AIA Group Limited

友 邦 保 險 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Stock Code: 1299

ANNUAL RESULTS FOR THE THIRTEEN-MONTH PERIOD ENDED 31 DECEMBER 2018

The Board is pleased to announce the Group's audited consolidated results for the thirteen-month period ended 31 December 2018.

In February 2018, the Board resolved to change the Company's financial year-end date from 30 November to 31 December. Accordingly, the current financial period-end date of the Company is 31 December 2018. The 2018 consolidated financial statements adopting the new year-end date is for the thirteen-month period ended 31 December 2018 with the comparative figures prepared based on the twelve-month period ended 30 November 2017.

In conjunction with the financial year-end date change and for the purpose of enhancing the comparability of financial information, the Company has voluntarily presented the Group's audited consolidated results for the twelve-month period ended 31 December 2018 and the comparative financial information covering the twelve-month period ended 31 December 2017. Results highlights, financial summary, financial and operating review and supplementary embedded value information relating to the Group's audited consolidated results for the twelve-month period ended 31 December 2018, as compared with the corresponding twelve-month period ended 31 December 2017, have also been set out in this announcement to facilitate a meaningful comparison of the Group's performance for the twelve-month periods ended 31 December 2018 and 2017.

AIA DELIVERS AN EXCELLENT PERFORMANCE IN 2018

VALUE OF NEW BUSINESS UP 22 PER CENT
OPERATING PROFIT UP 13 PER CENT; FINAL DIVIDEND UP 14 PER CENT

AIA Group Limited ("AIA"; or the "Company"; stock code: 1299) delivered excellent operating performance with double-digit growth across our main financial metrics for the twelve months ended 31 December 2018, including very strong growth in value of new business (VONB) of 22 per cent on a constant exchange rate basis, compared with the corresponding twelve-month period ended 31 December 2017.

Growth rates are shown on a constant exchange rate basis below:

Very strong growth in value of new business

- 22 per cent growth in VONB to US$3,955 million
- Annualised new premiums (ANP) increased by 15 per cent to US$6,510 million
- VONB margin up 3.7 pps to 60.0 per cent

Strong operating profit generation

- Operating profit after tax (OPAT) up by 13 per cent to US$5,298 million
- Embedded value (EV) operating profit increased by 23 per cent to US$8,278 million
- Operating return on EV (operating ROEV) up by 110 bps to 16.3 per cent

Robust cash flow and resilient capital position

- EV Equity of US$56.2 billion; EV of US$54.5 billion, up US$3.7 billion
- Underlying free surplus generation of US$4,945 million, up 13 per cent on a comparable basis
- Free surplus of US$14.8 billion
- Net remittances of US$2.8 billion
- Solvency ratio for AIA Company Limited (AIA Co.) of 421 per cent on the HKIO basis

Strong increase in recommended final dividend

- 14 per cent growth in final dividend to 84.80 Hong Kong cents per share
- Total dividend (excluding special dividend) up 14 per cent to HK$1.14 per share
- A special dividend of 9.50 Hong Kong cents per share

Ng Keng Hooi, AIA's Group Chief Executive and President, said:

"AIA has once again delivered an excellent performance with double-digit growth across our main financial metrics in 2018. Value of new business increased by 22 per cent to reach a new record of US$3,955 million. We also achieved strong growth of 13 per cent in both operating profit after tax and underlying free surplus generation. These very strong results were achieved against a backdrop of economic uncertainty and financial market volatility.

"Our business in China delivered an excellent performance with VONB growth of 30 per cent. I am also delighted that we recently received approval to set up sales and service centres in Tianjin and Shijiazhuang, Hebei. Hong Kong delivered another very strong performance with 24 per cent VONB growth and VONB in Singapore grew by 18 per cent. Thailand returned to growth with VONB up 12 per cent, as our agency transformation delivered tangible results.

"AIA's agency channel had another excellent year with 26 per cent VONB growth and the Group now has more than 10,000 Million Dollar Round Table members. In partnerships, our bank channel delivered 18 per cent VONB growth and we activated four new strategic partnerships including with Bangkok Bank in Thailand and SK Telecom in Korea.

"Our brand promise, Healthier, Longer, Better Lives, epitomises our commitment to customers as AIA shifts towards being a partner for life with wellness as a key focus. Membership of our wellness programmes exceeded 1.2 million, transforming engagement and delivering meaningful health improvements for our customers.

"These strong results are underpinned by our diversified, robust and high-quality business model together with our sustained focus on capturing the significant opportunities presented by the long-term structural drivers of growth across Asian insurance markets.

"The Board has recommended an increase of 14 per cent in the 2018 final dividend and a special dividend of 9.50 Hong Kong cents per share due to the change in financial year-end date. The dividends reflect the strength of AIA's financial results and our confidence in the outlook for the Group.

"The scale, quality and breadth of AIA's exceptional businesses across the Asia-Pacific region, combined with our unrivalled distribution capabilities, trusted brand, financial strength and innovation capabilities, enable us to meet the evolving needs of our customers for protection and long-term savings as we help them to live Healthier, Longer, Better Lives.

"We enter 2019, our centennial year, with confidence about our long-term outlook. AIA has always been committed to providing financial protection and driving economic and social development across the region. Our centenary gives us the opportunity to reaffirm our commitments and our focus on delivering long-term sustainable value for our shareholders."

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 a century ago in 1919. 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$230 billion as of 31 December 2018.

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 33 million individual policies and over 16 million participating members of group insurance schemes.

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

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FINANCIAL SUMMARY

PERFORMANCE HIGHLIGHTS

US$ millions, unless otherwise stated	Twelve months ended 31 Dec 2018	Twelve months ended 31 Dec 2017	YoY CER	YoY AER
New Business Value				
Value of new business (VONB)	**3,955**	3,206	**22%**	23%
VONB margin	**60.0%**	56.0%	**3.7 pps**	4.0 pps
Annualised new premiums (ANP)	**6,510**	5,624	**15%**	16%
EV Operating Profit				
Embedded value (EV) operating profit	**8,278**	6,654	**23%**	24%
Operating return on EV	**16.3%**	15.5%	**1.1 pps**	0.8 pps
Basic EV operating earnings per share (US cents)	**68.86**	55.44	**23%**	24%
IFRS Earnings				
Operating profit after tax (OPAT)	**5,298**	4,635	**13%**	14%
Operating return on shareholders' allocated equity	**14.5%**	14.0%	**0.4 pps**	0.5 pps
Total weighted premium income (TWPI)	**30,543**	26,393	**14%**	16%
Operating earnings per share (US cents)				
– Basic	**44.07**	38.62	**12%**	14%
– Diluted	**43.94**	38.50	**12%**	14%
Underlying Free Surplus Generation				
Underlying free surplus generation	**4,945**	4,568	**13%**	14%
Dividends				
Dividend per share (HK cents)				
– Final	**84.80**	74.38	**n/a**	14%
– Total	**114.00**	100.00	**n/a**	14%
Special Dividend				
Special dividend per share (HK cents)	**9.50**	n/a	**n/a**	n/a

US$ millions, unless otherwise stated	As at 31 Dec 2018	As at 31 Dec 2017	YoY CER	YoY AER
Embedded Value				
EV Equity	**56,203**	52,429	**9%**	7%
Embedded value	**54,517**	50,779	**10%**	7%
Free surplus	**14,751**	12,586	**18%**	17%
EV Equity per share (US cents)	**465.37**	434.19	**9%**	7%
Equity and Capital				
Shareholders' allocated equity	**36,795**	36,413	**3%**	1%
AIA Co. HKIO solvency ratio	**421%**	446%	**n/a**	(25) pps
Shareholders' allocated equity per share (US cents)	**304.67**	301.56	**3%**	1%

NEW BUSINESS PERFORMANCE BY SEGMENT

US$ millions, unless otherwise stated	Twelve months ended 31 Dec 2018			Twelve months ended 31 Dec 2017			VONB Change	
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YoY CER	YoY AER
Hong Kong	**1,712**	**62.0%**	**2,697**	1,384	53.7%	2,493	**24%**	24%
Thailand	**447**	**73.1%**	**611**	381	73.4%	519	**12%**	17%
Singapore	**357**	**65.4%**	**547**	297	69.7%	426	**18%**	20%
Malaysia	**247**	**63.8%**	**382**	215	62.5%	340	**8%**	15%
China	**965**	**90.5%**	**1,067**	725	83.1%	873	**30%**	33%
Other Markets	**435**	**35.8%**	**1,206**	395	39.9%	973	**13%**	10%
Subtotal	**4,163**	**63.2%**	**6,510**	3,397	59.4%	5,624	**21%**	23%
Adjustment to reflect consolidated reserving and capital requirements	**(56)**	**n/m**	**n/m**	(61)	n/m	n/m	**n/m**	n/m
After-tax value of unallocated Group Office expenses	**(152)**	**n/m**	**n/m**	(130)	n/m	n/m	**n/m**	n/m
Total	**3,955**	**60.0%**	**6,510**	3,206	56.0%	5,624	**22%**	23%

Notes:

(1) A presentation for analysts and investors, hosted by Ng Keng Hooi, Group Chief Executive and President, is scheduled at 9:30 a.m. Hong Kong time today with attendance by pre-registration only.

An audio cast of the presentation and presentation slides will be available on AIA's website:

http://www.aia.com/en/investor-relations/results-presentations.html

(2) All figures are presented in actual reporting currency (US dollar) and based on actual exchange rates (AER) unless otherwise stated. Change on constant exchange rates (CER) is calculated using constant average exchange rates for the twelve months ended 31 December 2018 and for the twelve months ended 31 December 2017 other than for balance sheet items that use CER as at 31 December 2018 and as at 31 December 2017.

(3) Change is shown on a year-on-year basis compared with the corresponding twelve-month period ended 31 December 2017, unless otherwise stated.

(4) VONB is calculated based on assumptions applicable at the point of sale and before deducting the amount attributable to non-controlling interests. The amounts of VONB attributable to non-controlling interests in the twelve months ended 31 December 2018 and in the twelve months ended 31 December 2017 were US$27 million and US$22 million respectively.

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

(6) OPAT and operating earnings per share are shown after non-controlling interests unless otherwise stated.

(7) The growth rates of underlying free surplus generated are calculated on a comparable basis before the reduction of US$263 million in the twelve months ended 31 December 2018 relating to the change in reserving and capital requirements for consolidation purposes following the subsidiarisation of AIA Korea.

(8) Total dividend of HK$1.14 per share for the twelve months ended 31 December 2018 does not include the special dividend for the additional month in the accounting period due to the change in financial year-end date.

(9) Hong Kong refers to operations in Hong Kong and Macau; Singapore refers to operations in Singapore and Brunei; and Other Markets refers to operations in Australia (including New Zealand), Cambodia, Indonesia, Korea, the Philippines, Sri Lanka, Taiwan, Vietnam and India. The results of our joint venture in India are accounted for using the equity method. For clarity, TWPI, ANP and VONB exclude any contribution from India.

(10) AIA's financial information in this Financial Summary is based on the audited consolidated financial statements and supplementary embedded value information for the twelve months ended 31 December 2018, unless otherwise stated.

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AIA has delivered another excellent set of results in 2018 with double-digit growth across all our main financial metrics.

Value of new business (VONB) grew by 22 per cent, operating profit after tax (OPAT) increased by 13 per cent and underlying free surplus generation grew by 13 per cent on a comparable basis, all on constant exchange rates (CER). Equity attributable to shareholders of the Company on the embedded value basis (EV Equity) increased by US$3,774 million to reach US$56,203 million.

The board of Directors (Board) has recommended a final dividend of 84.80 Hong Kong cents per share, which represents an increase of 14 per cent and brings the total dividend (excluding special dividend) for 2018 to 114.00 Hong Kong cents per share. This reflects the strength of AIA's financial performance and our confidence in the Group's prospects. Additionally, the Board has recommended a special dividend of 9.50 Hong Kong cents per share, which represents an additional month of full year dividend due to the change of the Company's financial year-end date.

Our strong operating performance reflects our focus on managing the business proactively and the execution of our growth strategy against a challenging backdrop of financial market volatility and concerns over the global macroeconomic environment. AIA's success has been driven by our talented teams across the Asia-Pacific region and the high levels of professionalism, commitment and care shown by our employees and agents throughout the company.

The life insurance industry plays an important role in developing economies by helping to meet the social and infrastructure challenges that arise following step changes in economic growth. Rising affluence creates both a need and an aspiration for individuals to protect accumulated wealth and provide for dependants, and the financial responsibility on any one breadwinner can be considerable.

Largely as a consequence of the traditional role of the extended family in the provision of welfare, government organised social welfare safety-nets are underdeveloped and there is a general recognition amongst Asian governments that costly, fully-comprehensive social welfare provision is unsustainable.

In our markets – developed and emerging – this creates a material "protection gap" that represents the shortfall between a society's need for financial provision for adversity and ill health, and the actual levels of insurance and savings in place to cover the risk. Dependency ratios are increasing in many of our markets, creating an emerging "retirement savings gap" – inefficient forms of savings, lack of provision for retirement and increasing longevity are all contributing to a significant shortfall in long-term savings.

Private insurance is key to effective provision against these lifetime contingencies. The region, however, remains significantly underinsured in terms of life protection, health insurance, pensions and annuities – this demonstrates both the resilience of our markets and the significant potential for growth.

The expectations of Asian consumers are also evolving. Well-being, health, longevity and higher expectations of the quality of life into old age are increasingly front of mind. At the same time, consumers are unsure of how much cover they need and what types of products to buy.

AIA's unrivalled distribution capabilities, strong brand, financial strength and ability to invest in product innovation place us in a unique position to help meet these fundamental social and economic needs.

We remain focused on executing our clear strategic priorities that will build on these competitive advantages to sustain our profitable growth and help safeguard the future health and financial security of our customers.

