjustments for IAS 40	As at 1 December 2014 (As adjusted)
Assets				
Intangible assets	2,152	–	–	2,152
Investments in associates and joint venture	131	–	–	131
Property, plant and equipment	541	–	57	598
Investment property	1,384	264	1,991	3,639
Reinsurance assets	1,657	–	–	1,657
Deferred acquisition and origination costs	16,593	–	–	16,593
Financial investments:				
Loans and deposits	7,654	–	–	7,654
Available for sale				
Debt securities	77,744	–	–	77,744
At fair value through profit or loss				
Debt securities	24,319	–	–	24,319
Equity securities	28,827	–	–	28,827
Derivative financial instruments	265	–	–	265
	138,809	–	–	138,809
Deferred tax assets	10	–	–	10
Current tax recoverable	54	–	–	54
Other assets	3,753	(264)	22	3,511
Cash and cash equivalents	1,835	–	–	1,835
Total assets	166,919	–	2,070	168,989
Liabilities				
Insurance contract liabilities	113,097	–	105	113,202
Investment contract liabilities	7,937	–	–	7,937
Borrowings	2,934	–	–	2,934
Obligations under securities lending and repurchase agreements	3,753	–	–	3,753
Derivative financial instruments	211	–	–	211
Provisions	213	–	–	213
Deferred tax liabilities	3,079	–	143	3,222
Current tax liabilities	198	–	–	198
Other liabilities	4,542	–	–	4,542
Total liabilities	135,964	–	248	136,212
Equity				
Share capital	13,962	–	–	13,962
Employee share-based trusts	(286)	–	–	(286)
Other reserves	(11,994)	–	–	(11,994)
Retained earnings	22,831	–	1,512	24,343
Fair value reserve	6,076	–	–	6,076
Foreign currency translation reserve	227	–	7	234
Property revaluation reserve	–	–	142	142
Others	(10)	–	–	(10)
Amounts reflected in other comprehensive income	6,293	–	149	6,442
Total equity attributable to:				
Shareholders of AIA Group Limited	30,806	–	1,661	32,467
Non-controlling interests	149	–	161	310
Total equity	30,955	–	1,822	32,777
Total liabilities and equity	166,919	–	2,070	168,989

47. EFFECT OF ADOPTION OF REVISED ACCOUNTING POLICIES (continued)

(b) Consolidated Statement of Financial Position (continued)

US$m	As at 30 November 2015 (As previously reported)	Reclassifications	Retrospective adjustments for IAS 40	As at 30 November 2015 (As adjusted)
Assets				
Intangible assets	1,834	–	–	1,834
Investments in associates and joint venture	137	–	–	137
Property, plant and equipment	500	–	79	579
Investment property	1,386	244	2,029	3,659
Reinsurance assets	1,652	–	–	1,652
Deferred acquisition and origination costs	17,092	–	–	17,092
Financial investments:				
Loans and deposits	7,211	–	–	7,211
Available for sale				
Debt securities	80,940	–	–	80,940
At fair value through profit or loss				
Debt securities	23,700	–	–	23,700
Equity securities	27,159	–	–	27,159
Derivative financial instruments	73	–	–	73
	139,083	–	–	139,083
Deferred tax assets	9	–	–	9
Current tax recoverable	45	–	–	45
Other assets	3,892	(244)	28	3,676
Cash and cash equivalents	1,992	–	–	1,992
Total assets	167,622	–	2,136	169,758
Liabilities				
Insurance contract liabilities	115,870	–	99	115,969
Investment contract liabilities	7,116	–	–	7,116
Borrowings	3,195	–	–	3,195
Obligations under repurchase agreements	3,085	–	–	3,085
Derivative financial instruments	695	–	–	695
Provisions	245	–	–	245
Deferred tax liabilities	2,954	–	155	3,109
Current tax liabilities	265	–	–	265
Other liabilities	4,657	–	–	4,657
Total liabilities	138,082	–	254	138,336
Equity				
Share capital	13,971	–	–	13,971
Employee share-based trusts	(321)	–	–	(321)
Other reserves	(11,978)	–	–	(11,978)
Retained earnings	24,708	–	1,586	26,294
Fair value reserve	4,414	–	–	4,414
Foreign currency translation reserve	(1,381)	–	(8)	(1,389)
Property revaluation reserve	–	–	140	140
Others	(12)	–	–	(12)
Amounts reflected in other comprehensive income	3,021	–	132	3,153
Total equity attributable to:				
Shareholders of AIA Group Limited	29,401	–	1,718	31,119
Non-controlling interests	139	–	164	303
Total equity	29,540	–	1,882	31,422
Total liabilities and equity	167,622	–	2,136	169,758

48. OPERATING PROFIT BASED UPON LONG-TERM INVESTMENT RETURNS

For the financial year ended 30 November 2016, the Group has revised its definition of operating profit to include among others the expected long-term investment returns for equities and real estate. The revised definition is as follows:

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

The Group defines operating profit after tax as net profit excluding the following non-operating items:

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

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

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

The table below set out the impacts of including the expected long-term investment returns in operating profit in the year ended 30 November 2015.

The impacts of the adoption of revised definition of operating profit in other financial periods are provided in note 49 of 2015 annual financial statements.

US$m	Year ended 30 November 2015 (As previously reported)	Impact of change in preparation basis	Year ended 30 November 2015 (As adjusted)
Operating profit before tax	3,884	436	4,320
Tax on operating profit before tax	(655)	(80)	(735)
Operating profit after tax	3,229	356	3,585
Operating profit after tax attributable to:			
Shareholders of AIA Group Limited	3,209	347	3,556
Non-controlling interests	20	9	29
Operating profit after tax per share (US$)			
Basic	0.27	0.03	0.30
Diluted	0.27	0.03	0.30

WILLIS TOWERS WATSON REPORT ON THE REVIEW OF THE SUPPLEMENTARY EMBEDDED VALUE INFORMATION

AIA Group Limited (the “Company”) and its subsidiaries (together, “AIA” or the “Group”) have prepared supplementary embedded value results (EV Results) for the year ended 30 November 2016 (the Period). These EV Results, together with a description of the methodology and assumptions that have been used, are shown in the Supplementary Embedded Value Information section of this report.

Towers Watson Hong Kong Limited (trading as Willis Towers Watson), has been engaged to review the Group’s EV Results and prior year comparisons. The opinion set out below is made solely to the Company and, to the fullest extent permitted by applicable law, Willis Towers Watson does not accept nor assume any responsibility, duty of care or liability to any third party for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion.

SCOPE OF WORK

Our scope of work covered:

- A review of the methodology used to calculate the embedded value and the equity attributable to shareholders of the Company on the embedded value basis as at 30 November 2016, and the value of new business for the year ended 30 November 2016;
- A review of the economic and operating assumptions used to calculate the embedded value as at 30 November 2016 and the value of new business for the year ended 30 November 2016; and
- A review of the results of AIA’s calculation of the EV Results.

In carrying out our review, we have relied on data and information provided by the Group.

OPINION

We have concluded that:

- The methodology used to calculate the embedded value and value of new business is consistent with recent industry practice for publicly listed companies in Hong Kong as regards traditional embedded value calculations based on discounted values of projected deterministic after-tax cash flows. This methodology makes an overall allowance for risk for the Group through the use of risk discount rates which incorporate risk margins and vary by Business Unit, together with an explicit allowance for the cost of holding required capital;
- The economic assumptions are internally consistent and have been set with regard to current economic conditions; and
- The operating assumptions have been set with appropriate regard to past, current and expected future experience, taking into account the nature of the business conducted by each Business Unit.

We have performed a number of high-level checks on the models, processes and the results of the calculations, and have confirmed that no issues have been discovered that have a material impact on the disclosed embedded value and the equity attributable to shareholders of the Company on the embedded value basis as at 30 November 2016, the value of new business for the year ended 30 November 2016, the analysis of movement in embedded value for the year ended 30 November 2016, and the sensitivity analysis.