2018 PERFORMANCE HIGHLIGHTS (ON A CONSTANT EXCHANGE RATE BASIS)

Hong Kong had another very successful year with VONB up by 24 per cent to US$1,712 million. This excellent result demonstrates the quality of our multi-channel distribution and was broad-based with growth from both domestic and Mainland Chinese visitor customer segments. The continued success in executing our Premier Agency strategy drove a double-digit increase in the number of active agents. We also have a significant retail independent financial adviser (IFA) business in Hong Kong and our long-term strategic partnership with Citibank, N.A. (Citibank) once again delivered very strong VONB growth. OPAT increased by 11 per cent to US$1,814 million.

In **China**, we delivered another excellent performance with VONB up by 30 per cent to US$965 million. Our focus on quality recruitment and best-in-class training, supported by our innovative digital platforms, produced a double-digit increase in the number of active agents. Growth in the underlying business and favourable insurance experience contributed to a 32 per cent increase in OPAT. In February 2019, we were delighted to receive regulatory approvals to begin preparations for the establishment of sales and service centres in Tianjin and Shijiazhuang, Hebei. We are looking forward to bringing AIA's differentiated products and services to more and more families in China over time.

Our business in **Thailand** returned to double-digit growth with an increase in VONB of 12 per cent to US$447 million. The success of our focus on raising the quality of our agency force saw a 36 per cent increase in the number of Million Dollar Round Table (MDRT) qualifiers, as we continued to grow full-time, professional active agents that provide high-quality advice to our customers. Our new partnership with Bangkok Bank Public Company Limited (Bangkok Bank) was launched in March 2018 and we continue to lay the foundations for future growth by expanding our product range through the bank's in-branch insurance specialists. Underlying business growth and improvements to in-force persistency saw OPAT grow by 9 per cent.

Singapore delivered very strong VONB growth of 18 per cent in 2018 driven by the agency channel and our strategic partnership with Citibank. The execution of our Premier Agency strategy delivered both an increase in the number of active agents and improved productivity levels. OPAT increased by 7 per cent.

Malaysia achieved an improved second-half performance to deliver VONB growth of 8 per cent for the full year, amidst a market environment that has been affected by reduced consumer activity and changes to Goods and Services Tax (GST). Our Takaful business delivered double-digit VONB growth and remains an important strategic focus. OPAT increased by 9 per cent.

VONB grew by 13 per cent in **Other Markets**. Highlights included strong performances from our businesses in Australia and New Zealand, Korea, the Philippines and Taiwan. OPAT increased by 14 per cent to US$826 million.

Our performance in 2018 is another clear demonstration of the benefits of AIA's diversified growth portfolio across geographical markets, products and distribution channels, and the tremendous potential for profitable growth in the Asia-Pacific region.

GROUP-WIDE OVERVIEW

DISTRIBUTION

Our proprietary tied agency force is our core distribution channel and the professionalism and scale of our agency is a significant competitive advantage for AIA. In 2018, the focused execution of our Premier Agency strategy delivered VONB growth of 26 per cent to US$2,943 million. We believe that our agents are the most effective means of meeting the financial protection and long-term savings needs of the mass affluent market in Asia. Our ability to attract the highest-quality recruits and provide them with the best training and back-office support across every aspect of agency management is an important driver of our growth. AIA is also at the forefront of providing agents with next-generation digital tools which help to enhance both their professionalism and productivity. The execution of our Premier Agency strategy will continue to be the cornerstone of AIA's future success.

MDRT membership is an important measure of the quality of our agency and AIA has over 10,000 registered members, which is an increase of 22 per cent compared with 2017. AIA has now been the multinational with the highest number of MDRT registered members globally for four consecutive years, a clear indicator of our success in developing a highly professional, full-time agency distribution.

AIA's long-term strategic partnerships broaden our access to customers across the Asia-Pacific region. VONB from AIA's partnership distribution business grew by 11 per cent to US$1,172 million in 2018, building on the exceptionally strong performance from Hong Kong's retail IFA channel in the first half of 2017, as previously highlighted. In March 2018, we launched our new strategic partnership with Bangkok Bank, the largest bank by total assets and with one of the largest retail banking customer bases in Thailand. This partnership offers a significant opportunity to reinforce our market leadership position in Thailand. In July 2018, the Group announced the completion of the transaction to acquire Sovereign Assurance Company Limited in New Zealand and the beginning of our 20-year strategic bancassurance partnership with ASB Bank Limited (ASB).

We also look to develop non-traditional strategic partnerships with companies that have large existing customer bases and where the arrangements make commercial sense for AIA, such as those we launched during the year with WeDoctor in China and SK Telecom in Korea. Through our partnership with WeDoctor, AIA has gained preferred access to WeDoctor's services for AIA customers and AIA has become the preferred provider of life and health insurance solutions to WeDoctor's registered user base of over 180 million Chinese consumers. We also launched AIA Vitality into our strategic partnership with SK Telecom, the nation's leading telecommunications provider by number of customers. These new partnerships represent additional growth opportunities for AIA by providing us with broader access to new customers and enabling the provision of new digital health and wellness services for our existing policyholders.

In addition, our scale and presence across the Asia-Pacific region place us in a strong position to take advantage of strategic partnership opportunities as they arise. We look for opportunities that will materially extend our distribution reach and rigorously evaluate these opportunities against strict financial and strategic criteria.

BRAND AND MARKETING

AIA's brand promise to help our customers live Healthier, Longer, Better Lives was launched across all of our markets in 2018. AIA is leading the way in transforming our protection business from that of a passive claims payer to a partner that actively helps our customers improve their health and well-being. This changes the way that customers perceive the purchase of life and health insurance and allows them to see positive, tangible benefits early on in their relationship with AIA. Our approach is fully aligned with the rapidly evolving needs and expectations of consumers in Asia-Pacific and offers significant potential for enhancing the quality and frequency of engagement with our customers and our distribution.

Our stated Purpose is to play a leadership role in driving economic and social development across the region and our new brand promise represents what we stand for as a company. We are actively fostering long-term relationships with our customers to address the protection needs created by rising personal wealth that is leading to an increasing prevalence of lifestyle-related diseases in Asia. Our leadership position in health insurance, integrated with wellness, is at the forefront of these developments and this is an important strategic priority for the Group that will enable us to deliver both positive benefits for our customers and their communities, and help AIA to sustain our long-term growth.

AIA Vitality is our comprehensive science-backed wellness programme. Since its launch in 2013, we have been able to demonstrate positive health outcomes for our customers by encouraging and rewarding healthy lifestyle choices. We also launched AIA Vitality into many of our bancassurance partnerships during the year and total membership of our wellness programmes has exceeded 1.2 million people as at the end of 2018.

Our marketing and sponsorship activity is focused on associating the AIA brand with healthy lifestyles and encouraging active participation in sport. Our Global Principal Partnership with Tottenham Hotspur Football Club (Spurs) and our Global Ambassador, David Beckham, raise awareness among our customers, partners and employees of our brand promise through social media campaigns, football coaching clinics, customer and employee engagement sporting events and other media opportunities.

Environmental, Social and Governance (ESG) considerations are increasingly front-of-mind for all of our stakeholders. As the largest pan-Asian life insurer, we have an important role to play in helping encourage greater awareness and consideration of ESG issues. AIA supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and we also became the first Hong Kong-headquartered asset owner to join the Principles for Responsible Investment (PRI), reflecting our commitment to sustainable investment across our markets. In 2018, we received a “Prime” rating from ISS-oekom and are included in the FTSE4Good Index Series. We were also pleased to be included once again in the Bloomberg Gender Equality Index.

TECHNOLOGY AND OPERATIONS

Transformation through digitalisation is a key enabler across all aspects of our business. In 2018, we continued to make significant and targeted investments to simplify back-office processes and enhance efficiency, driving further productivity improvements and ensuring that we deliver innovative products and quality service to our customers.

Depending on their preferences, our customers engage with our businesses both online and offline. We continue to invest in improving our digital capabilities from online self-service for basic administration and simple policy requests, to providing the sophisticated digital tools needed to support our market-leading agency and other distribution partners.

Every year our customers interact with us on more than 34 million standard product-related insurance transactions and an additional 105 million digital customer interactions through AIA Vitality. We are increasingly looking at ways in which we can employ artificial intelligence (AI) capabilities to support our operations. AI is employed across many of our processes including new business processing, existing customer servicing and claims handling.

AIA’s digital point-of-sale technology continues to evolve with more than 90 per cent of new business cases across the Group submitted digitally in 2018. Automatic underwriting rates continued to increase in 2018 with 57 per cent of all new business underwritten at point of sale with no human intervention. We continued to enhance the applications used by our agency across AIA’s proprietary interactive Mobile Office (iMO) platform: iRecruit improves recruitment success and digitalises the onboarding process, while iAcademy is an e-learning platform that is deployed across our businesses, enabling agents to continue to learn and develop wherever they want.

We are also looking at ways to transform our business through innovation and the use of new technology. A Group digitalisation initiative for partnership distribution has been launched to develop an end-to-end sales and services platform for our bank partners. Our aim is to drive a step change in the experience that these digital tools provide to both our customers and our distribution.

Cybersecurity is a critically important focus for AIA and a mounting risk to the industry and to our business. Regular updates are provided to the Group Executive Committee and the Board to ensure that this area receives the strongest management focus, support and governance. We continue to strengthen and invest in our capabilities in this area and have established a new cybersecurity shared services centre to provide additional advanced cyberthreat prevention, detection and response capabilities across the Group to support our dedicated cybersecurity teams.

ENGAGEMENT WITH PEOPLE

Central to AIA's success are more than 22,000 talented, professional and committed employees. It is due to their dedication, hard work and unrelenting focus on customer service and the consistent execution of our strategy that we are able to sustain our strong track record of growth and success.

AIA's culture is characterised by our Operating Philosophy of "Doing the Right Thing, in the Right Way, with the Right People… the Right Results will come". Our corporate structure is designed to empower our local businesses, within a strategic and risk management framework, set and monitored by the group centre, and this encourages stronger engagement between our employees and their local markets. We believe the key to maintaining this culture is ensuring that we attract, train and retain highly-capable employees who actively look for the opportunities we provide for continuing professional development and who embrace AIA's brand promise and Purpose.

The AIA Leadership Centre (ALC) plays an important role in developing our senior executives across the Group. The centre has a clear focus on delivering impactful leadership development programmes aligned with AIA's key strategic priorities. Now in its third year of operation, the ALC hosted more than 240 events in 2018, partnering with leading business schools and consulting firms. Technical leadership and functional leadership programmes are also provided to enhance domain-specific knowledge and skills. In recognition of its commitment to professional education, AIA was awarded 'Excellence in Education' by LOMA.

We use technology to help deliver our learning and development programmes and we have launched a new learning platform providing digitalised learning content and delivery methods including access to content on-demand. We have also embarked on a major strategic initiative to transform our human resources information systems to improve efficiency and people analytics capabilities.

We conducted a review of approximately 1,400 senior positions across our markets during the year, ensuring that we have clear plans for succession and the opportunities to develop our people. It has always been a top priority for AIA to grow leaders from within the business and we filled a majority of our senior leadership vacancies through internal promotions during the year.

Our annual employee engagement survey is an important indicator of the success of our combined efforts across our markets and continues to provide us with valuable insights. I am pleased to report that the employee engagement scores for the Group place us in the top quartile of Gallup's global financial services and insurance industry benchmark. AIA was one of 39 companies globally and the only international life insurer to be conferred a Great Workplace Award from Gallup in 2018.

OUTLOOK

Asia's growth fundamentals remain resilient despite recent volatility in financial markets, geopolitical uncertainty caused by ongoing international trade tensions and concerns over the sustainability of the current economic growth cycle. While global economic growth rates are expected to slow, the strong domestic drivers of demand and major demographic trends in Asia provide positive structural support for the long-term prospects of AIA's business. US policymakers have responded by putting interest rate rises on hold for the time being and we expect China to continue its transition towards slower but higher-quality economic growth, accompanied by further financial reform.

Asia is expected to account for 90 per cent of the world's next billion middle-class consumers and the region's middle-class population on this basis will more than double by 2025. Against the backdrop of an uncertain global macroeconomic and geopolitical environment, the need for our insurance products continues to grow, given low levels of private insurance penetration and social welfare coverage, and we remain focused on executing our strategic priorities.

AIA has been in Asia for a century, operating in some of the most dynamic and attractive life and health insurance markets in the world. As we mark our Centennial year in 2019, this is an opportunity to restate our commitment to safeguarding the financial security of our customers. As the Group looks forward to the next 100 years, our promise of Healthier, Longer, Better Lives is especially relevant to how we will meet the growing needs of customers created by the unprecedented structural economic, demographic and social changes taking place across our markets. By delivering on this promise we will make a real and positive impact on people's lives.

After 100 years, it is rare that a company can say it is just at the beginning of its journey, but I remain as convinced as ever that AIA has much more to offer our customers, our employees, our partners and our shareholders. Of course, we have a lot to do to capture the opportunities that we have, but I believe we have the right strategy, the right leadership and the best platform from which we can continue to create long-term sustainable value.

I am incredibly excited to be leading AIA into the next 100 years and I look forward to AIA leading a healthier century across the Asia-Pacific region.

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 a constant exchange rate (CER) basis, unless otherwise stated, as this provides a clearer picture of the year-on-year performance of the underlying businesses.

In February 2018, the board of Directors (Board) of AIA Group Limited (the Company) resolved to change the Company's financial year-end date from 30 November to 31 December. Accordingly, the current financial period-end date of the Company is 31 December 2018. In conjunction with this change and for the purpose of enhancing the comparability of financial information, the financial information presented below covers a twelve-month period from 1 January 2018 to 31 December 2018 for the current period and a twelve-month period from 1 January 2017 to 31 December 2017 for the prior period. In addition, we have voluntarily presented the Group's audited consolidated financial results for the twelve months ended 31 December 2018 and the comparative financial information covering the twelve months ended 31 December 2017 as set out in note 47 to the consolidated financial statements and the supplementary embedded value information.

FINANCIAL REVIEW

SUMMARY AND KEY FINANCIAL HIGHLIGHTS

AIA has delivered another set of excellent financial results in 2018 with double-digit growth in value of new business (VONB), operating profit after tax (OPAT), embedded value (EV) operating profit and underlying free surplus generation as we have continued to build on our competitive advantages and make strong progress in delivering our strategic priorities. We have also increased free surplus and maintained our resilient solvency position while financing both our organic growth and value-enhancing inorganic opportunities.