Willis Towers Watson

24 February 2017

CAUTIONARY STATEMENTS CONCERNING SUPPLEMENTARY EMBEDDED VALUE INFORMATION

This report includes non-IFRS financial measures and should not be viewed as a substitute for IFRS financial measures.

The results shown in this report are not intended to represent an opinion of market value and should not be interpreted in that manner. This report does not purport to encompass all of the many factors that may bear upon a market value.

The results shown in this report are based on a series of assumptions as to the future. It should be recognised that actual future results may differ from those shown, on account of changes in the operating and economic environments and natural variations in experience. The results shown are presented at the valuation dates stated in this report and no warranty is given by the Group that future experience after these valuation dates will be in line with the assumptions made.

1. HIGHLIGHTS

The embedded value (EV) is a measure of the value of shareholders' interests in the earnings distributable from assets allocated to the in-force business after allowance for the aggregate risks in that business. The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB). This methodology makes implicit allowance for all sources of risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and for the economic cost of capital, through the use of a risk discount rate. The equity attributable to shareholders of the Company on the embedded value basis (EV Equity) is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company. More details of the EV Results, methodology and assumptions are covered in later sections of this report.

Summary of Key Metrics(1) (US$ millions)

	As at 30 November 2016	As at 30 November 2015	Growth CER	Growth AER
Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)	**43,650**	39,818	11%	10%
Embedded value (EV)	**42,114**	38,198	12%	10%
Adjusted net worth (ANW)	**16,544**	15,189	11%	9%
Value of in-force business (VIF)	**25,570**	23,009	12%	11%
	Year ended 30 November 2016	Year ended 30 November 2015	YoY CER	YoY AER
Value of new business (VONB)(2)	**2,750**	2,198	28%	25%
Annualised new premiums (ANP)(2)	**5,123**	3,991	31%	28%
VONB margin(2)	**52.8%**	54.0%	(1.3)pps	(1.2)pps

Notes:

(1) The results are after adjustments to reflect additional Hong Kong reserving and capital requirements and the present value of future after-tax unallocated Group Office expenses.

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

2. EV RESULTS

2.1 Embedded Value by Business Unit

The EV as at 30 November 2016 is presented consistently with the segment information in the IFRS financial statements. Section 4.1 of this report contains a full list of the entities included in this report and the mapping of these entities to Business Units for the purpose of this report.

Summary of EV by Business Unit (US$ millions)

	As at 30 November 2016					As at 30 November 2015
Business Unit(1)	ANW(2)	VIF before CoC(3)	CoC(3)	VIF after CoC(3)	EV	EV
AIA Hong Kong	4,685	9,731	622	9,109	**13,794**	12,655
AIA Thailand	3,880	3,488	656	2,832	**6,712**	6,660
AIA Singapore	2,084	3,286	424	2,862	**4,946**	4,489
AIA Malaysia	1,071	1,229	184	1,045	**2,116**	2,129
AIA China	2,732	2,753	–	2,753	**5,485**	5,041
Other Markets	4,252	2,827	1,020	1,807	**6,059**	5,802
Group Corporate Centre	7,273	(177)	(1)	(176)	**7,097**	5,971
Subtotal	25,977	23,137	2,905	20,232	**46,209**	42,747
Adjustment to reflect additional Hong Kong reserving and capital requirements(4)	(9,433)	6,294	(8)	6,302	**(3,131)**	(3,805)
After-tax value of unallocated Group Office expenses	–	(964)	–	(964)	**(964)**	(744)
Total	**16,544**	**28,467**	**2,897**	**25,570**	**42,114**	38,198

Notes:

(1) For the year ended 30 November 2016, AIA Korea is no longer disclosed separately as a reportable segment and is now included as part of the Other Markets segment. Prior year comparatives have been adjusted accordingly to conform to current year presentation.

(2) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS financial statements.

(3) CoC refers to the cost arising from holding the required capital as described in Section 4.2 of this report.

(4) Adjustment to EV for the branches of AIA Co. and AIA International, as described in Section 4.4 of this report.

2. EV RESULTS (continued)

2.2 Reconciliation of ANW to IFRS Equity

Derivation of the Group ANW from IFRS equity (US$ millions)

	As at 30 November 2016	As at 30 November 2015[1] (As adjusted)
IFRS equity attributable to shareholders of the Company	**34,984**	31,119
Elimination of IFRS deferred acquisition and origination costs assets	**(18,898)**	(17,092)
Difference between IFRS policy liabilities and local statutory policy liabilities (for entities included in the EV Results)	**9,646**	10,201
Difference between net IFRS policy liabilities and local statutory policy liabilities (for entities included in the EV Results)	**(9,252)**	(6,891)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	**336**	545
Elimination of intangible assets	**(1,743)**	(1,834)
Recognition of deferred tax impacts of the above adjustments	**1,602**	1,404
Recognition of non-controlling interests impacts of the above adjustments	**50**	52
Group ANW (local statutory basis)	**25,977**	24,395
Adjustment to reflect additional Hong Kong reserving requirements, net of tax	**(9,433)**	(9,206)
Group ANW (after additional Hong Kong reserving requirements)	**16,544**	15,189

Note:

(1) Amounts have been adjusted to reflect changes in accounting policies under IFRS in the Group's financial statements.

2.3 Breakdown of ANW

The breakdown of the ANW for the Group between the required capital, as defined in Section 4.6 of this report, and the free surplus, which is the ANW in excess of the required capital, is set out below:

Free surplus and required capital for the Group (US$ millions)

	As at 30 November 2016		As at 30 November 2015	
	Local statutory basis	Hong Kong basis[1], [2]	Local statutory basis	Hong Kong basis[1]
Free surplus	**19,089**	**9,782**	17,557	7,528
Required capital	**6,888**	**6,762**	6,838	7,661
ANW	**25,977**	**16,544**	24,395	15,189

Notes:

(1) Hong Kong basis for branches of AIA Co. and AIA International and local statutory basis for subsidiaries of AIA Co. and AIA International.

(2) AIA has given a revised undertaking to the HKOCI to maintain an excess of assets over liabilities for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement (previously 150%) in each of AIA Co. and AIA International. For clarity there is no change in the undertaking in respect of the Hong Kong business or the Hong Kong statutory minimum solvency margin requirement for AIA. This has been reflected in the calculation of the consolidated EV Results.

The Company's subsidiaries, AIA Co. and AIA International, are both subject to Hong Kong regulatory capital requirements. The business written in the branches of AIA Co. and AIA International is subject to both the local reserving and capital requirements in the relevant territory and the Hong Kong reserving and capital requirements applicable to AIA Co. and AIA International at the entity level. At 30 November 2016, the more onerous reserving and capital basis overall for both AIA Co. and AIA International was the Hong Kong basis.

2. EV RESULTS (continued)

2.4 Earnings Profile

The table below shows how the after-tax distributable earnings from the assets backing the statutory reserves and required capital of the in-force business of the Group are projected to emerge over future years. The projected values reflect the Hong Kong reserving and capital requirements for the branches of AIA Co. and AIA International.

Profile of projected after-tax distributable earnings for the Group's in-force business (US$ millions)

	As at 30 November 2016	
Financial year	Undiscounted	Discounted
2017 – 2021	**15,490**	**13,012**
2022 – 2026	**12,214**	**6,833**
2027 – 2031	**11,795**	**4,532**
2032 – 2036	**11,278**	**2,956**
2037 and thereafter	**81,710**	**4,999**
Total	**132,487**	**32,332**

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US$32,332 million (2015: US$30,670 million) plus the free surplus of US$9,782 million (2015: US$7,528 million) shown in Section 2.3 of this report is equal to the EV of US$42,114 million (2015: US$38,198 million) shown in Section 2.1 of this report.

2. EV RESULTS (continued)

2.5 Value of New Business

The VONB for the Group for the year ended 30 November 2016 is summarised in the table below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. Results are presented consistently with the segment information in the IFRS financial statements. Section 4.1 of this report contains a full list of the entities included in this report and the mapping of these entities to Business Units for the purpose of this report.

The Group VONB for the year ended 30 November 2016 was US$2,750 million, an increase of US$552 million, or 25 per cent on actual exchange rates, from US$2,198 million for the year ended 30 November 2015.

Summary of VONB by Business Unit (US$ millions)

	Year ended 30 November 2016			Year ended 30 November 2015
Business Unit[1]	VONB before CoC[2]	CoC[2]	VONB after CoC[2], [3]	VONB after CoC[2], [3]
AIA Hong Kong	1,464	303	**1,161**	820
AIA Thailand	427	43	**384**	395
AIA Singapore	355	39	**316**	341
AIA Malaysia	217	19	**198**	172
AIA China	592	56	**536**	366
Other Markets	385	64	**321**	296
Total before unallocated Group Office expenses (local statutory basis)	3,440	524	**2,916**	2,390
Adjustment to reflect additional Hong Kong reserving and capital requirements[4]	(60)	(23)	**(37)**	(72)
Total before unallocated Group Office expenses (after additional Hong Kong reserving and capital requirements)	3,380	501	**2,879**	2,318
After-tax value of unallocated Group Office expenses	(129)	–	**(129)**	(120)
Total	**3,251**	**501**	**2,750**	2,198

Notes:

(1) For the year ended 30 November 2016, AIA Korea is no longer disclosed separately as a reportable segment and is now included as part of the Other Markets segment. Prior year comparatives have been adjusted accordingly to conform to current year presentation.

(2) CoC refers to the cost arising from holding the required capital as described in Section 4.2 of this report.

(3) VONB for the Group is calculated before deducting the amount attributable to non-controlling interests. The amounts of VONB attributable to non-controlling interests for the year ended 30 November 2016 and 30 November 2015 were US$19 million and US$21 million respectively.

(4) Adjustment to VONB for the branches of AIA Co. and AIA International, as described in Section 4.4 of this report.

2. EV RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the VONB margin for the Group. The VONB margin is defined as VONB, excluding pension business, expressed as a percentage of ANP. The VONB for pension business is excluded from the margin calculation to be consistent with the definition of ANP.

The Group VONB margin for the year ended 30 November 2016 was 52.8 per cent compared with 54.0 per cent for the year ended 30 November 2015.

Summary of VONB Margin by Business Unit (US$ millions)

	Year ended 30 November 2016			Year ended 30 November 2015
Business Unit[1]	**VONB Excluding Pension**	**ANP[2]**	**VONB Margin[2]**	VONB Margin[2]
AIA Hong Kong	1,120	2,294	**48.8%**	62.0%
AIA Thailand	384	471	**81.5%**	75.8%
AIA Singapore	316	427	**74.1%**	72.4%
AIA Malaysia	195	341	**57.1%**	57.9%
AIA China	536	621	**86.4%**	83.5%
Other Markets	319	969	**32.9%**	29.4%
Total before unallocated Group Office expenses (local statutory basis)	2,870	5,123	**56.0%**	58.9%
Adjustment to reflect additional Hong Kong reserving and capital requirements[3]	(37)	–		
Total before unallocated Group Office expenses (after additional Hong Kong reserving and capital requirements)	2,833	5,123	**55.3%**	57.0%
After-tax value of unallocated Group Office expenses	(129)	–		
Total	**2,704**	**5,123**	**52.8%**	54.0%

Notes:

(1) For the year ended 30 November 2016, AIA Korea is no longer disclosed separately as a reportable segment and is now included as part of the Other Markets segment. Prior year comparatives have been adjusted accordingly to conform to current year presentation.

(2) ANP and VONB margin exclude pension business.

(3) Adjustment to VONB for the branches of AIA Co. and AIA International, as described in Section 4.4 of this report.

2. EV RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the breakdown of the VONB, ANP and VONB margin for the Group by quarter for business written in the year ended 30 November 2016. For comparison purposes, the quarterly VONB, ANP and VONB margin for business written in the year ended 30 November 2015 are also shown in the same table.

Summary of VONB, ANP and VONB Margin by quarter for the Group (US$ millions)

Quarter	VONB after CoC(1), (2)	ANP(2)	VONB Margin(2)
Values for 2016			
3 months ended 29 February 2016	**578**	**1,103**	**51.6%**
3 months ended 31 May 2016	**682**	**1,252**	**53.7%**
3 months ended 31 August 2016	**689**	**1,333**	**50.7%**
3 months ended 30 November 2016	**801**	**1,435**	**54.8%**
Values for 2015			
3 months ended 28 February 2015	425	895	46.8%
3 months ended 31 May 2015	534	983	53.4%
3 months ended 31 August 2015	552	936	57.6%
3 months ended 30 November 2015	687	1,177	57.2%

Notes:
(1) CoC refers to the cost arising from holding the required capital as described in Section 4.2 of this report.
(2) VONB includes pension business. ANP and VONB margin exclude pension business.

2.6 Analysis of EV Movement

Analysis of movement in EV (US$ millions)

	Year ended 30 November 2016			Year ended 30 November 2015	YoY AER
	ANW	VIF	EV	EV	EV
Opening EV	15,189	23,009	**38,198**	37,153	3%
Value of new business	(695)	3,445	**2,750**	2,198	25%
Expected return on EV	3,440	(586)	**2,854**	2,698	6%
Operating experience variances	303	62	**365**	274	33%
Operating assumption changes	26	3	**29**	(26)	n/m
Finance costs on medium term notes	(111)	–	**(111)**	(76)	46%
EV operating profit	2,963	2,924	**5,887**	5,068	16%
Investment return variances	(67)	30	**(37)**	(1,804)	(98)%
Effect of changes in economic assumptions	6	(242)	**(236)**	145	n/m
Other non-operating variances	(142)	120	**(22)**	369	n/m
Total EV profit	2,760	2,832	**5,592**	3,778	48%
Dividends	(1,124)	–	**(1,124)**	(814)	38%
Other capital movements	(5)	–	**(5)**	(12)	(58)%
Effect of changes in exchange rates	(276)	(271)	**(547)**	(1,907)	(71)%
Closing EV	**16,544**	**25,570**	**42,114**	38,198	10%

2. EV RESULTS (continued)

2.6 Analysis of EV Movement (continued)

EV operating profit grew by 16 per cent on actual exchange rates to US$5,887 million (2015: US$5,068 million) compared with 2015. The growth reflected a combination of a higher VONB of US$2,750 million (2015: US$2,198 million) and a higher expected return on EV of US$2,854 million (2015: US$2,698 million). Overall operating experience variances and operating assumption changes were again positive at US$394 million (2015: US$248 million). Finance costs from the medium term notes were US$111 million (2015: US$76 million).

The VONB is calculated at the point of sale for business written during the Period before deducting the amount attributable to non-controlling interests. The expected return on EV is the expected change in the EV over the Period plus the expected return on the VONB from the point of sale to 30 November 2016 less the VONB attributable to non-controlling interests. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the Period and that expected based on the operating assumptions.

The main operating experience variances, net of tax, were US$365 million (2015: US$274 million), reflecting:

- Expense variances of US$12 million (2015: US$16 million);
- Mortality and morbidity claims variances of US$200 million (2015: US$164 million); and
- Persistency and other variances of US$153 million (2015: US$94 million) including US$215 million in relation to non-recurring reinsurance actions.

The effect of changes to operating assumptions during the Period was US$29 million (2015: US$(26) million).