Reflecting these financial results and our confidence in the future of AIA, the Board has recommended an increase in the final dividend of 14 per cent to 84.80 Hong Kong cents per share. The Board has also recommended a special dividend of 9.50 Hong Kong cents per share for the additional month in the accounting period due to the change of the Company's financial year-end date from 30 November 2018 to 31 December 2018.

EMBEDDED VALUE

VONB grew by 22 per cent to US$3,955 million in 2018 with all our reportable market segments delivering positive VONB growth. Agency distribution remains our main source of new business and accounted for 72 per cent of the Group's total VONB. The focused execution of our Premier Agency strategy has continued to drive very strong VONB growth of 26 per cent to US$2,943 million from the agency channel. VONB from partnership distribution delivered solid growth of 11 per cent, building on the exceptionally strong performance from Hong Kong's retail Independent Financial Adviser (IFA) channel in the first half of 2017 as previously highlighted.

Annualised new premiums (ANP) increased by 15 per cent to US$6,510 million and VONB margin was higher by 3.7 pps at 60.0 per cent. The present value of new business premium (PVNBP) margin increased to 10 per cent from 9 per cent in 2017, reflecting positive shifts in product and country mix.

EV operating profit grew by 23 per cent to US$8,278 million, reflecting strong new business growth, a higher expected return on EV of US$3,893 million and overall positive operating variances of US$603 million resulting from the proactive management of our in-force portfolio. This has resulted in a strong increase of 110 bps in our operating return on EV (Operating ROEV) to 16.3 per cent compared with 2017.

Equity attributable to shareholders of the Company on the embedded value basis (EV Equity) grew by US$3,774 million to US$56,203 million. The increase was mainly driven by EV operating profit, partly offset by negative investment return variances of US$2,218 million reflecting the effect of short-term equity and other capital market movements on our investment portfolio and statutory reserves compared with long-term expected returns. The EV is shown after the payment of shareholder dividends totalling US$1,589 million. EV Equity included goodwill and other intangible assets of US$1,686 million at 31 December 2018 compared with US$1,650 million at 31 December 2017. The increase arose primarily from the acquisition of Sovereign Assurance Company Limited, included as part of the acquisition of ASB Group (Life) Limited and its subsidiaries (Sovereign), the life and health insurance businesses owned by Commonwealth Bank of Australia (CBA) in New Zealand, which completed on 2 July 2018.

IFRS EARNINGS

OPAT increased by 13 per cent to US$5,298 million. All our reportable market segments delivered positive OPAT growth in 2018 as a result of new business growth over time and the proactive management of our in-force portfolio. The expense ratio reduced to 7.1 per cent from 7.6 per cent in 2017 as we continued to benefit from increasing scale.

Operating margin after tax was 17.5 per cent compared with 17.7 per cent in 2017 primarily reflecting strong total weighted premium income (TWPI) growth in 2018 and an increasing proportion of participating business in the in-force portfolio.

Operating return on shareholders' allocated equity (Operating ROE) increased by 40 bps to 14.5 per cent, mainly driven by OPAT growth.

At 31 December 2018, shareholders' allocated equity remained stable at US$36,795 million, after the payment of shareholder dividends of US$1,589 million, reflecting the depreciation of local currencies against our US dollar reporting currency of US$732 million and net profit of US$2,597 million, which included negative mark-to-market movement from our equity portfolio.

CAPITAL AND DIVIDENDS

Free surplus increased by US$2,165 million to US$14,751 million at 31 December 2018. This included a positive addition to free surplus of US$1,886 million due to the subsidiarisation of AIA Korea and a deduction of US$497 million for the net effect of the acquisition of Sovereign.

Underlying free surplus generation increased to US$4,945 million, representing growth of 13 per cent on a comparable basis before a reduction of US$263 million relating to the subsidiarisation of AIA Korea. New business investment increased by 10 per cent to US$1,540 million, negative investment return variances and other items were US$795 million and the payment of shareholder dividends totalled US$1,589 million.

The solvency ratio of AIA Company Limited (AIA Co.), was 421 per cent at 31 December 2018, compared with 446 per cent at 31 December 2017. Our solvency ratio remained very strong after the effect of the acquisition of Sovereign and dividends to the Company.

Our local businesses remitted US$2,753 million to the Group Corporate Centre in 2018, including special remittance from New Zealand post acquisition of Sovereign, compared with US$2,039 million in 2017.

The Board has recommended an increase in the final dividend of 14 per cent to 84.80 Hong Kong cents per share, consistent with AIA's established prudent, sustainable and progressive dividend policy. The Board has also recommended a special dividend of 9.50 Hong Kong cents per share for the additional month in the accounting period due to the change of the Company's financial year-end date from 30 November 2018 to 31 December 2018. The dividends reflect the strength of our financial results and the Board's continued confidence in the future prospects of the Group. The recommended dividends are subject to shareholders' approval at the Company's forthcoming Annual General Meeting (AGM).

NEW BUSINESS PERFORMANCE

VONB, ANP and Margin by Segment

	2018			2017			VONB Change	
US$ millions, unless otherwise stated	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YoY CER	YoY AER
Hong Kong	**1,712**	**62.0%**	**2,697**	1,384	53.7%	2,493	**24%**	24%
Thailand	**447**	**73.1%**	**611**	381	73.4%	519	**12%**	17%
Singapore	**357**	**65.4%**	**547**	297	69.7%	426	**18%**	20%
Malaysia	**247**	**63.8%**	**382**	215	62.5%	340	**8%**	15%
China	**965**	**90.5%**	**1,067**	725	83.1%	873	**30%**	33%
Other Markets	**435**	**35.8%**	**1,206**	395	39.9%	973	**13%**	10%
Subtotal	**4,163**	**63.2%**	**6,510**	3,397	59.4%	5,624	**21%**	23%
Adjustment to reflect consolidated reserving and capital requirements	**(56)**	**n/m**	**n/m**	(61)	n/m	n/m	**n/m**	n/m
After-tax value of unallocated Group Office expenses	**(152)**	**n/m**	**n/m**	(130)	n/m	n/m	**n/m**	n/m
Total	**3,955**	**60.0%**	**6,510**	3,206	56.0%	5,624	**22%**	23%

VONB grew by 22 per cent to US$3,955 million in 2018 with all our reportable market segments delivering positive VONB growth.

ANP increased by 15 per cent to US$6,510 million and VONB margin rose by 3.7 pps to 60.0 per cent. PVNBP margin increased to 10 per cent from 9 per cent in 2017, reflecting positive shifts in product and country mix.

Agency distribution remains our main source of new business and accounted for 72 per cent of the Group's total VONB. The focused execution of our Premier Agency strategy has continued to drive very strong VONB growth of 26 per cent to US$2,943 million from the agency channel. This was delivered through strong ANP growth of 18 per cent to US$4,179 million and a higher VONB margin of 70.4 per cent. VONB from partnership distribution delivered solid growth of 11 per cent, building on the exceptionally strong performance from Hong Kong's retail IFA channel in the first half of 2017. Our bank partnerships collectively delivered VONB growth of 18 per cent.

Hong Kong delivered VONB growth of 24 per cent to US$1,712 million in 2018 with excellent performance across both domestic and Mainland Chinese visitor customer segments. VONB margin increased by 8.3 pps to 62.0 per cent as our product mix continued to shift towards higher-margin long-term savings and protection products.

AIA's wholly-owned operation in China was our fastest-growing reportable market segment with VONB growth of 30 per cent to US$965 million. This excellent performance reflects the disciplined execution of our Premier Agency strategy, focusing on quality recruitment together with continuing productivity enhancements.

Thailand returned to VONB growth in 2018 with an increase of 12 per cent to US$447 million, mainly driven by ANP growth of 13 per cent. Sales momentum continued in the second half of 2018 as we continued to transform the agency through our Financial Adviser programme.

Singapore delivered very strong VONB growth of 18 per cent, mainly driven by our core agency channel and strategic partnership with Citibank, N.A. (Citibank). VONB margin was lower at 65.4 per cent as a result of lower profitability from our HealthShield business as previously highlighted and higher volumes of single premium unit-linked business ahead of a regulatory change in October 2018.

Despite reduced consumer activity and changes to tax regulations during the year, Malaysia's VONB growth improved in the second half of 2018 and was up by 8 per cent over the full year to US$247 million.

Other Markets reported VONB growth of 13 per cent to US$435 million. Highlights included strong growth from Australia (including New Zealand), Korea, the Philippines and Taiwan.

The VONB results for the Group are reported after a deduction of US$208 million for the consolidated reserving and capital requirements over and above local statutory requirements and for the present value of unallocated Group Office expenses.

EV EQUITY

EV OPERATING PROFIT

EV operating profit increased by 23 per cent to US$8,278 million compared with 2017.

This strong performance was the result of 22 per cent growth in VONB to US$3,955 million, a higher expected return on EV of US$3,893 million and overall positive operating variances of US$603 million. Operating variances since our initial public offering (IPO) in 2010 have added more than US$2.0 billion to EV.

Operating ROEV increased by 110 bps to 16.3 per cent compared with 2017.

EV Operating Earnings Per Share – Basic

	2018	2017	YoY CER	YoY AER
EV operating profit (US$ millions)	**8,278**	6,654	**23%**	24%
Weighted average number of ordinary shares (millions)	**12,021**	12,002	**n/a**	n/a
Basic EV operating earnings per share (US cents)	**68.86**	55.44	**23%**	24%

EV Operating Earnings Per Share – Diluted

	2018	2017	YoY CER	YoY AER
EV operating profit (US$ millions)	**8,278**	6,654	**23%**	24%
Weighted average number of ordinary shares[(1)] (millions)	**12,056**	12,039	**n/a**	n/a
Diluted EV operating earnings per share[(1)] (US cents)	**68.66**	55.27	**23%**	24%

Note:
(1) Diluted EV earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, restricted stock purchase units (RSPUs) and restricted stock subscription units (RSSUs) granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 39 to the financial statements.

EV MOVEMENT

EV grew by US$3,738 million to US$54,517 million at 31 December 2018.

The increase was mainly driven by strong EV operating profit, partly offset by negative investment return variances of US$2,218 million reflecting the effect of short-term equity and other capital market movements on our investment portfolio and statutory reserves compared with long-term expected returns. Other non-operating variances amounted to US$270 million, mainly from the positive effect of the subsidiarisation of AIA Korea, partly offset by corporate transaction related costs and implementation costs of new accounting standards. The effect of negative foreign exchange translation movements was US$1,037 million.

The EV is shown after the payment of shareholder dividends of US$1,589 million and a deduction of US$111 million for the net effect from the acquisition of Sovereign, which comprised of the purchase price of US$918 million, the acquired EV of US$807 million.

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

	2018		
US$ millions, unless otherwise stated	ANW	VIF	EV
Opening EV	20,974	29,805	50,779
Purchase price	(918)	–	(918)
Acquired EV[(1)]	487	320	807
Effect of acquisition	(431)	320	(111)
Value of new business	(660)	4,615	3,955
Expected return on EV	4,550	(657)	3,893
Operating experience variances	355	257	612
Operating assumption changes	29	(38)	(9)
Finance costs	(173)	–	(173)
EV operating profit	4,101	4,177	8,278
Investment return variances	(1,428)	(790)	(2,218)
Effect of changes in economic assumptions	(3)	50	47
Other non-operating variances	3,452	(3,182)	270
Total EV profit	6,122	255	6,377
Dividends	(1,589)	–	(1,589)
Other capital movements	98	–	98
Effect of changes in exchange rates	(537)	(500)	(1,037)
Closing EV	24,637	29,880	54,517

	2017		
US$ millions, unless otherwise stated	ANW	VIF	EV
Opening EV	16,862	25,986	42,848
Value of new business	(591)	3,797	3,206
Expected return on EV	4,154	(846)	3,308
Operating experience variances	297	64	361
Operating assumption changes	(229)	146	(83)
Finance costs	(138)	–	(138)
EV operating profit	3,493	3,161	6,654
Investment return variances	1,272	61	1,333
Effect of changes in economic assumptions	(7)	(185)	(192)
Other non-operating variances	387	(741)	(354)
Total EV profit	5,145	2,296	7,441
Dividends	(1,376)	–	(1,376)
Other capital movements	134	–	134
Effect of changes in exchange rates	209	1,523	1,732
Closing EV	20,974	29,805	50,779

Note:
(1) The acquired EV for Sovereign is calculated as at 2 July 2018 net of the related reinsurance agreement.

EV Equity

US$ millions, unless otherwise stated	As at 31 December 2018	As at 31 December 2017
EV	**54,517**	50,779
Goodwill and other intangible assets[1]	**1,686**	1,650
EV Equity	**56,203**	52,429

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 31 December 2018	VONB 2018	EV as at 31 December 2017	VONB 2017
Central value	**54,517**	**3,955**	50,779	3,206
Impact of equity price changes				
10 per cent increase in equity prices	**736**	**n/a**	750	n/a
10 per cent decrease in equity prices	**(731)**	**n/a**	(743)	n/a
Impact of interest rate changes				
50 basis points increase in interest rates	**158**	**142**	49	162
50 basis points decrease in interest rates	**(249)**	**(184)**	(456)	(225)

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

IFRS PROFIT

OPAT(1) by Segment

US$ millions, unless otherwise stated	2018	2017	YoY CER	YoY AER
Hong Kong	**1,814**	1,627	**11%**	11%
Thailand	**995**	868	**9%**	15%
Singapore	**558**	513	**7%**	9%
Malaysia	**320**	274	**9%**	17%
China	**870**	643	**32%**	35%
Other Markets	**826**	742	**14%**	11%
Group Corporate Centre	**(85)**	(32)	**n/m**	n/m
Total	**5,298**	4,635	**13%**	14%

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

OPAT grew by 13 per cent to US$5,298 million. All our reportable market segments delivered positive OPAT growth in 2018 as a result of new business growth over time and the proactive management of our in-force portfolio.