The EV profit of US$5,592 million (2015: US$3,778 million) is the total of EV operating profit, investment return variances, the effect of changes in economic assumptions and other non-operating variances.

The investment return variances arise from the impact of differences between the actual investment returns in the Period and the expected investment returns. This includes the impact on the EV of changes in the market values and market yields on existing fixed income assets, and the impact on the EV of changes in the economic assumptions used in the statutory reserving bases for the Group. Investment return variances amounted to US$(37) million (2015: US$(1,804) million) from the net effect of short-term capital market movements on the Group's investment portfolio and statutory reserves compared with the expected positions.

The effect of changes in economic assumptions amounted to US$(236) million (2015: US$145 million).

Other non-operating variances amounted to US$(22) million (2015: US$369 million) which includes the net effect of changes in regulatory capital requirements and taxation, comprising the revised undertaking to the HKOCI and the replacement of business tax with VAT in China as previously reported, and others including modelling enhancements.

The Group paid total shareholder dividends of US$1,124 million (2015: US$814 million). Other capital movements reduced EV by US$5 million (2015: US$12 million).

Foreign exchange movements were US$(547) million (2015: US$(1,907) million).

2. EV RESULTS (continued)

2.7 EV Equity

The EV Equity grew to US$43,650 million at 30 November 2016, an increase of 10 per cent on actual exchange rates from US$39,818 million as at 30 November 2015.

Derivation of EV Equity from EV (US$ millions)

	As at 30 November 2016	As at 30 November 2015	Change CER	Change AER
EV	**42,114**	38,198	12%	10%
Goodwill and other intangible assets[1]	**1,536**	1,620	(3)%	(5)%
EV Equity	**43,650**	39,818	11%	10%

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

3. SENSITIVITY ANALYSIS

The EV as at 30 November 2016 and the VONB for the year ended 30 November 2016 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5 of this report.

The sensitivities analysed were:

- Risk discount rates 200 basis points per annum higher than the central assumptions;
- Risk discount rates 200 basis points per annum lower than the central assumptions;
- Interest rates 50 basis points per annum higher than the central assumptions;
- Interest rates 50 basis points per annum lower than the central assumptions;
- The presentation currency (as explained below) appreciated by 5 per cent;
- The presentation currency depreciated by 5 per cent;
- Lapse and premium discontinuance rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Lapse and premium discontinuance rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Mortality/morbidity rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Mortality/morbidity rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Maintenance expenses 10 per cent lower (i.e. 90 per cent of the central assumptions); and
- Expense inflation set to 0 per cent.

The EV as at 30 November 2016 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 30 November 2016); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 30 November 2016).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 30 November 2016 and the values of debt instruments held at 30 November 2016 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

3. SENSITIVITY ANALYSIS (continued)

The EV Results of each entity in Section 4.1 of this report are measured in the currency of the primary economic environment in which that entity operates (the functional currency) and presented in US dollars (the presentation currency). In order to provide sensitivity results for EV and VONB of the impact of foreign currency movements to the translation from functional currencies, a change of 5 per cent to the presentation currency is included. This sensitivity does not include the impact of currency movements on the translation of transactions denominated in a foreign currency of an entity into its functional currency (including any impacts on VIF).

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 30 November 2016 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For each of the remaining sensitivity analyses, the statutory reserving bases as at 30 November 2016 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

Sensitivity of EV as at 30 November 2016 (US$ millions)

Scenario	EV
Central value	**42,114**
200 bps increase in risk discount rates	**36,921**
200 bps decrease in risk discount rates	**50,203**
10% increase in equity prices	**42,839**
10% decrease in equity prices	**41,380**
50 bps increase in interest rates	**42,262**
50 bps decrease in interest rates	**41,736**
5% appreciation in the presentation currency	**41,033**
5% depreciation in the presentation currency	**43,195**
10% increase in lapse/discontinuance rates	**41,436**
10% decrease in lapse/discontinuance rates	**42,906**
10% increase in mortality/morbidity rates	**38,669**
10% decrease in mortality/morbidity rates	**45,576**
10% decrease in maintenance expenses	**42,637**
Expense inflation set to 0%	**42,664**

3. SENSITIVITY ANALYSIS (continued)

Sensitivity of VONB for the year ended 30 November 2016 (US$ millions)

Scenario	VONB
Central value	**2,750**
200 bps increase in risk discount rates	**1,954**
200 bps decrease in risk discount rates	**4,174**
50 bps increase in interest rates	**2,927**
50 bps decrease in interest rates	**2,524**
5% appreciation in the presentation currency	**2,668**
5% depreciation in the presentation currency	**2,832**
10% increase in lapse rates	**2,616**
10% decrease in lapse rates	**2,900**
10% increase in mortality/morbidity rates	**2,414**
10% decrease in mortality/morbidity rates	**3,078**
10% decrease in maintenance expenses	**2,834**
Expense inflation set to 0%	**2,806**

4. METHODOLOGY

4.1 Entities Included in This Report

The Group operates through a number of subsidiaries and branches. Its two main operating subsidiaries are AIA Company Limited (AIA Co.), a subsidiary of the Company, and AIA International Limited (AIA International), a subsidiary of AIA Co. Furthermore, AIA Co. has branches located in Brunei, China and Thailand and AIA International has branches located in Hong Kong, Korea, Macau, New Zealand and Taiwan.

The following is a full list of the entities and their mapping to Business Units included in this report.

- AIA Australia refers to AIA Australia Limited, a subsidiary of AIA Co.;
- AIA China refers to the China branches of AIA Co.;
- AIA Hong Kong refers to the total of the following three entities:
  - the Hong Kong and Macau branches of AIA International;
  - the Hong Kong and Macau business written by AIA Co.; and
  - AIA Pension and Trustee Co. Ltd., a subsidiary of AIA Co.
- AIA Indonesia refers to PT. AIA Financial, a subsidiary of AIA International;
- AIA Korea refers to the Korea branch of AIA International;
- AIA Malaysia refers to AIA Bhd., a subsidiary of AIA Co. and AIA PUBLIC Takaful Bhd., a 70 per cent owned subsidiary of AIA Co.;
- AIA New Zealand refers to the New Zealand branch of AIA International;
- Philam Life refers to The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co. and its 51 per cent owned subsidiary BPI-Philam Life Assurance Corporation;
- AIA Singapore refers to AIA Singapore Private Limited, a subsidiary of AIA Co., and the Brunei branch of AIA Co.;
- AIA Sri Lanka refers to AIA Insurance Lanka PLC, a 97.16 per cent owned subsidiary of AIA Co.;
- AIA Taiwan refers to the Taiwan branch of AIA International;
- AIA Thailand refers to the Thailand branches of AIA Co.; and
- AIA Vietnam refers to AIA (Vietnam) Life Insurance Company Limited, a subsidiary of AIA International.

4. METHODOLOGY (continued)

4.1 Entities Included in This Report (continued)

On 25 April 2016, the Group increased its shareholding of Tata AIA Life Insurance Company Limited (Tata AIA) from 26 per cent to 49 per cent. The financial results from Tata AIA are accounted for using the equity method and have been included in the Group ANW presented in this report. For clarity, the Group's ANP and VONB exclude any contribution from Tata AIA.

Results are presented consistently with the segment information in the IFRS financial statements. The summary of the EV of the Group by Business Unit in this report also includes a segment for "Group Corporate Centre" results. The results shown for this segment consist of the ANW for the Group's corporate functions and the present value of remittance taxes payable on distributable profits to Hong Kong. The ANW has been derived as the IFRS equity for this segment plus mark-to-market adjustments less the value of excluded intangible assets. For the VONB, "Other Markets" includes the present value of allowance for remittance taxes payable on distributable profits to Hong Kong.