Hong Kong delivered an OPAT increase of 11 per cent reflecting growth in our business and improved claims experience, partly offset by a shift in product mix towards participating business, as previously highlighted in our Interim Report 2018.

China achieved excellent OPAT growth of 32 per cent, primarily driven by the growing scale of our business and positive claims experience.

Thailand's OPAT continued its positive growth momentum from the first half of 2018 and grew by 9 per cent for the full year, reflecting our business growth and improved persistency.

Singapore reported a 7 per cent increase in OPAT despite pressure on profitability from double-digit medical inflation in the market. Malaysia reported a 9 per cent increase in OPAT, in line with business growth.

Other Markets delivered a strong result with growth of 14 per cent in 2018. Highlights included strong performances from Australia (including New Zealand), the Philippines, Taiwan and Vietnam.

Operating ROE increased by 40 bps to 14.5 per cent, driven by OPAT growth partly offset by higher average shareholders' allocated equity compared with 2017.

TWPI by Segment

US$ millions, unless otherwise stated	2018	2017	YoY CER	YoY AER
Hong Kong	**11,444**	9,535	**20%**	20%
Thailand	**3,895**	3,559	**5%**	9%
Singapore	**2,738**	2,435	**10%**	12%
Malaysia	**2,083**	1,848	**6%**	13%
China	**4,006**	3,118	**26%**	28%
Other Markets	**6,377**	5,898	**10%**	8%
Total	**30,543**	26,393	**14%**	16%

TWPI increased by 14 per cent to US$30,543 million compared with 2017.

IFRS Operating Profit Investment Return

US$ millions, unless otherwise stated	2018	2017	YoY CER	YoY AER
Interest income	**6,125**	5,500	**10%**	11%
Expected long-term investment return for equities and real estate	**1,951**	1,689	**14%**	16%
Total	**8,076**	7,189	**11%**	12%

IFRS operating profit investment return increased by 11 per cent to US$8,076 million compared with 2017. The growth was primarily driven by the increased size of our investment portfolio.

Operating Expenses

US$ millions, unless otherwise stated	2018	2017	YoY CER	YoY AER
Operating expenses	**2,171**	2,019	**7%**	8%

Operating expenses grew by 7 per cent to US$2,171 million with a lower expense ratio of 7.1 per cent compared with 7.6 per cent in 2017 as we continued to benefit from increasing scale.

Net Profit(1)

US$ millions, unless otherwise stated	2018	2017	YoY CER	YoY AER
OPAT	**5,298**	4,635	**13%**	14%
Short-term fluctuations in investment return related to equities and real estate, net of tax(2)	**(2,063)**	2,040	**n/m**	n/m
Reclassification of revaluation gain for property held for own use, net of tax(2)(3)	**(212)**	(84)	**n/m**	n/m
Corporate transaction related costs, net of tax(3)	**(148)**	(25)	**n/m**	n/m
Implementation costs of new accounting standards, net of tax(3)	**(42)**	(7)	**n/m**	n/m
Other non-operating investment return and other items, net of tax(3)	**(236)**	(63)	**n/m**	n/m
Total	**2,597**	6,496	**(60)%**	(60)%

Notes:
(1) Attributable to shareholders of the Company only excluding non-controlling interests.
(2) Short-term fluctuations in investment return include the revaluation gain for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.
(3) The comparative information has been adjusted to conform to current year presentation.

IFRS NON-OPERATING MOVEMENT

AIA's IFRS net profit definition includes mark-to-market movements from our equity portfolio. IFRS net profit decreased by 60 per cent to US$2,597 million compared with 2017. The decrease was due to negative short-term fluctuations from equities and real estate of US$2,063 million, particularly in respect of our other participating business with distinct portfolios, compared with positive movements of US$2,040 million in 2017. Other non-operating items in 2018 included corporate transaction related costs of US$148 million, representing tax expenses in relation to the subsidiarisation of AIA Korea and costs associated with the acquisition of Sovereign, and implementation costs of new accounting standards of US$42 million.

Movement in Shareholders' Allocated Equity

US$ millions, unless otherwise stated	2018	2017
Opening shareholders' allocated equity	**36,413**	29,653
Net profit	**2,597**	6,496
Purchase of shares held by employee share-based trusts	**(11)**	(10)
Dividends	**(1,589)**	(1,376)
Revaluation gains on property held for own use	**8**	88
Foreign currency translation adjustments	**(732)**	1,409
Other capital movements	**109**	153
Total movement in shareholders' allocated equity	**382**	6,760
Closing shareholders' allocated equity	**36,795**	36,413
Average shareholders' allocated equity	**36,604**	33,034

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 year, before the IFRS accounting treatment of market value movements in available for sale bonds.

Average shareholders' allocated equity increased by US$3,570 million to US$36,604 million in 2018 compared with US$33,034 million in 2017 as a result of a higher opening position for 2018 arising from significant mark-to-market gains in our equity portfolio during 2017.

At 31 December 2018, shareholders' allocated equity remained stable at US$36,795 million, after the payment of shareholder dividends of US$1,589 million, reflecting the depreciation of local currencies against our US dollar reporting currency of US$732 million and net profit of US$2,597 million which included negative mark-to-market movement from our equity portfolio.

Sensitivities arising from foreign exchange rate, interest rate and equity price movements are included in note 37 to the financial statements.

IFRS EARNINGS PER SHARE (EPS)

Basic EPS based on IFRS OPAT attributable to shareholders increased by 12 per cent to 44.07 US cents in 2018.

Basic EPS based on IFRS net profit attributable to shareholders, including mark-to-market movements from our equity and investment property portfolios, decreased by 60 per cent to 21.60 US cents in 2018.

IFRS EPS – Basic

	Net Profit[1]		OPAT[1]	
	2018	**2017**	**2018**	**2017**
Profit (US$ millions)	**2,597**	6,496	**5,298**	4,635
Weighted average number of ordinary shares (millions)	**12,021**	12,002	**12,021**	12,002
Basic earnings per share (US cents)	**21.60**	54.12	**44.07**	38.62

IFRS EPS – Diluted

	Net Profit[1]		OPAT[1]	
	2018	**2017**	**2018**	**2017**
Profit (US$ millions)	**2,597**	6,496	**5,298**	4,635
Weighted average number of ordinary shares[2] (millions)	**12,056**	12,039	**12,056**	12,039
Diluted earnings per share[2] (US cents)	**21.54**	53.96	**43.94**	38.50

Notes:
(1) Attributable to shareholders of the Company only excluding non-controlling interests.
(2) Diluted earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, RSPUs and RSSUs granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 39 to the financial statements.

CAPITAL

FREE SURPLUS GENERATION

The Group's free surplus at 31 December 2018 represented the excess of adjusted net worth over required capital including the consolidated reserving and capital requirements.

Free surplus increased by US$2,165 million to US$14,751 million at 31 December 2018. This included a positive addition to free surplus of US$1,886 million due to the subsidiarisation of AIA Korea and a deduction of US$497 million for the net effect of the acquisition of Sovereign.

Underlying free surplus generation, which excludes investment return variances and other items, increased to US$4,945 million, representing growth of 13 per cent on a comparable basis before a reduction of US$263 million relating to the subsidiarisation of AIA Korea. This reflects 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 increased by 10 per cent to US$1,540 million.

The overall effect of investment return variances and other items including regulatory developments was negative US$795 million and the payment of shareholder dividends was US$1,589 million.

The following table summarises the change in free surplus:

US$ millions, unless otherwise stated	2018	2017
Opening free surplus	**12,586**	9,940
Release of free surplus through the subsidiarisation of AIA Korea on 1 January 2018	**1,886**	–
Effect of acquisition	**(497)**	–
Underlying free surplus generated	**4,945**	4,568
Free surplus used to fund new business	**(1,540)**	(1,386)
Investment return variances and other items	**(795)**	1,039
Unallocated Group Office expenses	**(170)**	(195)
Dividends	**(1,589)**	(1,376)
Finance costs and other capital movements	**(75)**	(4)
Closing free surplus	**14,751**	12,586

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$10,296 million at 31 December 2018.

Net remittances from business units increased by US$714 million to US$2,753 million compared with US$2,039 million in 2017, mainly due to higher remittances from China and Other Markets, which largely reflected a special remittance from New Zealand post acquisition of Sovereign. This was partly offset by a lower remittance from Thailand in 2018 due to the timing of various required regulatory approvals, which was pending clarification of the regulatory approval framework; subsequently Thailand remitted an additional US$319 million to the Group Corporate Centre in January 2019.

Borrowings increased by US$1,001 million from the net proceeds of the issuance of medium-term notes of US$1,490 million, partly offset by the redemption of medium-term notes of US$500 million upon maturity. The total increase in working capital is reported after the payment of shareholders dividends of US$1,589 million and the gross payment of US$918 million for the acquisition of Sovereign.

The movements in working capital are summarised as follows:

US$ millions, unless otherwise stated	2018	2017
Opening working capital	**9,714**	8,404
Group Corporate Centre operating results	**(85)**	(32)
Capital flows from business units		
Hong Kong	**1,054**	952
Thailand	**149**	467
Singapore	**267**	238
Malaysia	**185**	192
China	**542**	207
Other Markets	**556**	(17)
Net funds remitted to Group Corporate Centre	**2,753**	2,039
Payment for acquisition of Sovereign	**(918)**	–
Increase in borrowings	**1,001**	514
Purchase of shares held by the employee share-based trusts	**(11)**	(10)
Payment of dividends	**(1,589)**	(1,376)
Change in fair value reserve and others	**(569)**	175
Closing working capital	**10,296**	9,714

IFRS BALANCE SHEET

Consolidated Statement of Financial Position

US$ millions, unless otherwise stated	As at 31 December 2018	As at 31 December 2017	Change AER
Assets			
Financial investments	**186,142**	179,503	4%
Investment property	**4,794**	4,363	10%
Cash and cash equivalents	**2,451**	1,922	28%
Deferred acquisition and origination costs	**24,626**	21,950	12%
Other assets	**11,793**	10,908	8%
Total assets	**229,806**	218,646	5%
Liabilities			
Insurance and investment contract liabilities	**172,649**	159,685	8%
Borrowings	**4,954**	3,958	25%
Other liabilities	**12,797**	11,447	12%
Less total liabilities	**190,400**	175,090	9%
Equity			
Total equity	**39,406**	43,556	(10)%
Less non-controlling interests	**400**	380	5%
Total equity attributable to shareholders of AIA Group Limited	**39,006**	43,176	(10)%
Shareholders' allocated equity	**36,795**	36,413	1%

Movement in Shareholders' Equity

US$ millions, unless otherwise stated	2018	2017
Opening shareholders' equity	**43,176**	34,555
Net profit	**2,597**	6,496
Fair value (losses)/gains on assets	**(4,552)**	1,861
Purchase of shares held by employee share-based trusts	**(11)**	(10)
Dividends	**(1,589)**	(1,376)
Revaluation gains on property held for own use	**8**	88
Foreign currency translation adjustments	**(732)**	1,409
Other capital movements	**109**	153
Total movement in shareholders' equity	**(4,170)**	8,621
Closing shareholders' equity	**39,006**	43,176

Total Investments

US$ millions, unless otherwise stated	As at 31 December 2018	Percentage of total	As at 31 December 2017	Percentage of total
Total policyholder and shareholder	**171,337**	**88%**	162,676	87%
Total unit-linked contracts and consolidated investment funds	**23,938**	**12%**	24,815	13%
Total investments	**195,275**	**100%**	187,491	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 31 December 2018	Percentage of total	As at 31 December 2017	Percentage of total
Unit-linked contracts and consolidated investment funds				
Debt securities	**4,765**	**20%**	4,720	19%
Loans and deposits	**81**	**–**	97	–
Equities	**18,418**	**77%**	19,522	79%
Cash and cash equivalents	**672**	**3%**	466	2%
Derivatives	**2**	**–**	10	–
Total unit-linked contracts and consolidated investment funds	**23,938**	**100%**	24,815	100%

Policyholder and Shareholder Investments

US$ millions, unless otherwise stated	As at 31 December 2018	Percentage of total	As at 31 December 2017	Percentage of total
Participating funds and Other participating business with distinct portfolios[1]				
Government and government agency bonds	**14,121**	**8%**	11,470	7%
Corporate bonds and structured securities	**30,183**	**18%**	28,403	18%
Loans and deposits	**2,179**	**1%**	2,245	1%
Subtotal – Fixed income investments	**46,483**	**27%**	42,118	26%
Equities	**13,892**	**8%**	12,498	8%
Investment property and property held for own use	**888**	**1%**	761	–
Cash and cash equivalents	**395**	**–**	201	–
Derivatives	**148**	**–**	82	–
Subtotal Participating funds and Other participating business with distinct portfolios	**61,806**	**36%**	55,660	34%
Other policyholder and shareholder[1]				
Government and government agency bonds	**49,317**	**29%**	45,693	28%
Corporate bonds and structured securities	**41,835**	**24%**	42,583	26%
Loans and deposits	**5,132**	**3%**	5,868	4%
Subtotal – Fixed income investments	**96,284**	**56%**	94,144	58%
Equities	**5,789**	**3%**	6,059	4%
Investment property and property held for own use	**5,794**	**4%**	5,305	3%
Cash and cash equivalents	**1,384**	**1%**	1,255	1%
Derivatives	**280**	**–**	253	–
Subtotal other policyholder and shareholder	**109,531**	**64%**	107,016	66%
Total policyholder and shareholder	**171,337**	**100%**	162,676	100%

Note:
(1) Presentation of Participating funds and Other participating business with distinct portfolios and Other policyholder and shareholder is consistent with note 20 to the financial statements. The comparative information has been adjusted to conform to current year presentation. Please refer to note 20 to the financial statements for additional information.

ASSETS

Participating business is written in a segregated statutory fund, with regulations governing the division of surplus between policyholders and shareholders. "Other participating business with distinct portfolios" is supported by segregated investment assets and explicit provisions for future surplus distribution though the division of surplus between policyholders and shareholders is not defined in regulations. We have enhanced our investment disclosures to reflect the nature and greater size of this business by grouping its assets together with participating business. Comparative information is also shown for 31 December 2017.

Total assets increased by US$11,160 million to US$229,806 million at 31 December 2018, compared with US$218,646 million at 31 December 2017.

Total investments including financial investments, investment property, property held for own use, and cash and cash equivalents increased by US$7,784 million to US$195,275 million at 31 December 2018, compared with US$187,491 million at 31 December 2017.

Of the total US$195,275 million investments at 31 December 2018, US$171,337 million were held in respect of policyholders and shareholders and the remaining US$23,938 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$142,767 million at 31 December 2018 compared with US$136,262 million at 31 December 2017. The average credit rating of the fixed income portfolio of A remained consistent with the position at 31 December 2017.

Government and government agency bonds represented 44 per cent of fixed income investments at 31 December 2018, compared with 42 per cent at 31 December 2017. Corporate bonds and structured securities accounted for 50 per cent of fixed income investments at 31 December 2018, compared with 52 per cent at 31 December 2017.

Equity securities held in respect of policyholders and shareholders totalled US$19,681 million at 31 December 2018, compared with US$18,557 million at 31 December 2017. The US$1,124 million increase in carrying value was mainly attributable to new purchases offset by negative mark-to-market movements. Within this figure, equity securities of US$13,892 million were held in participating funds and other participating business with distinct portfolios.

Cash and cash equivalents increased by US$529 million to US$2,451 million at 31 December 2018 compared with US$1,922 million at 31 December 2017. The increase largely reflected positive net cash inflows from our operating business, net proceeds of the issuances of medium-term notes totalling US$1,490 million during the year, partly offset by the redemption of medium-term notes of US$500 million upon maturity and the payment of shareholder dividends of US$1,589 million.

Investment property and property held for own use in respect of policyholders and shareholders totalled US$6,682 million at 31 December 2018 compared with US$6,066 million at 31 December 2017.

Deferred acquisition and origination costs increased to US$24,626 million at 31 December 2018 compared with US$21,950 million at 31 December 2017, largely reflecting new business growth.

Other assets increased to US$11,793 million at 31 December 2018 compared with US$10,908 million at 31 December 2017, reflecting an increase in reinsurance recoveries, accrued interest and prepayments.

LIABILITIES

Total liabilities increased to US$190,400 million at 31 December 2018 from US$175,090 million at 31 December 2017.

Insurance and investment contract liabilities grew to US$172,649 million at 31 December 2018 compared with US$159,685 million at 31 December 2017, reflecting the underlying growth of the in-force portfolio offset by negative mark-to-market movements on equities backing unit-linked and participating policies and negative foreign exchange translation.

Borrowings increased to US$4,954 million at 31 December 2018, due to the net proceeds of the issuances of medium-term notes totalling US$1,490 million during the year, partly offset by the redemption of medium-term notes of US$500 million upon maturity. Medium-term notes with a notional amount of US$500 million issued in 2014 will mature in March 2019 as disclosed in note 29 to the financial statements. Leverage ratio, which is defined as borrowings expressed as a percentage of total borrowings and equity, was 11.2 per cent, compared with 8.3 per cent at 31 December 2017.

Other liabilities were US$12,797 million at 31 December 2018, compared with US$11,447 million at 31 December 2017, reflecting an increase in deferred tax liabilities and investment-related payables.

Details of commitments and contingencies are included in note 42 to the financial statements.

REGULATORY CAPITAL

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

At 31 December 2018, the total available capital for AIA Co., our main regulated entity, was US$9,208 million as measured under the Hong Kong Insurance Ordinance (HKIO) basis, resulting in a solvency ratio of 421 per cent of regulatory minimum capital compared with 446 per cent at 31 December 2017. Our solvency ratio remained very strong after the effect of the acquisition of Sovereign and dividends to the Company.

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

US$ millions, unless otherwise stated	As at 31 December 2018	As at 31 December 2017
Total available capital	**9,208**	8,395
Regulatory minimum capital (100%)	**2,189**	1,882
Solvency ratio (%)	**421%**	446%

The Group's individual branches and subsidiaries are also subject to supervision, including relevant capital requirements, in the jurisdictions in which they and their parent entity operate. The local operating units were in compliance with the capital requirements of their respective entity and local regulators in each of our geographical markets at 31 December 2018.

GLOBAL MEDIUM-TERM NOTE (GMTN) AND SECURITIES PROGRAMME

Under our US$6 billion GMTN and Securities programme, the Company issued senior unsecured fixed rate notes with a nominal amount of US$500 million and HK$3,900 million in April 2018 and US$500 million in September 2018. The US$500 million notes issued in April 2018 bear annual interest of 3.90 per cent and will mature in 2028. The HK$3,900 million notes issued in April 2018, which are not listed, bear annual interest of 2.76 per cent and will mature in 2021. The US$500 million notes issued in September 2018 bear annual interest of 3 months LIBOR rate plus 0.52 per cent and will mature in 2021. The Company redeemed senior unsecured fixed rate notes with a nominal amount of US$500 million in March 2018. At 31 December 2018, the aggregate carrying amount of the debt issued under the GMTN and Securities programme was US$4,954 million.

On 16 January 2019, the Group issued Hong Kong dollar-denominated fixed rate medium-term notes that are unlisted. The offering comprised of HK$1,300 million of 3.5-year notes at an annual rate of 2.95 per cent and HK$1,100 million of 12-year notes at an annual rate of 3.68 per cent. In aggregate the US dollar-equivalent is approximately US$307 million.

CREDIT RATINGS

At 31 December 2018, AIA Co. has financial strength ratings of Aa2 (Very Low Credit Risk) with a stable outlook from Moody's; AA (Very Strong) with a stable outlook from Fitch; and AA- (Very Strong) with a stable outlook from Standard & Poor's.

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

DIVIDENDS

The Board has recommended an increase in the final dividend of 14 per cent to 84.80 Hong Kong cents per share, consistent with AIA's established prudent, sustainable and progressive dividend policy. The Board has also recommended a special dividend of 9.50 Hong Kong cents per share for the additional month in the accounting period due to the change of the Company's financial year-end date from 30 November 2018 to 31 December 2018. The dividends reflect the strength of our financial results and the Board's continued confidence in the future prospects of the Group. The recommended dividends are subject to shareholders' approval at the Company's forthcoming AGM.

DISTRIBUTION

AGENCY

AIA's proprietary tied agency is our core distribution channel and a major growth engine for the Group. The professionalism and extensive scale of our agency force are key competitive advantages for AIA. They enable regular and personalised customer engagement while delivering our comprehensive suite of products and services to address customer needs through different life stages.

The focused execution of our Premier Agency strategy delivered very strong VONB growth in 2018 with an increase of 26 per cent to US$2,943 million. VONB from agency represented 72 per cent of the Group's total VONB. ANP grew by 18 per cent to US$4,179 million and VONB margin increased to 70.4 per cent.

AIA's Premier Agency strategy provides our agents with best-in-class training and development programmes, empowering them to offer high-quality advice and help our customers live Healthier, Longer, Better Lives. In 2018, we launched new digital support tools and enhanced our targeted training and development programmes to boost the quality and professionalism of our agents and agency leaders. We also raised the minimum performance standards in all our markets as we continued to focus on agency quality as a key differentiator for AIA across the region.

We invest in developing digital mobile platforms across the Group to enhance the sales and service experience for both agents and customers. More than 90 per cent of total agency new business for the Group was submitted through our interactive Point of Sale (iPoS) technology during 2018. In 2018, we began to integrate financial needs analysis and our propensity models into our digital tools, including iPoS, to guide our agents and better enable them to advise our customers on the most suitable products for their needs. We also started to pilot digital classrooms in many of our markets, which aims to create a more interactive and engaging learning experience that is completely paperless.

Overall, our initiatives and continued focus on quality recruitment supported 7 per cent growth in the number of active agents and a double-digit increase in active agent productivity for the Group over the year.

In 2018, AIA reported another outstanding result in Million Dollar Round Table (MDRT) membership with over 10,000 registered members across the Group. This represents an increase of 22 per cent compared with 2017 and is a clear indicator of our strong progress in developing a professional, full-time agency force. AIA has become the first multinational company to have the most MDRT registered members globally for four consecutive years.

PARTNERSHIPS

AIA's partnership distribution is complementary to our proprietary agency and accounted for 28 per cent of the Group's total VONB in 2018. VONB from partnership distribution increased 11 per cent to US$1,172 million, building on the exceptionally strong performance from Hong Kong's retail IFA channel in the first half of 2017 as previously highlighted. ANP increased by 10 per cent to US$2,331 million, while VONB margin remained strong at 50.3 per cent.

Our long-term strategic partnerships with many of the leading multinational and local banks across our markets are an important competitive advantage. Bancassurance for the Group reported 18 per cent VONB growth, reflecting success from various initiatives, including joint marketing campaigns customised for specific customer segments, analytics-backed digital leads generation and bespoke sales management programmes. Over the course of the year, we launched new long-term strategic partnerships with Bangkok Bank Public Company Limited (Bangkok Bank) in Thailand and ASB Bank Limited (ASB) in New Zealand. We also introduced AIA Vitality to our existing bancassurance partnerships in many of our markets to further differentiate AIA's products and services from our competitors. For example, sales of Vitality integrated products accounted for nearly two-thirds of total products able to be sold together with the wellness programme in our partnership with the Bank of the Philippine Islands (BPI).

Our intermediated channels, including IFAs, brokers, private banks and specialist advisers, delivered strong VONB growth in the second half of 2018 and positive growth for the full year, building on the exceptional result in the first half of 2017. We maintained our leadership position in our key markets with a service support model that is both highly differentiated and tailored for our major partners.

VONB results for our direct marketing business benefited from strong growth in Korea as we continued to strengthen engagement with our partners and the new business mix shifted towards higher-margin protection products.

In 2018, AIA also launched new non-traditional partnerships with technology companies and telecommunication providers, including WeDoctor in China and SK Telecom in Korea. These partnerships represent a significant additional opportunity for AIA, providing broader customer access and enabling us to offer new digital health and wellness services in these markets as part of our brand promise.

MARKETING

Our long history in Asia, since establishing a presence in Shanghai 100 years ago, means that AIA is one of the most trusted and recognised brands in the region. In 2018, we launched our new purpose-led brand promise across all our markets: Healthier, Longer, Better Lives. This is what we stand for as a company, expressing the value we provide to our customers and our intent to play a role in combatting the dramatic rise of lifestyle-related diseases in Asia. This brand promise is the focus of all of our marketing activity but also is at the heart of actions we take as a company to help our customers live Healthier, Longer, Better Lives.

CUSTOMER ENGAGEMENT

With more than 33 million individual policies and over 16 million participating members of group insurance schemes, the scale and footprint of AIA's customer base presents a huge growth opportunity as we actively engage and nurture long-term relationships with our customers. We continue to enrich our customer data and increasingly employ enhanced machine learning to better understand their needs and create meaningful customer segmentation to help deliver individually-tailored product and service offerings. Propensity modelling provides insights into customer characteristics and behaviours that influence their decision to buy insurance. The resulting targeted sales campaigns, in collaboration with our bank partners, have generated up to three times the closing rate compared with campaigns where no propensity models were used for lead selection.

The Asian markets in which we operate continue to witness exceptional growth in mobile and internet usage. Our customers engage with our businesses both online and offline, and we continue to invest in improving our capabilities to satisfy their preferences: from online self-service for simple solutions to holistic planning and support from our market-leading, professional agents.

Our Global Ambassador, David Beckham, took part in large-scale AIA events in Indonesia, China, Hong Kong, Australia and Thailand during the year, promoting our brand to tens of millions of people. This helped to raise awareness of our brand promise among our customers and other stakeholders and the importance of taking small steps towards a healthier life. The second phase of the #WhatsYourWhy campaign featuring David was launched across our markets with children, often people's greatest motivator, asking about healthy living. To date, we have recorded over 56 million views of the video supporting the campaign and there have been over two million visitors to the campaign webpages.

Our Global Principal Partnership with Tottenham Hotspur Football Club (Spurs) continued to play an important role in linking AIA with healthy lifestyles and encouraging active participation in sport. In 2018, 10 of our markets ran football training sessions with Spurs for 25,000 children, parents and employees.

PRODUCT INNOVATION

Since its launch in 2013, AIA Vitality has driven a step change in customer engagement, rewarding healthier behaviour and generating positive health outcomes where it has been adopted. In 2018, we continued to refine our mobile platform providing our customers with an expanded wellness proposition, enhanced functionality and an improved user experience.

During 2018, we launched 20 new products integrated with AIA Vitality, including the first such product in the Korean market, bringing the total to 85 integrated products across the Group. Based on the health assessments provided by AIA Vitality members in six markets, the proportion of members who have moved from an unhealthy to a healthy range in blood pressure and cholesterol levels has reached 56 per cent and 38 per cent respectively. Across Asia, AIA Vitality members engage with AIA 16 times more frequently than our other customers.

To date, more than three million health assessments and two million body mass index (BMI) readings have been uploaded to our platform by AIA Vitality members, and each day more than 600,000 workouts are submitted through fitness trackers. Total membership in our wellness programmes has exceeded 1.2 million.

Health and wellness is increasingly core to our customer propositions, reflecting our brand promise. In 2018, AIA Malaysia introduced an innovative medical plan, A-Plus Health, which provides a “health wallet” based on customer behaviour and claims history that can be spent on recovery and preventative health benefits or enhanced policy benefits. We have also developed a new critical illness plan that helps protect our customers’ physical and mental health in Singapore. In the event of a critical illness or mental illness, the plan not only supports our customers financially but also gives them access to personalised medical support. Our exclusive partnership with Medix was extended and now provides first-of-its-kind, personal medical case management services to our customers in Singapore as well as Hong Kong.

TECHNOLOGY AND OPERATIONS

A key enabler of our Group's strategic priorities is the transformation of our technology systems and business processes through digitalisation. During the year, we made significant investments in relevant technology to enhance back-office processes and systems, driving further productivity improvements across all distribution channels and using innovation to improve customer experience and the products we offer.