4.2 Embedded Value and Value of New Business

The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and VONB. This methodology makes implicit allowance for all sources of risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and for the economic cost of capital, through the use of a risk discount rate. Typically, the higher the risk discount rate, the greater the allowance for these factors. This is a common methodology used by life insurance companies in Asia currently. Alternative valuation methodologies and approaches continue to emerge and may be considered by AIA.

The business included in the VIF and VONB calculations includes all life business written by the Business Units of the Group, plus other lines of business which may not be classified as life business but have similar characteristics. These include accident and health, group and pension businesses. The projected in-force business included in the VIF also incorporates expected renewals on short-term business with a term of one year or less.

The EV is the sum of the ANW and VIF. The ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of the Group, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of the Company. The market value of investment property and property held for own use that is used to determine the ANW is based on the fair value disclosed in the Group's IFRS financial statements as at the valuation date. It is the Group's policy to obtain external property valuations annually except in the case of a discrete event occurring in the interim that has a significant impact on the fair value of the properties.

The VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in a participating fund, there is no associated cost of capital included in the VIF or VONB.

EV Equity is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company.

The VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business. The VONB for the Group is calculated based on assumptions applicable at the point of measurement and before deducting the amount attributable to non-controlling interests. The VONB attributable to non-controlling interests was US$19 million for the year ended 30 November 2016 (2015: US$21 million).

A deduction has been made from the EV and VONB for the present value of future after-tax unallocated Group Office expenses, representing the expenses incurred by the Group Office which are not allocated to the Business Units. These unallocated Group Office expenses have been allocated to acquisition and maintenance activities, and a deduction made from the VONB and VIF respectively.

4. METHODOLOGY (continued)

4.3 Definition of New Business

New business includes the sale of new contracts during the period, additional single premium payments on recurrent single premium contracts and increments to existing contracts where these are not variations allowed for in the calculation of the VIF. The VONB also includes the present value of cash flows associated with new policies written during the reporting period but subsequently terminated before the valuation date.

For group renewable business including group yearly renewable term business, new business is composed of new schemes set up during the period plus any premium payable on existing schemes that exceeds the prior year's premiums. For individually significant group cases, the VONB is calculated over each premium rate guarantee period entered upon contract inception or renewal.

For short-term accident and health business with a term of one year or less, renewals of existing contracts are not considered new business, and the value of expected renewals on this business is included in the VIF.

For pension business, sales of new contracts during the period and any new contributions, including assets transferred in, are considered as new business for the calculation of the VONB.

New business volumes shown in this report are measured using annualised new premiums (ANP), which is an internal measure of new business sales.

4.4 Consolidation of Branches of AIA Co. and AIA International

The Group's subsidiaries, AIA Co. and AIA International, are both Hong Kong-regulated entities. AIA operates in a number of territories as branches of these entities. Therefore, the business written in these branches is subject to the local reserving and capital requirements in the relevant territory and the Hong Kong reserving and capital requirements applicable to AIA Co. and AIA International at the entity level.

For these branches, the EV Results shown in Section 2 of this report have been calculated reflecting the more onerous of the Hong Kong and branch level local regulatory reserving and capital requirements. This was done because the ultimate distribution of profits to shareholders of the Company from AIA Co. and AIA International will depend on both the Hong Kong and the local regulatory reserving and capital requirements. At the end of November 2016, the overall more onerous reserving and capital basis for both AIA Co. and AIA International was the Hong Kong regulatory basis. This impact is shown as a Group-level adjustment to the EV and VONB. The EV and VONB for each Business Unit reflect only the local reserving and capital requirements, as discussed in Section 4.6 of this report.

4.5 Valuation of Future Statutory Losses

For certain lines of business, projected future statutory profits are negative due to the local statutory reserves being insufficient to meet the value of future policyholder cash flows. Within a traditional embedded value framework, there are a number of acceptable methods for determining the value of a combination of positive and negative statutory profits for different lines of business.

For the purposes of this valuation, future projected statutory losses have been valued by discounting them at the risk discount rate for the relevant Business Unit, with any negative VIF eliminated for each reported segment by reducing the ANW and EV. This has been done because the allowance for risk in the range of selected risk discount rates for each Business Unit has been set taking into account the presence of any such business lines with projected statutory losses. Also, the currently overall more onerous Hong Kong regulatory reserving and capital requirements for the branches of AIA Co. and AIA International have the effect of reducing the level of any future projected statutory losses for these Business Units. Based on the assumptions described in Section 5 of this report, and allowing for the Hong Kong statutory reserving and capital requirements for the branches of AIA Co. and AIA International, the overall projected annual distributable profits from the current in-force business and the assets backing the required capital of the Group are positive over the remaining lifetime of the business. Therefore, it is not considered necessary to change the discounting approach described above.

4. METHODOLOGY (continued)

4.6 Required Capital

Each of the Business Units has a regulatory requirement to hold shareholder capital in addition to the assets backing the insurance liabilities. The Group's assumed levels of required capital for each Business Unit are set out in the table below. Further, the consolidated EV Results for the Group have been calculated reflecting the overall more onerous of the Hong Kong and branch level local regulatory reserving and capital requirements for AIA Co. and AIA International.

Required Capital by Business Unit

Business Unit	Required Capital
AIA Australia	100% of regulatory capital adequacy requirement
AIA China	100% of required capital as specified under the CAA EV assessment guidance(1)
AIA Hong Kong	150% of required minimum solvency margin(2)
AIA Indonesia	120% of regulatory Risk-Based Capital requirement
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
AIA New Zealand	100% of local regulatory requirement
Philam Life	100% of regulatory Risk-Based Capital requirement
AIA Singapore	180% of regulatory Risk-Based Capital requirement
AIA Sri Lanka	120% of regulatory Risk-Based Capital requirement(3)
AIA Taiwan	250% of regulatory Risk-Based Capital requirement
AIA Thailand	140% of regulatory Risk-Based Capital requirement
AIA Vietnam	100% of required minimum solvency margin

Notes:

(1) On 22 November 2016, the China Association of Actuaries (CAA) issued new guidance for embedded value calculations. The new guidance has been applied to the EV calculations for AIA China as of 30 November 2016. Consistent with prior reporting periods, VONB is calculated as at the point of sale and therefore has not reflected the new guidance within the reported VONB for AIA China in 2016. The additional Hong Kong reserving and capital requirements continue to apply and therefore there is no material impact of this change to the Group's overall EV results.

(2) The required minimum solvency margin for AIA Hong Kong is unchanged under the revised undertaking to the HKOCI.

(3) The Insurance Board of Sri Lanka has implemented the Risk-Based Capital requirement, effective 1 January 2016. The new requirements were applied from 1 December 2015 in EV and VONB calculations.

5. ASSUMPTIONS

5.1 Introduction

This section summarises the assumptions used by the Group to determine the EV as at 30 November 2016 and the VONB for the year ended 30 November 2016 and highlights certain differences in assumptions between the EV as at 30 November 2015 and the EV as at 30 November 2016.

5.2 Economic Assumptions

Investment returns

The Group has set the assumed long-term future returns for fixed income assets to reflect its view of expected returns having regard to estimates of long-term forward rates from yields available on government bonds and current bond yields. In determining returns on fixed income assets the Group allows for the risk of default, and this allowance varies by the credit rating of the underlying asset.

Where long-term views of investment return assumptions differ from current market yields on existing fixed income assets such that there would be a significant impact on value, an adjustment was made to make allowance for the current market yields. In these cases, in calculating the VIF, adjustments have been made to the investment return assumptions such that the investment returns on existing fixed income assets were set consistently with the current market yield on these assets for their full remaining term, to be consistent with the valuation of the assets backing the policy liabilities.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Investment returns (continued)

The Group has set the equity return and property return assumptions by reference to the return on 10-year government bonds, allowing for an internal assessment of risk premia that vary by asset class and by territory.

For each Business Unit, the non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major asset classes.