Information security is critical for an insurer and in 2018 we established a new cybersecurity shared services centre to provide additional advanced cyberthreat detection and response capabilities. We have also enhanced our ability to detect cyberthreats by implementing artificial intelligence (AI) capabilities on our devices. We now continuously analyse system behaviour for suspicious activity and use advanced e-mail threat detection to protect our business against phishing threats. Our dedicated cybersecurity team has made significant progress in strengthening AIA's business continuity capabilities by successfully testing our technology readiness across all critical applications.

INCREASING EFFICIENCY THROUGH DIGITALISATION

Every year our customers interact with us on more than 34 million standard product-related insurance transactions and an additional 105 million digital customer interactions through AIA Vitality. Digitalisation of our back office has enabled greater operational efficiencies across the Group and supports the delivery of excellent customer service. Increased digitalisation of customer services has helped productivity with an increase in transactions per employee of 25 per cent across the Group in 2018.

Increasingly we employ AI capabilities to support our operations, enhancing the choice and convenience we offer to customers and distributors. AI supports new business processes in many ways, including intelligent application tools, servicing powered by chatbots, and using advanced analytics within claims handling to make efficiency improvements and identify potential fraud. In China, online tools and an AI-enabled service bot for agent servicing allowed us to rationalise our call centres in the fourth quarter of 2018.

In 2018, we completed the migration of the Group's back office to a dedicated "private cloud" environment, ensuring business continuity across all of our markets. AIA has built strategic partnerships with IBM and BT as we progress our data centre modernisation project. During 2018, we also expanded our strategic relationship with Microsoft and built the operational capabilities to deliver a "hybrid multi-cloud" strategy which supports our business transformation.

We also established a Robotic Process Automation centre of excellence in our shared services centre based in Malaysia, using both Nice and Automation Anywhere. We have already seen improvements in processing time of up to 50 per cent for some transactions, enabling us to refocus resources on more complex, high-value tasks.

DRIVING PRODUCTIVITY AND SERVICE EXCELLENCE

AIA's digital point-of-sale technology continues to evolve and its impact is growing: more than 90 per cent of new business across the Group was submitted digitally in 2018. Automatic underwriting rates continued to increase in 2018 with 57 per cent of all new business applications across the Group underwritten through our rules engine at the point of sale with no human intervention.

The combination of front-end digitalisation and back-end automation is delivering tangible results for customers across the Group with dramatically shorter turnaround times. End-to-end straight-through-processing rates reached 70 per cent on new business in AIA China by the end of 2018. Turnaround times for these transactions are now minutes instead of days.

We continued to expand the suite of applications in our agency interactive Mobile Office (iMO) platform. iRecruit improves the quality of our recruitment and the success of our new recruit onboarding, while iAcademy is an e-learning platform deployed across our businesses, enabling agents to learn at their own pace.

MyPage, our next generation customer platform, is operational in all of our major markets, linking our customers with our products and services in a single portal.

PROMOTING INNOVATION AND ENHANCED CUSTOMER EXPERIENCE

AIA is building core innovation capabilities in key areas such as AI and blockchain while developing a growing network of expertise in emerging technologies. Our strategy is to apply innovative technology to enable the transformation and enhancement of our business, deepening customer engagement and supporting sustainable growth.

We are focused on digital health and wellness as we develop our ecosystems to significantly improve customer experience. In Malaysia, A-Plus Health includes an innovative "health wallet" and AIA Thailand launched "Connected Claims", a digital health claim service which enables a much-improved cashless claims experience for our customers. Our partnership with WeDoctor provides customers of AIA China with preferred access to its technology-enabled healthcare solutions.

We established a blockchain lab in Vietnam with our partner FPT Software in 2018, which has allowed us to leverage IBM's Hyperledger technology. AIA is also a member of the R3 blockchain consortium and we have participated in global trials including the Know Your Customer application, which is built on the Corda open-source blockchain platform.

Transformational technologies such as cognitive AI provide additional capacity that can help our highly-trained staff to deliver around-the-clock services to our agents and customers as well as achieve greater back office efficiencies. Examples include self-service chatbot capabilities for employees, agents and customers. Our operations in Hong Kong and Singapore also became the first insurance companies in their markets to introduce humanoid robots in their customer service centres.

GEOGRAPHICAL MARKETS

HONG KONG

US$ millions, unless otherwise stated	2018	2017	YoY CER	YoY AER
VONB[(1)]	**1,712**	1,384	**24%**	24%
VONB margin[(2)]	**62.0%**	53.7%	**8.3 pps**	8.3 pps
ANP	**2,697**	2,493	**8%**	8%
TWPI	**11,444**	9,535	**20%**	20%
OPAT	**1,814**	1,627	**11%**	11%

Financial Highlights

AIA Hong Kong delivered excellent VONB growth across both domestic and Mainland Chinese visitor customer segments, once again demonstrating the outstanding quality of our multi-channel distribution. VONB increased by 24 per cent to US$1,712 million and ANP grew 8 per cent to US$2,697 million as we maintained our focus on executing our Premier Agency strategy and driving sustainable growth across our partnership distribution channel. Our product mix continued to shift towards higher-margin long-term savings and protection products which supported an increase in VONB margin to 62.0 per cent. OPAT increased by 11 per cent to US$1,814 million as a result of strong underlying business growth and better claims experience, partly offset by an increasing proportion of participating business in the in-force portfolio.

Business Highlights

Our Premier Agency strategy in Hong Kong is focused on quality recruitment by attracting young, high-calibre recruits and developing them into MDRT agents and future leaders. Our comprehensive recruitment and training platforms, AIA Premier Academy and AIA Premier Leaders Academy, are supported by a broad suite of digital tools that enable our agents to better engage and connect with customers. In 2018, our focused execution of these initiatives drove a double-digit increase in the number of active agents and further productivity gains, which sustained very strong VONB growth over the year.

Our long-term strategic partnership with Citibank also delivered very strong VONB growth. We collaborated closely with the bank to launch marketing campaigns targeted at specific customer needs and to further integrate life insurance advice and solutions into the bank's proprietary wealth management platform. The retail IFA channel reported solid VONB growth for the full year as sales remained steady between the first and second half of the year.

AIA Hong Kong is committed to meeting its customers' protection and long-term savings needs through active engagement and enhanced customer experience, particularly by investing in new digital tools. During 2018, we launched a mobile application that provides customers with a single portal to manage all of their AIA products and services. We also enhanced our iPoS platform with optical character recognition and AI technology to simplify identity document verification and further streamline on-boarding procedures for new customers. AIA Vitality remains a key enabler for more frequent customer engagement as membership of the programme increased by more than 40 per cent and VONB from integrated product sales doubled in 2018.

THAILAND

US$ millions, unless otherwise stated	2018	2017	YoY CER	YoY AER
VONB[1]	**447**	381	**12%**	17%
VONB margin[2]	**73.1%**	73.4%	**(0.4) pps**	(0.3) pps
ANP	**611**	519	**13%**	18%
TWPI	**3,895**	3,559	**5%**	9%
OPAT	**995**	868	**9%**	15%

Financial Highlights

AIA Thailand delivered a strong performance in 2018 and returned to double-digit VONB growth with an increase of 12 per cent to US$447 million. ANP increased 13 per cent, despite a decline across the industry overall, while VONB margin remained strong at 73.1 per cent. Sales growth was mainly driven by accelerating momentum in our agency channel. OPAT increased by 9 per cent to US$995 million as a result of underlying business growth and improvements in persistency.

Business Highlights

Our Thailand business continued to drive wholesale agency transformation through our Financial Adviser programme, which aims to improve the overall quality and productivity of our nationwide agency force. Aimed at selected high-potential candidates, our enhanced training and development programmes helped our newly recruited Financial Advisers achieve an activity ratio of more than double that of other new agents, while active new agent productivity was also significantly higher.

Our Financial Advisers' ANP grew by 37 per cent and we continued to raise the minimum standards across our agency to further reduce the number of less productive agents. Our focus on executing our strategy saw a 36 per cent increase in the number of MDRT qualifiers, and we continued to lead the industry in terms of registered members.

In March 2018, we launched our partnership with Bangkok Bank with an initial focus on recruiting and training the bank's in-branch insurance specialists. During the second half, we expanded the product range and piloted new sales models for protection and long-term savings products across the bank's different customer segments.

AIA is the market leader for protection business in Thailand. During the year, we expanded our range of critical illness products, which contributed to a 18 per cent increase in ANP for protection products. AIA is committed to enhancing customer experience through digitalisation, and in 2018 we rolled out MyPage, a web and mobile-enabled customer self-service portal, through which customers can access policy information and update their personal details. In August, we also launched an e-payment tool that facilitates electronic verification and enables direct benefits payments into our customers' bank accounts.

SINGAPORE

US$ millions, unless otherwise stated	2018	2017	YoY CER	YoY AER
VONB[1]	**357**	297	**18%**	20%
VONB margin[2]	**65.4%**	69.7%	**(4.3) pps**	(4.3) pps
ANP	**547**	426	**26%**	28%
TWPI	**2,738**	2,435	**10%**	12%
OPAT	**558**	513	**7%**	9%

Financial Highlights

AIA Singapore delivered very strong VONB growth of 18 per cent in 2018, mainly driven by the agency channel and our strategic partnership with Citibank. ANP grew by 26 per cent, while VONB margin decreased primarily due to lower profitability from our HealthShield business as previously highlighted and higher volumes of single premium unit-linked business ahead of a regulatory change in October 2018. OPAT increased by 7 per cent to US$558 million despite pressure on profitability from double-digit medical inflation in the market.

Business Highlights

AIA Singapore maintained its market leadership position in agency distribution and delivered very strong growth in VONB through this core distribution channel. Focused execution of our Premier Agency strategy drove increases in both the number of active agents and productivity, as our professional agents continued to concentrate on meeting customer needs with an emphasis on regular premium protection products.

In 2018, we developed several innovative digital tools including a new mobile application integrated with our propensity models that helps our agents engage with customers more effectively to better meet their needs. The introduction of these tools and our targeted recruitment and training programmes drove active agent growth of 16 per cent and a double-digit increase in productivity.

Our strategic partnership with Citibank delivered excellent VONB growth, with a focus on recruiting and enhancing the productivity of the bank's insurance specialists to address our customers' protection needs. AIA Singapore also remained a market leader in the group insurance market where we secured several new and sizeable corporate client cases during the year.

Throughout 2018, we continued to dedicate significant efforts to deliver high-quality and sustainable healthcare services to our customers within a very competitive health insurance market. We further expanded our AIA Quality Healthcare Partners network, increased the number of participating hospitals with pre-approval claims services and offered more medical plan options to our customers. We also launched an exclusive partnership with Medix that provides first-of-its-kind, personal medical case management services to our customers.

AIA Singapore also continued to invest in our award-winning AIA Vitality wellness programme. We added new reward benefits, launched a new AIA Vitality mobile application and integrated the programme across more insurance products. Overall membership of AIA Vitality increased by over 40 per cent with 70 per cent growth in the number of corporate members compared with 2017.

MALAYSIA

US$ millions, unless otherwise stated	2018	2017	YoY CER	YoY AER
VONB[1]	**247**	215	**8%**	15%
VONB margin[2]	**63.8%**	62.5%	**1.4 pps**	1.3 pps
ANP	**382**	340	**5%**	12%
TWPI	**2,083**	1,848	**6%**	13%
OPAT	**320**	274	**9%**	17%

Financial Highlights

Despite reduced consumer activity and changes to tax regulations during the year, AIA Malaysia delivered an 8 per cent increase in VONB for the full year to US$247 million as growth improved in the second half. ANP increased by 5 per cent to US$382 million, and VONB margin remained strong at 63.8 per cent as we launched several new flagship unit-linked and health propositions. Driven by underlying business growth, OPAT increased by 9 per cent to US$320 million.

Business Highlights

AIA Malaysia's agency remains focused on selective recruitment and continued development of our training capabilities, which supported an increase in agent productivity. The Takaful segment also continues to be an important area of strategic focus for AIA Malaysia and our Takaful agency delivered solid VONB growth in 2018.

In the first half of 2018, we launched the AIA Life Planner App, our proprietary digital tool for agency sales activity management. We then introduced a series of upgrades and new functionality for both agents and agency leaders in the second half of the year. Response to the platform has been very positive, with usage reaching more than 80 per cent.

Our strategic partnership with Public Bank Berhad delivered double-digit VONB growth as we continued to drive greater penetration of the bank's affluent customer base, which was helped by the launch of a bespoke high sum assured regular premium unit-linked product. AIA also retained our position as the clear leader in Malaysia's group insurance market.

In the second half of 2018, AIA Malaysia became the first insurer in the country to offer unit-linked products that are compliant with the new Minimum Allocation Rate regulation in advance of the formal regulatory deadline. We also launched a new health rider for these products, which is integrated with our AIA Vitality programme. This rider offers first-to-market healthcare and wellness features designed to encourage healthy living and provide recovery support following treatment.

CHINA

US$ millions, unless otherwise stated	2018	2017	YoY CER	YoY AER
VONB[1]	**965**	725	**30%**	33%
VONB margin[2]	**90.5%**	83.1%	**7.1 pps**	7.4 pps
ANP	**1,067**	873	**19%**	22%
TWPI	**4,006**	3,118	**26%**	28%
OPAT	**870**	643	**32%**	35%

Financial Highlights

AIA China delivered another excellent performance with VONB up by 30 per cent to US$965 million. ANP grew by 19 per cent to US$1,067 million and VONB margin increased by 7.1 pps to 90.5 per cent, reflecting our commitment to selling regular premium protection and long-term savings products, as well as the benefit of further scale economies. Growth in the underlying business and sustained favourable claims experience contributed to a 32 per cent increase in OPAT.

Business Highlights

The sustained execution of AIA China's Premier Agency strategy is underpinned by our focus on quality recruitment and support from innovative digital platforms. We continued to prioritise agency quality through our stringent selection criteria, robust interview process, best-in-class training and advanced agency leader development programmes.

Our digital platforms include comprehensive functions for customer acquisition and nurturing, needs-based advice, selling and servicing. These functions help our agents to provide high-quality advice and deliver a seamless customer experience. In 2018, we launched Master Planner, a new digital tool that further enhances our agency leaders' professionalism and expertise by supporting them with new agent development, performance evaluations and team activity management.