For unit-linked business, fund growth assumptions have been determined based on actual asset mix within the funds at the valuation date and expected long-term returns for major asset classes.

Risk discount rates

The risk discount rates for each Business Unit can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make allowance for the risk profile of the business.

The Group has generally set the risk discount rates to be equal to the estimated cost of equity capital for each Business Unit within the Group. The cost of equity capital is derived using an estimated long-term risk-free interest rate, an equity risk premium and a market risk factor. In some cases, adjustments have been made to reflect territorial or Business Unit-specific factors.

The table below summarises the current market 10-year government bond yields referenced in EV calculations.

	Current market 10-year government bond yields referenced in EV calculations (%)	
Business Unit	**As at 30 Nov 2016**	As at 30 Nov 2015
AIA Australia	**2.72**	2.86
AIA China	**2.95**	3.12
AIA Hong Kong(1)	**2.38**	2.21
AIA Indonesia	**8.14**	8.61
AIA Korea	**2.15**	2.25
AIA Malaysia	**4.41**	4.20
AIA New Zealand	**3.13**	3.54
Philam Life	**4.52**	4.07
AIA Singapore	**2.30**	2.51
AIA Sri Lanka	**14.11**	10.33
AIA Taiwan	**1.12**	1.15
AIA Thailand	**2.69**	2.74
AIA Vietnam	**6.30**	7.10

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond yields shown above are those of US dollar-denominated bonds.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk discount rates (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The same risk discount rates were used for all the EV Results shown in Section 1 and Section 2 of this report. In particular, for the branches of AIA Co. and AIA International, the consolidated EV Results reflecting the Hong Kong reserving and capital requirements were calculated using the branch-specific risk discount rates shown in the table below. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. Note that VONB results were calculated based on start-of-quarter economic assumptions consistent with the measurement at the point of sale. The investment returns shown are gross of tax and investment expenses.

	Risk discount rates assumed in EV calculations (%)		Long-term investment returns assumed in EV calculations (%)			
			10-year government bonds		Local equities	
Business Unit	As at 30 Nov 2016	As at 30 Nov 2015	As at 30 Nov 2016	As at 30 Nov 2015	As at 30 Nov 2016	As at 30 Nov 2015
AIA Australia	**7.35**	7.75	**3.00**	3.40	**7.50**	7.50
AIA China	**9.55**	9.75	**3.50**	3.70	**9.30**	9.50
AIA Hong Kong[1]	**7.00**	7.00	**2.50**	2.50	**7.60**	7.55
AIA Indonesia	**13.50**	13.50	**8.00**	8.00	**12.50**	12.80
AIA Korea	**8.60**	9.10	**2.70**	3.20	**7.20**	7.20
AIA Malaysia	**8.75**	8.75	**4.20**	4.20	**8.80**	8.75
AIA New Zealand	**7.75**	8.25	**3.50**	4.00	**n/a[2]**	n/a[2]
Philam Life	**11.00**	10.50	**4.50**	4.00	**9.70**	9.20
AIA Singapore	**6.90**	6.90	**2.50**	2.50	**7.00**	7.00
AIA Sri Lanka	**15.70**	15.70	**10.00**	10.00	**12.00**	11.70
AIA Taiwan	**7.85**	7.85	**1.60**	1.60	**6.60**	6.60
AIA Thailand	**8.60**	8.80	**3.20**	3.40	**9.00**	9.20
AIA Vietnam	**12.80**	13.80	**7.00**	8.00	**12.30**	13.80

Notes:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond assumptions shown above are those of US dollar-denominated bonds.

(2) The assumed asset allocations do not include equities.

5.3 Persistency

Persistency covers the assumptions required, where relevant, for policy lapse (including surrender), premium persistency, premium holidays, partial withdrawals and retirement rates for pension products.

Assumptions have been developed by each of the Business Units based on their recent historical experience, and their best estimate expectations of current and expected future experience. Persistency assumptions vary by policy year and product type with different rates for regular and single premium products.

Where experience for a particular product was not credible enough to allow any meaningful analysis to be performed, experience for similar products was used as a basis for future persistency experience assumptions.

In the case of surrenders, the valuation assumes that current surrender value bases will continue to apply in the future.

5. ASSUMPTIONS (continued)

5.4 Expenses

The expense assumptions have been set based on the most recent expense analysis. The purpose of the expense analysis is to allocate total expenses between acquisition and maintenance activities, and then to allocate these acquisition and maintenance expenses to various product categories to derive unit cost assumptions.

Where the expenses associated with certain activities have been identified as being one-off, these expenses have been excluded from the expense analysis.

Expense assumptions have been determined for acquisition and maintenance activities, split by product type, and unit costs expressed as a percentage of premiums, sum assured and an amount per policy. Where relevant, expense assumptions have been calculated per distribution channel.

Expense assumptions do not make allowance for any anticipated future expense savings as a result of any strategic initiatives aimed at improving policy administration and claims handling efficiency.

Assumptions for commission rates and other sales-related payments have been set in line with actual experience.

Group Office expenses

Group Office expense assumptions have been set, after excluding non-recurring expenses, based on actual acquisition and maintenance expenses in the year ended 30 November 2016. The Group Office acquisition expenses have been deducted from the VONB. The present value of the projected future Group Office maintenance expenses has been deducted from the Group EV. The maintenance expense assumptions in the VONB also allow for the allocation of Group Office expenses.

5.5 Expense Inflation

The assumed expense inflation rates are based on expectations of long-term consumer price and salary inflation.

Expense inflation assumptions by Business Unit (%)

Business Unit	As at 30 November 2016	As at 30 November 2015
AIA Australia	**3.0**	3.25
AIA China	**2.0**	2.0
AIA Hong Kong	**2.0**	2.0
AIA Indonesia	**6.0**	6.0
AIA Korea	**3.5**	3.5
AIA Malaysia	**3.0**	3.0
AIA New Zealand	**2.5**	2.5
Philam Life	**3.5**	3.5
AIA Singapore	**2.0**	2.0
AIA Sri Lanka	**6.5**	6.5
AIA Taiwan	**1.2**	1.2
AIA Thailand	**2.0**	2.0
AIA Vietnam	**5.0**	5.0

Unallocated Group Office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

5. ASSUMPTIONS (continued)

5.6 Mortality

Assumptions have been developed by each Business Unit based on their recent historical experience, and their expectations of current and expected future experience. Where historical experience is not credible, reference has been made to pricing assumptions supplemented by market data, where available.

Mortality assumptions have been expressed as a percentage of either standard industry experience tables or, where experience is sufficiently credible, as a percentage of tables that have been developed internally by the Group.

For products that are exposed to longevity risk, an allowance has been made for expected improvements in mortality; otherwise no allowance has been made for mortality improvements.

5.7 Morbidity

Assumptions have been developed by each Business Unit based on their recent historical experience, and their expectations of current and expected future experience. Morbidity rate assumptions have been expressed as a percentage of standard industry experience tables or as expected claims ratios.

5.8 Reinsurance

Reinsurance assumptions have been developed by each Business Unit based on the reinsurance arrangements in force as at the valuation date and the recent historical and expected future experience.

5.9 Policyholder Dividends, Profit Sharing and Interest Crediting

The projected policyholder dividends, profit sharing and interest crediting assumptions set by each Business Unit that have been used in calculating the EV Results presented in this report, reflect contractual and regulatory requirements, policyholders' reasonable expectations (where clearly defined) and each Business Unit's best estimate of future policies, strategies and operations consistent with the investment return assumptions used in the EV Results.

Participating fund surpluses have been assumed to be distributed between policyholders and shareholders via future final bonuses or at the end of the projection period so that there are no residual assets at the end of the projection period.

5. ASSUMPTIONS (continued)

5.10 Taxation

The projections of distributable earnings underlying the values presented in this report are net of corporate income tax, based on current taxation legislation and corporate income tax rates. The projected amount of tax payable in any year allows, where relevant, for the benefits arising from any tax loss carried forward.

The local corporate income tax rates used by each Business Unit are set out below:

Local corporate income tax rates by Business Unit (%)

Business Unit	As at 30 November 2016	As at 30 November 2015
AIA Australia	**30.0**	30.0
AIA China	**25.0**	25.0
AIA Hong Kong	**16.5**	16.5
AIA Indonesia	**25.0**	25.0
AIA Korea	**24.2**	24.2
AIA Malaysia(1)	**24.0**	25.0 for assessment year 2015; 24.0 thereafter
AIA New Zealand	**28.0**	28.0
Philam Life	**30.0**	30.0
AIA Singapore	**17.0**	17.0
AIA Sri Lanka	**28.0**	28.0
AIA Taiwan	**17.0**	17.0
AIA Thailand(2)	**20.0**	20.0
AIA Vietnam	**20.0**	22.0 for assessment year 2015; 20.0 thereafter

Notes:

(1) The Malaysian Government announced a corporate income tax rate change in the Federal Government Budget 2014 which became effective from assessment year 2016 onward.

(2) The Government of Thailand announced in the Royal Gazette on 4 March 2016 a change in corporate income tax rate from 30 per cent to 20 per cent from assessment year 2016 onward. This change had been approved by the cabinet of the Government of Thailand in October 2015. The reported EV has been determined using this revised corporate income tax rate from assessment year 2015 onward. For clarity, VONB for the 2015 financial year was reported at the point of sale during the 2015 financial year and was therefore determined assuming the higher 30 per cent corporate income tax rate from assessment year 2016 onward.

The tax assumptions used in the valuation reflect the local corporate income tax rates set out above. Where applicable, tax payable on investment income has been reflected in projected investment returns.

The EV of the Group as at 30 November 2016 is calculated after deducting any remittance taxes payable on the anticipated distribution of both the ANW and VIF.

Where territories have an imputation credit system in place, e.g. Australia, no allowance has been made for the value of the imputation credits in the results shown in this report.

On 24 March 2016, the Ministry of Finance of the People's Republic of China released a VAT reform for insurance companies, effective from 1 May 2016, replacing the existing business tax system. The VAT change has been assumed to apply to the projected cash flows from 1 May 2016 in both EV and VONB calculations.

5.11 Statutory Valuation Bases

The projection of regulatory liabilities at future points in time assumes the continuation of the reserving methodologies used to value policyholder liabilities as at the valuation date.

On 22 November 2016, the CAA issued new guidance for embedded value calculations. The new guidance has been applied to the EV calculations for AIA China as of 30 November 2016. Consistent with prior reporting periods, VONB is calculated as at the point of sale and therefore has not reflected the new guidance within the reported VONB for AIA China in 2016.

5. ASSUMPTIONS (continued)

5.12 Product Charges

Management fees and product charges reflected in the VIF and VONB have been assumed to follow existing scales.

5.13 Foreign Exchange

The EV as at 30 November 2016 and 30 November 2015 have been translated into US dollars using exchange rates as at each valuation date. The VONB results shown in this report have been translated into US dollars using the corresponding average exchange rates for each quarter. The other components of the EV profit shown in the analysis of movement in EV have been translated using average exchange rates for the period.

6. EVENTS AFTER THE REPORTING PERIOD

On 22 December 2016, the Financial Supervisory Commission of Taiwan published the updated instruction for the Risk-Based Capital calculation, effective 1 January 2017. The impact is not expected to be material.

On 28 December 2016, the Insurance Commission of the Republic of the Philippines announced changes to the valuation standards and Risk-Based Capital Framework, effective 1 January 2017. The impact of these changes is not expected to be significant.

The Bermuda Monetary Authority announced changes in 2016 to the Bermuda Statutory Reporting Regime that will first apply to AIA's financial year ending 30 November 2017.

On 24 February 2017, a Committee appointed by the Board of Directors proposed a final dividend of 63.75 Hong Kong cents per share (2015: 51.00 Hong Kong cents per share).

INFORMATION FOR SHAREHOLDERS

ANALYSIS OF REGISTERED SHAREHOLDER ACCOUNTS

	30 November 2016			
Size of registered shareholding	Number of shareholder accounts	% of total number of shareholder accounts	Number of shares	% of total number of shares
1,000 shares or below	**17,361**	**79.50**	**6,600,350**	**0.05**
1,001 – 5,000 shares	**3,799**	**17.39**	**8,691,731**	**0.07**
5,001 – 10,000 shares	**434**	**1.99**	**3,350,200**	**0.03**
10,001 – 100,000 shares	**236**	**1.08**	**5,398,061**	**0.05**
100,001 shares or above	**9**	**0.04**	**12,032,410,684**	**99.80**
	21,839	**100.00**	**12,056,451,026**	**100.00**

FINANCIAL CALENDAR

Announcement of 2016 Full Year Results	24 February 2017
Book Close Period for the AGM	10 May 2017 to 12 May 2017 (both days inclusive)
Date of the AGM	12 May 2017
Announcement of 2017 Interim Results	28 July 2017

ANNUAL GENERAL MEETING

The AGM will be held at 11:00 a.m. Hong Kong time on Friday, 12 May 2017 at the Grand Ballroom, 2/F, New World Millennium Hong Kong Hotel, 72 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong. 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 website of the Hong Kong Stock Exchange at www.hkex.com.hk and the Company's website at www.aia.com on Friday, 12 May 2017.

FINAL DIVIDEND

The Board has recommended a final dividend of 63.75 Hong Kong cents per share (2015: 51.00 Hong Kong cents per share) for the year ended 30 November 2016. If approved, the proposed final dividend together with the interim dividend will represent a total dividend of 85.65 Hong Kong cents per share (2015: 69.72 Hong Kong cents per share) for the year ended 30 November 2016.

Subject to shareholders' approval at the AGM, the final dividend will be payable on Wednesday, 31 May 2017 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 17 May 2017.

Relevant Dates for the Final Dividend

Ex-dividend date	16 May 2017
Record date	17 May 2017
Payment date	31 May 2017

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 (for general enquiries)
aia.ecom@computershare.com.hk (for printed copies of the Company's corporate communications)
Website: www.computershare.com

ANNUAL REPORT AND ELECTRONIC COMMUNICATIONS

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 version of this Annual Report. However, in the event of any inconsistency, 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 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	
Paul Lloyd	+852 2832 6160	Stephen Thomas	+852 2832 6178
Yan Guo	+852 2832 1878	Allister Fowler	+852 2832 1978
Feon Lee	+852 2832 4704	Emerald Ng	+852 2832 4720
Joel Lieginger	+852 2832 4703		

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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Chairman and Non-executive Director
Mr. Edmund Sze-Wing Tse

Executive Director, Group Chief Executive and President
Mr. Mark Edward Tucker

Independent Non-executive Directors
Mr. Jack Chak-Kwong So
Mr. Chung-Kong Chow
Mr. John Barrie Harrison
Mr. George Yong-Boon Yeo
Mr. Mohamed Azman Yahya
Professor Lawrence Juen-Yee Lau
Ms. Swee-Lian Teo
Dr. Narongchai Akrasanee