AIA China's progress in executing its strategic priorities for the agency channel delivered strong double-digit growth in the number of active agents, while our focus on quality recruitment enabled us to increase new agent productivity by 17 per cent.

In 2018, we further differentiated our protection-focused customer propositions. Membership of our wellness programme in China more than doubled over the year and we began to offer engagement activities tailored to specific customer segments through the programme's mobile customer app. In May 2018, we formed a long-term strategic partnership with WeDoctor, China's leading technology-enabled healthcare solution platform, which provides our customers with preferred access to WeDoctor's services.

We also leveraged emerging technology to launch AIA Xiao You, AIA China's first AI-enabled service bot, in the second half of the year. This service bot is deployed on social media platforms and provides instant and interactive 24/7 enquiry services to both agents and customers across a wide range of topics. In the coming year, we will continue to expand the service's capabilities and enhance its linkage with our online customer portal and agency digital platforms.

In February 2019, we received approval from the China Banking and Insurance Regulatory Commission (CBIRC) Tianjin Bureau and Hebei Bureau to begin preparations for the establishment of sales and service centres in Tianjin and Shijiazhuang, Hebei. This approval is received in accordance with the existing regulatory policy and pilot programme on promoting insurance integration under the Beijing-Tianjin-Hebei Integration Plan. We will commence operations in Tianjin and Hebei province once we receive final regulatory approval upon the completion of our preparatory work.

OTHER MARKETS

US$ millions, unless otherwise stated	2018	2017	YoY CER	YoY AER
VONB[1]	**435**	395	**13%**	10%
VONB margin[2]	**35.8%**	39.9%	**(4.1) pps**	(4.1) pps
ANP	**1,206**	973	**27%**	24%
TWPI	**6,377**	5,898	**10%**	8%
OPAT	**826**	742	**14%**	11%

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

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

Financial Highlights

Other Markets delivered 13 per cent VONB growth to US$435 million in 2018. ANP grew by 27 per cent to US$1,206 million and VONB margin was 35.8 per cent. Full-year VONB growth for the segment was 14 per cent excluding the effect of large group schemes in Australia that were previously highlighted in our Interim Report 2018. OPAT increased by 14 per cent to US$826 million, mainly from underlying business growth and the inclusion of Sovereign's results in the second half.

Business Highlights

Australia: AIA Australia and New Zealand delivered strong VONB growth in 2018. The results reflect our leading position in the Australian life protection market and include the contribution from Sovereign. AIA is now the leading life insurer in the New Zealand protection market by new business premiums.

AIA Vitality remains a key differentiator for AIA in the Australian market and has helped our retail IFA business deliver double-digit VONB growth in 2018, despite lower new business volumes for the overall industry. We more than doubled the number of AIA Vitality members and expanded the programme to a major corporate client in September 2018. Our group insurance business also delivered strong year-on-year VONB growth as we renewed several key schemes in 2018 and secured a new large scheme in March 2018.

Cambodia: AIA's Cambodian business continued to build scale through our multi-channel distribution strategy. We expanded our agency as we maintained our focus on recruiting and developing professional agents. New partners in our bancassurance network, including the affluent banking segment of Cambodian Public Bank, have significantly broadened our customer reach.

Indonesia: Total VONB for our Indonesian business declined as volatility and uncertainty in the local equity markets impacted demand for unit-linked products in the second half. AIA Indonesia's focus on quality recruitment in our agency channel enabled us to deliver an increase in active agent numbers and positive VONB growth for the channel, which was offset by lower VONB from the bancassurance channel.

Korea: Our Korean business recorded very strong VONB growth, primarily driven by our direct marketing channel, which was helped by double-digit growth in the number of telesales representatives and an increase in quality customer leads. VONB margin increased due to a positive shift in product mix. During the second half of 2018, AIA Korea became the first company to receive regulatory approval for an integrated wellness insurance product. We also launched our strategic partnership with SK Telecom, the nation's leading telecommunication provider by number of customers, to offer AIA Vitality to its customers.

Philippines: Our business in the Philippines delivered strong VONB growth in 2018. In the agency channel, our focus on quality recruitment led to a double-digit increase in the number of active agents. We increased the number of active in-branch insurance specialists by more than 30 per cent in our joint venture with BPI, which helped to deliver excellent VONB growth. Following the launch of new protection products and customer engagement campaigns, VONB from Vitality integrated products more than trebled in 2018.

Sri Lanka: AIA Sri Lanka's VONB decreased in 2018 as political and economic uncertainty weighed on consumer sentiment. VONB margin was impacted by a change in tax regulations that took effect in April 2018 as previously highlighted. Despite these challenges, ANP growth in 2018 was positive as we continued to strengthen engagement with our key bancassurance partners and launched new protection and retirement savings solutions.

Taiwan: AIA Taiwan delivered excellent VONB growth in 2018. Strong sales growth in both the IFA and bancassurance channels was supported by our insurance solutions designed to meet customer needs in legacy planning and retirement, effective sales promotion and comprehensive sales support for our distribution partners.

Vietnam: Our business in Vietnam reported double-digit VONB growth. Agency remained the largest contributor to VONB as we continued to focus on executing our strategic initiatives to enhance our agents' activity and productivity. Contribution from our partnerships increased significantly, as our exclusive partnership with Vietnam Prosperity Joint Stock Commercial Bank and other domestic bank partnerships achieved excellent VONB growth in 2018.

Notes:
Throughout the Distribution section:

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

Throughout the Geographical Markets section:

(1) VONB figures shown in the tables are based on local statutory reserving and capital requirements and include pension business.

(2) VONB margin excludes pension business to be consistent with the definition of ANP used within the calculation.

REGULATORY AND INTERNATIONAL DEVELOPMENTS

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

Regulators across AIA's span of operations are in the midst of a variety of initiatives intended to align their respective regulatory frameworks with the broad principles recommended by the IAIS including in relation to application to risk-based capital frameworks. AIA continues to be involved in these initiatives across the region, and is an active participant in the international industry dialogue on a host of relevant issues, including formulation by the IAIS of an Insurance Capital Standard (ICS). Field testing for the ICS is expected to be completed in 2019 with implementation of the ICS to be conducted in two phases. Under the first phase, ICS will be used for confidential reporting to group-wide supervisors in a monitoring period lasting five years. The second phase will be implementation of the ICS as a group-wide prescribed capital requirement.

In 2016, Bermuda's prudential framework for insurance was deemed to be equivalent to the regulatory standards applied to European insurers in accordance with the requirements of the Solvency II Directive. Under the enhanced commercial prudential return regime, the Bermuda Monetary Authority has instituted a number of changes to its statutory and prudential reporting requirements, including the need for commercial insurers to prepare an economic balance sheet. These new regulatory requirements were first applied to AIA's financial year ended 30 November 2017 and AIA continues to participate in the development and refinement of these initiatives.

Following the establishment of the HKIA on 26 June 2017 as the regulator of Hong Kong insurance companies, it is anticipated that the HKIA will also begin directly regulating intermediaries in 2019. A multi-year consultation process is also underway to develop a risk-based capital regime for Hong Kong insurers. AIA continues to be closely and constructively engaged in these developments.

On 16 May 2017, the HKIA and the China Banking and Insurance Regulatory Commission (formerly the China Insurance Regulatory Commission) signed the Equivalence Assessment Framework Agreement on the Solvency Regulatory Regime. As a transitional arrangement, AIA will report under the HKIO the capital position of its China branches based on the China local regulatory solvency basis progressively over a 4-year phase-in period to full implementation on 31 March 2022.

On 18 May 2017, the International Accounting Standards Board (IASB) published International Financial Reporting Standard (IFRS) 17, Insurance Contracts (previously IFRS 4 Phase II) which will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. On 12 December 2017, the Hong Kong Institute of Certified Public Accountants (HKICPA) approved the issuance of Hong Kong Financial Reporting Standard (HKFRS) 17, Insurance Contracts. The Group is conducting a detailed assessment of the new standards and preparing for their implementation. At its meeting in November 2018, the IASB voted to defer the effective date of IFRS 17 for one year, meaning the standards will become mandatorily effective for financial periods beginning on or after 1 January 2022.

羅兵咸永道

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

Opinion
What we have audited
The consolidated financial statements of AIA Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 46 to 175, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the thirteen months period ended 31 December 2018;
- the consolidated statement of comprehensive income for the thirteen months period ended 31 December 2018;
- the consolidated statement of changes in equity for the thirteen months period ended 31 December 2018;
- the consolidated statement of cash flows for the thirteen months period ended 31 December 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the thirteen months period ended 31 December 2018 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

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

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

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

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified relate to the valuation of insurance contract liabilities and the amortisation of deferred acquisition costs (“DAC”).

Key audit matter	How our audit addressed the key audit matter
a) Valuation of insurance contract liabilities	
Refer to the following notes in the consolidated financial statements: Note 2.4 for related accounting policies, Note 3 for critical accounting estimates and judgements, Note 26 and Note 28.	

As at 31 December 2018 the Group has insurance contract liabilities of US$164,764 million.
 	
The Director’s valuation of these insurance contract liabilities involves significant judgement about uncertain future outcomes, including mortality, morbidity, persistency, expense, investment return, valuation interest rates and provision for adverse deviation, as well as complex valuation methodologies.
 	
The liabilities for traditional participating life assurance policies with discretionary participation features and non-participating life assurance policies, annuities and policies related to other protection products are substantially determined by a net level premium valuation method using best estimate assumptions at policy inception adjusted for adverse deviation. These assumptions remain locked in thereafter, subject to meeting a liability adequacy test which compares the liabilities with a valuation on current best estimate assumptions.
	We performed the following audit procedures to address this matter:
	
	• We understood the valuation methodologies used, identified changes in methodologies from previous valuation and assessed the reasonableness and impact for material changes identified, by applying our industry knowledge and experience to compare whether the methodologies and changes to those are consistent with recognised actuarial practices and expectation derived from market experience.
	
	• We assessed the reasonableness of the key assumptions including those for mortality, morbidity, persistency, expense, investment return and valuation interest rates as well as provision for adverse deviation. Our assessment of the assumptions included:
	
	    • Obtaining an understanding of, and testing, the controls in place to determine the assumptions;
	
	    • Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience;

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Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
a) Valuation of insurance contract liabilities (continued)	
Insurance contract liabilities for universal life and unit-linked policies are substantially based on the value of the account balance together with liabilities for unearned revenue and additional insurance benefits which are dependent upon operating assumptions and future investment return assumptions that are reassessed at each reporting period. As part of our consideration of assumptions, we have focused on those insurance contracts where the assumptions are reassessed at each reporting date as well as how assumptions are set at policy inception dates. We have, in relation to valuation methodologies used, focused on changes in methodologies from the previous valuation as well as methodologies applied to material new product types (as applicable).	• Challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice. • We checked the calculation of the liability adequacy test and assessed the related results in order to ascertain whether the insurance contract liabilities used for the inforce business are adequate in the context of a valuation on current best estimate assumptions. Based upon the work performed, we found the methodologies and assumptions used by management to be appropriate, including those used in the liability adequacy test.
b) Amortisation of DAC	
Refer to the following notes in the consolidated financial statements: Note 2.4.1 for related accounting policies, Note 3.3 for critical accounting estimates and judgements and Note 19.	
As at 31 December 2018, the Group has reported DAC of US$24,626 million. The amortisation of DAC for traditional life insurance policies and annuities are amortised over the expected life of the policies as a constant percentage of premiums and involve less judgement by the Directors compared to universal life and unit-linked policies. Expected premiums are estimated at the date of policy issue.	We performed the following audit procedures to address this matter: • Reviewed and challenged the basis of amortisation of DAC in the context of the Group's accounting policy and the appropriateness of the assumptions used in determining the estimated gross profits used for amortisation for universal life and unit-linked policies. This included those for mortality, morbidity, persistency, expense and investment returns by comparing against past experience, market observable data (as applicable) and our experience of market practice.

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Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
b) Amortisation of DAC (continued)	
The amortisation of DAC for universal life and unit-linked policies involves greater judgement by the Directors. For these contracts, DAC is amortised over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realised over the life of the contract or on a straight-line basis. Estimated gross profits are revised regularly and significant judgement is exercised in making appropriate estimates of gross profits. As part of our audit we have focused on DAC related to universal life and unit-linked policies where the assumptions are reassessed at each reporting date.	Based upon the work performed, we found the assumptions used in relation to the amortisation of DAC for universal life and unit-linked policies to be appropriate.

Other Information

The Directors of the Company are responsible for the other information. The other information comprises the Group Chief Executive and President's Report, Financial Review, Business Review, Regulatory and International Developments, Supplementary Embedded Value Information and our auditor's report thereon, Condensed Business and Financial Review for the Thirteen Months ended 31 December 2018 and Glossary (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Financial Highlights, Chairman's Statement, Risk Management, Valuing Our People, Corporate Social Responsibility, Statement of Directors' Responsibilities, Board of Directors, Executive Committee, Report of the Directors, Corporate Governance Report, Remuneration Report, Information for Shareholders and Corporate Information, which are expected to be made available to us after that date.

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

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

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

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Other Information (continued)

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

Other Matter

The Group has prepared Supplementary Embedded Value Information as at and for the year ended 31 December 2018 in accordance with the embedded value basis of preparation set out in Sections 4 and 5 of the Supplementary Embedded Value Information, on which we issued a separate auditor's report to the Board of Directors of the Company dated 15 March 2019.