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

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. Mark Edward Tucker

REGISTERED OFFICE

35/F, AIA Central
No. 1 Connaught Road Central
Hong Kong

WEBSITE

www.aia.com

COMPANY SECRETARY

Mr. Mitchell New

AUTHORISED REPRESENTATIVES

Mr. Mark Edward Tucker
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	A market in which all the following conditions exist: • the items traded within the market are homogeneous; • willing buyers and sellers can normally be found at any time; and • prices are available to the public. 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.
adjusted net worth or ANW	ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of AIA, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of AIA Group Limited.
AER	Actual exchange rates.
AGM	2017 Annual General Meeting of the Company to be held at 11:00 a.m. Hong Kong time on Friday, 12 May 2017.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA Co.	AIA Company Limited, a subsidiary of the Company.
AIA International	AIA International Limited, a subsidiary of AIA Co.
AIA Vitality	A science-backed wellness programme that provides participants with the knowledge, tools and motivation to help them achieve their personal health goals. The programme is a partnership between AIA and Discovery Limited, a specialist insurer headquartered in South Africa.
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 to enable eligible agents to acquire shares of the Company.
available for sale (AFS) financial assets	Financial assets that may be sold before maturity and that are used to back insurance and investment contract liabilities and shareholders' equity, and which are not managed on a fair value basis. Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value recorded in other comprehensive income.

bancassurance	The distribution of insurance products through banks or other financial institutions.
CER	Constant exchange rates. Change on constant exchange rates is calculated using constant average exchange rates for the current year and for the prior year other than for balance sheet items that use constant exchange rates as at the end of the current year and as at the end of the prior year.
consolidated investment funds	Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds.
Corporate Governance Code	Corporate Governance Code set out in Appendix 14 to the Listing Rules.
cost of capital or CoC	CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing the required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in participating funds, there is no associated cost of capital included in the VIF or VONB.
deferred acquisition costs or DAC	DAC are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed to the consolidated income statement on a systematic basis over the life of the policy. DAC assets are tested for recoverability at least annually.
deferred origination costs or DOC	Origination costs are expenses which are incurred in connection with the origination of new investment contracts or the renewal of existing investment contracts. For contracts that involve the provision of investment management services, these include commissions and other incremental expenses directly related to the issue of each new contract. Origination costs on contracts with investment management services are deferred and recognised as an asset in the consolidated statement of financial position and expensed to the consolidated income statement on a systematic basis in line with the revenue generated by the investment management services provided. Such assets are tested for recoverability.
embedded value or EV	An actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business.
EPS	Earnings per share.
equity attributable to shareholders of the Company on the embedded value basis or EV Equity	EV Equity is the total of embedded value, goodwill and other intangible assets attributable to shareholders of the Company.
ESPP	Employee Share Purchase Plan adopted by the Company on 25 July 2011 to enable eligible employees to acquire shares of the Company.
ExCo	The Executive Committee of the Group.
fair value through profit or loss or FVTPL	Financial assets that are held to back unit-linked contracts and participating funds or financial assets and liabilities that are held for trading. A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year.

first half	The six months from 1 December to 31 May.
first year premiums	First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold.
FRC	Financial Risk Committee.
free surplus	ANW in excess of the required capital.
group insurance	An insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf.
Group Office	Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions.
HKFRS	Hong Kong Financial Reporting Standards.
HKOCI	Hong Kong Office of the Commissioner of Insurance.
Hong Kong	The Hong Kong Special Administrative Region of the PRC; in the context of our reportable segments, Hong Kong includes Macau.
Hong Kong Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time.
Hong Kong Insurance Companies Ordinance or HKICO	Insurance Companies Ordinance (Chapter 41 of the Laws of Hong Kong), as amended from time to time. It provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong. The objectives of the HKICO are to protect the interests of the insuring public and to promote the general stability of the insurance industry.
Hong Kong Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
IFA	Independent financial adviser.
IFRS	Standards and interpretations adopted by the International Accounting Standards Board (IASB) comprising: • International Financial Reporting Standards; • International Accounting Standards; and • Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC).
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.

investment experience	Realised and unrealised investment gains and losses recognised in the consolidated income statement.
investment income	Investment income comprises interest income, dividend income and rental income.
investment return	Investment return consists of investment income plus investment experience.
IPO	Initial Public Offering.
lapse risk	The rate of policy termination deviating from the Group's expectation. Lapse risk is taken into account in formulating projections of future premium revenues, for example when testing for liability adequacy and the recoverability of deferred acquisition and origination costs.
liability adequacy testing	An assessment of whether the carrying amount of an insurance liability needs to be increased or the carrying amount of related deferred acquisition and origination costs or related intangible assets decreased based on a review of future cash flows.
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
Million Dollar Round Table or MDRT	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.
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	The operating profit is determined using expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment returns for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment returns are based on the assumptions applied by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.
operating return on EV or ROEV	Operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value.
operating return on shareholders' allocated equity or ROE	Operating return on shareholders' allocated equity is calculated as operating profit after tax attributable to shareholders of the Company, expressed as a percentage of the simple average of opening and closing shareholders' allocated equity.
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.
persistency	The percentage of insurance policies remaining in force from month to month in the past 12 months, as measured by premiums.
Philam Life	The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co.; in the context of the Supplementary Embedded Value Information, Philam Life includes BPI-Philam Life Assurance Corporation.
policyholder and shareholder investments	Investments other than those held to back unit-linked contracts as well as assets from consolidated investment funds.
pps	Percentage points.
PRC	The People's Republic of China.
protection gap	The difference between the resources needed and resources available to maintain dependants' living standards after the death of the primary wage-earner.
puttable liabilities	A puttable financial instrument is one in which the holder of the instrument has the right to put the instrument back to the issuer for cash (or another financial asset). Units in investment funds such as mutual funds and open-ended investment companies are typically puttable instruments. As these can be put back to the issuer for cash, the non-controlling interests in any such funds which have to be consolidated by AIA are treated as financial liabilities.
RAS	Risk Appetite Statement.
regulatory minimum capital	Net assets held to meet the minimum solvency margin requirement set by the HKICO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.
renewal premiums	Premiums receivable in subsequent years of a recurring premium policy.
rider	A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premiums.
risk appetite	The amount of risk that companies are willing to take in order to achieve their business objectives.
Risk-Based Capital or RBC	RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.

RMF	Risk Management Framework.
RSPUs	Restricted stock purchase units.
RSSUs	Restricted stock subscription units.
RSU Scheme	Restricted Share Unit Scheme.
second half	The six months from 1 June to 30 November.
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.
solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
solvency ratio	The ratio of the total available capital to the regulatory minimum capital applicable to the insurer pursuant to relevant regulations.
takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Tata AIA	Tata AIA Life Insurance Company Limited.
the Company	AIA Group Limited.
total weighted premium income or TWPI	TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded. As such it provides an indication of AIA's longer-term business volumes as it smoothes the peaks and troughs in single premiums.
unit-linked investments	Financial investments held to back unit-linked contracts.
unit-linked products	Unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges.

universal life	A type of insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account balance which are credited with interest at a rate either set by the insurer or reflecting returns on a pool of matching assets. The customer may vary the death benefit and the contract may permit the policyholder to withdraw the account balance, typically subject to a surrender charge.
value of business acquired or VOBA	VOBA in respect of a portfolio of long-term insurance and investment contracts acquired is recognised as an asset, calculated using discounted cash flow techniques, reflecting all future cash flows expected to be realised from the portfolio. VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the additional value of the business acquired. The carrying value of VOBA is reviewed annually for impairment and any impairment is charged to the consolidated income statement.
value of in-force business or VIF	VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business.
value of new business or VONB	VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding the required capital in excess of regulatory reserves to support this business. VONB for AIA is stated after adjustments to reflect additional Hong Kong reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB by market is stated before adjustments to reflect additional Hong Kong reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
VONB margin	VONB excluding pension business, expressed as a percentage of ANP. VONB margin for AIA is stated after adjustments to reflect additional Hong Kong reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB margin by market is stated before adjustments to reflect additional Hong Kong reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
working capital	Working capital comprises debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. These liquid assets are available to invest in building the Group's business operations.

AIA GROUP LIMITED 友邦保險控股有限公司

ANNUAL REPORT 2016

AIA.COM