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

The Directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and with IFRSs issued by the IASB and the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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Certified Public Accountants

Hong Kong

15 March 2019

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CONSOLIDATED INCOME STATEMENT

US$m	Notes	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
REVENUE			
Premiums and fee income		**33,881**	26,986
Premiums ceded to reinsurers		**(1,968)**	(1,497)
Net premiums and fee income		**31,913**	25,489
Investment return	9	**4,077**	12,622
Other operating revenue	9	**307**	219
Total revenue		**36,297**	38,330
EXPENSES			
Insurance and investment contract benefits		**26,383**	26,108
Insurance and investment contract benefits ceded		**(1,787)**	(1,267)
Net insurance and investment contract benefits		**24,596**	24,841
Commission and other acquisition expenses		**4,136**	3,455
Operating expenses		**2,366**	1,969
Finance costs		**228**	183
Other expenses		**801**	567
Total expenses	10	**32,127**	31,015
Profit before share of profit from associates and joint ventures		**4,170**	7,315
Share of profit from associates and joint ventures		**–**	–
Profit before tax		**4,170**	7,315
Income tax credit/(expense) attributable to policyholders' returns		**51**	(128)
Profit before tax attributable to shareholders' profits		**4,221**	7,187
Tax expense	11	**(944)**	(1,128)
Tax attributable to policyholders' returns		**(51)**	128
Tax expense attributable to shareholders' profits		**(995)**	(1,000)
Net profit		**3,226**	6,187
Net profit attributable to:			
Shareholders of AIA Group Limited		**3,163**	6,120
Non-controlling interests		**63**	67
EARNINGS PER SHARE (US$)			
Basic	12	**0.26**	0.51
Diluted	12	**0.26**	0.51

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Net profit	**3,226**	6,187
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Fair value (losses)/gains on available for sale financial assets (net of tax of: thirteen months ended 31 December 2018: US$(177)m; twelve months ended 30 November 2017: US$297m)	**(4,174)**	1,197
Fair value losses/(gains) on available for sale financial assets transferred to income on disposal and impairment (net of tax of: thirteen months ended 31 December 2018: US$18m; twelve months ended 30 November 2017: US$19m)	**26**	(161)
Foreign currency translation adjustments	**(510)**	1,028
Cash flow hedges	**16**	(11)
Share of other comprehensive expenses from associates and joint ventures	**(45)**	(24)
Subtotal	**(4,687)**	2,029
Items that will not be reclassified subsequently to profit or loss:		
Revaluation gains on property held for own use (net of tax of: thirteen months ended 31 December 2018: US$(10)m; twelve months ended 30 November 2017: US$(14)m)	**11**	78
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: thirteen months ended 31 December 2018: US$(7)m; twelve months ended 30 November 2017: nil)	**1**	18
Subtotal	**12**	96
Total other comprehensive (expense)/income	**(4,675)**	2,125
Total comprehensive (expense)/income	**(1,449)**	8,312
Total comprehensive (expense)/income attributable to:		
Shareholders of AIA Group Limited	**(1,484)**	8,250
Non-controlling interests	**35**	62

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$m	Notes	As at 31 December 2018	As at 30 November 2017
ASSETS			
Intangible assets	14	**1,970**	1,864
Investments in associates and joint ventures	15	**610**	642
Property, plant and equipment	16	**1,233**	1,213
Investment property	17	**4,794**	4,365
Reinsurance assets	18	**2,887**	2,481
Deferred acquisition and origination costs	19	**24,626**	21,847
Financial investments:	20, 22		
Loans and deposits		**7,392**	7,973
Available for sale			
Debt securities		**112,485**	105,466
At fair value through profit or loss			
Debt securities		**27,736**	25,702
Equity securities		**38,099**	36,716
Derivative financial instruments	21	**430**	363
		186,142	176,220
Deferred tax assets	11	**26**	9
Current tax recoverable		**164**	131
Other assets	23	**4,903**	4,630
Cash and cash equivalents	25	**2,451**	2,289
Total assets		**229,806**	215,691
LIABILITIES			
Insurance contract liabilities	26	**164,764**	148,897
Investment contract liabilities	27	**7,885**	8,082
Borrowings	29	**4,954**	3,958
Obligations under repurchase and securities lending agreements	30	**1,683**	1,883
Derivative financial instruments	21	**243**	361
Provisions	32	**168**	234
Deferred tax liabilities	11	**4,187**	3,595
Current tax liabilities		**532**	421
Other liabilities	33	**5,984**	5,888
Total liabilities		**190,400**	173,319

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$m	Notes	As at 31 December 2018	As at 30 November 2017
EQUITY			
Share capital	34	**14,073**	14,065
Employee share-based trusts	34	**(258)**	(297)
Other reserves	34	**(11,910)**	(11,948)
Retained earnings		**35,661**	34,087
Fair value reserve	34	**2,211**	6,336
Foreign currency translation reserve	34	**(1,301)**	(751)
Property revaluation reserve	34	**538**	527
Others		**(8)**	(25)
Amounts reflected in other comprehensive income		**1,440**	6,087
Total equity attributable to:			
Shareholders of AIA Group Limited		**39,006**	41,994
Non-controlling interests	35	**400**	378
Total equity		**39,406**	42,372
Total liabilities and equity		**229,806**	215,691

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

						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 2017		**14,065**	**(297)**	**(11,948)**	**34,087**	**6,336**	**(751)**	**527**	**(25)**	**378**	**42,372**
Net profit		**–**	**–**	**–**	**3,163**	**–**	**–**	**–**	**–**	**63**	**3,226**
Fair value losses on available for sale financial assets		**–**	**–**	**–**	**–**	**(4,151)**	**–**	**–**	**–**	**(23)**	**(4,174)**
Fair value losses on available for sale financial assets transferred to income on disposal and impairment		**–**	**–**	**–**	**–**	**26**	**–**	**–**	**–**	**–**	**26**
Foreign currency translation adjustments		**–**	**–**	**–**	**–**	**–**	**(505)**	**–**	**–**	**(5)**	**(510)**
Cash flow hedges		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16**	**–**	**16**
Share of other comprehensive expenses from associates and joint ventures		**–**	**–**	**–**	**–**	**–**	**(45)**	**–**	**–**	**–**	**(45)**
Revaluation gains on property held for own use		**–**	**–**	**–**	**–**	**–**	**–**	**11**	**–**	**–**	**11**
Effect of remeasurement of net liability of defined benefit schemes		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Total comprehensive income/(expense) for the period		**–**	**–**	**–**	**3,163**	**(4,125)**	**(550)**	**11**	**17**	**35**	**(1,449)**
Dividends	13	**–**	**–**	**–**	**(1,589)**	**–**	**–**	**–**	**–**	**(20)**	**(1,609)**
Shares issued under share option scheme and agency share purchase plan		**8**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8**
Capital contributions from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7**	**7**
Share-based compensation		**–**	**–**	**82**	**–**	**–**	**–**	**–**	**–**	**–**	**82**
Purchase of shares held by employee share-based trusts		**–**	**(12)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12)**
Transfer of vested shares from employee share-based trusts		**–**	**51**	**(51)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Others		**–**	**–**	**7**	**–**	**–**	**–**	**–**	**–**	**–**	**7**
Balance at 31 December 2018		**14,073**	**(258)**	**(11,910)**	**35,661**	**2,211**	**(1,301)**	**538**	**(8)**	**400**	**39,406**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

						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 2016		13,998	(351)	(11,954)	29,334	5,352	(1,812)	449	(32)	326	35,310
Net profit		–	–	–	6,120	–	–	–	–	67	6,187
Fair value gains/(losses) on available for sale financial assets		–	–	–	–	1,202	–	–	–	(5)	1,197
Fair value gains on available for sale financial assets transferred to income on disposal		–	–	–	–	(161)	–	–	–	–	(161)
Foreign currency translation adjustments		–	–	–	–	–	1,028	–	–	–	1,028
Cash flow hedges		–	–	–	–	–	–	–	(11)	–	(11)
Share of other comprehensive (expenses)/income from associates and joint ventures		–	–	–	–	(57)	33	–	–	–	(24)
Revaluation gains on property held for own use		–	–	–	–	–	–	78	–	–	78
Effect of remeasurement of net liability of defined benefit schemes		–	–	–	–	–	–	–	18	–	18
Total comprehensive income for the year		–	–	–	6,120	984	1,061	78	7	62	8,312
Dividends	13	–	–	–	(1,376)	–	–	–	–	(14)	(1,390)
Shares issued under share option scheme and agency share purchase plan		67	–	–	–	–	–	–	–	–	67
Capital contributions from non-controlling interests		–	–	–	–	–	–	–	–	4	4
Share-based compensation		–	–	79	–	–	–	–	–	–	79
Purchase of shares held by employee share-based trusts		–	(10)	–	–	–	–	–	–	–	(10)
Transfer of vested shares from employee share-based trusts		–	64	(64)	–	–	–	–	–	–	–
Others		–	–	(9)	9	–	–	–	–	–	–
Balance at 30 November 2017		14,065	(297)	(11,948)	34,087	6,336	(751)	527	(25)	378	42,372

CONSOLIDATED STATEMENT OF CASH FLOWS

US$m	Notes	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,170**	7,315
Adjustments for:			
Financial investments		**(14,998)**	(18,413)
Insurance and investment contract liabilities, and deferred acquisition and origination costs		**14,037**	14,312
Obligations under repurchase and securities lending agreements	30	**(177)**	(219)
Receipt of upfront reinsurance commission related to acquisition of subsidiaries	5	**482**	–
Other non-cash operating items, including investment income and the effect of exchange rate changes on certain operating items		**(8,095)**	(7,242)
Operating cash items:			
Interest received		**6,718**	5,627
Dividends received		**782**	703
Interest paid		**(44)**	(50)
Tax paid		**(855)**	(582)
Net cash provided by operating activities		**2,020**	1,451
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for intangible assets	14	**(92)**	(151)
Contribution to a joint venture	15	**(3)**	(6)
Net payments for investment property and property, plant and equipment	16, 17	**(127)**	(84)
Acquisition of subsidiaries, net of cash acquired	5	**(606)**	–
Net cash used in investing activities		**(828)**	(241)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of medium-term notes	29	**1,490**	497
Redemption of medium-term notes	29	**(500)**	–
Proceeds from other borrowings	29	**2,603**	–
Repayment of other borrowings		**(2,603)**	(1)
Interest paid on medium-term notes		**(168)**	(136)
Capital contributions from non-controlling interests		**7**	4
Dividends paid during the period		**(1,609)**	(1,390)
Purchase of shares held by employee share-based trusts		**(12)**	(10)
Shares issued under share option scheme and agency share purchase plan		**8**	67
Net cash used in financing activities		**(784)**	(969)
Net increase in cash and cash equivalents		**408**	241
Cash and cash equivalents at beginning of the financial period		**1,787**	1,482
Effect of exchange rate changes on cash and cash equivalents		**(49)**	64
Cash and cash equivalents at end of the financial period		**2,146**	1,787

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

US$m	Note	As at 31 December 2018	As at 30 November 2017
Cash and cash equivalents in the consolidated statement of financial position	25	**2,451**	2,289
Bank overdrafts		**(305)**	(502)
CASH AND CASH EQUIVALENTS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS		**2,146**	1,787

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 15 March 2019.

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

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

The accounting policies adopted are consistent with those of the previous financial year, except as described as follows.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

(a) The following relevant new amendments to standards have been adopted for the first time for the financial period ended 31 December 2018 and have no material impact to the Group:

- Amendments to IAS 7, Disclosure Initiative;
- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses; and
- Amendments to IFRS 12, Clarification of the Scope of the Standard.

(b) The following relevant new standards, interpretation and amendments to standards have been issued but are not effective for the financial period ended 31 December 2018 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 impact of these new standards on its financial position and results of operations and they are not expected to have a material impact on the financial position or results of operations of the Group but may require additional disclosures:

- IFRIC 22, Foreign Currency Transactions and Advance Consideration (2019);
- IFRIC 23, Uncertainty Over Income Tax Treatments (2019);
- Amendments to IAS 1 and IAS 8, Definition of Material (2020);
- Amendments to IAS 12, Income Tax Consequences of Payments on Instruments Classified as Equity (2019);
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement (2019);
- Amendments to IAS 23, Borrowing Costs Eligible for Capitalisation (2019);
- Amendments to IAS 28, Measuring an Associate or Joint Venture at Fair Value (2019);
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (2019);
- Amendments to IAS 40, Transfers of Investment Property (2019);
- IFRS 15, Revenue from Contracts with Customers and amendments thereto (2019);
- IFRS 16, Leases (2019);
- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (2019);
- Amendments to IFRS 3, Business Combinations and IFRS 11, Joint Arrangements – Remeasurement of Previously Held Interests (2019); and
- Amendments to IFRS 3, Definition of a Business (2020).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation and statement of compliance (continued)

(c) The following relevant new standards and requirements have been issued but are not effective for the financial period ended 31 December 2018 and have not been early adopted:

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

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

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

- On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and IFRS 17, Insurance Contracts. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of IFRS 17 and financial reporting periods beginning on or after 1 January 2021 (please note below that the IASB is proposing to defer the effective date of IFRS 17 to 1 January 2022), as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before IFRS 17 is applied. Based on the amendments to IFRS 4, the Group is eligible for and will elect to apply the temporary option to defer the effective date of IFRS 9 in order to implement the changes in parallel with IFRS 17, Insurance Contracts.

2.1 Basis of preparation and statement of compliance (continued)

(c) The following relevant new standards and requirements have been issued but are not effective for the financial period ended 31 December 2018 and have not been early adopted: (continued)

- IFRS 17, Insurance Contracts (previously IFRS 4 Phase II) will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, IFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. On 12 December 2017, the Hong Kong Institute of Certified Public Accountants ("HKICPA") approved the issuance of HKFRS 17, Insurance Contracts. The Group is in the midst of conducting a detailed assessment of the new standards. The standards are currently mandatorily effective for financial periods beginning on or after 1 January 2021, however in November 2018, IASB proposed to defer IFRS 17 and temporary IFRS 9 exemption available to insurers until the financial period beginning on or after 1 January 2022. The proposed deferral is subject to public consultation, which is expected in 2019. HKICPA has not yet made any announcements related to IASB proposed deferral for IFRS 17.

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

2.2 Operating profit

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

Subsidiaries

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

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

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

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

Investment funds

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

Employee share-based trusts

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

Non-controlling interests

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

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

Associates and joint ventures

Associates are entities over which the Group has significant influence, but which it does not control or joint 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 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.

Product classification

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

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

2.4.1 Insurance contracts and investment contracts with DPF

Premiums

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

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

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

Unearned revenue liability

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

Deferred profit liability

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

Deferred acquisition costs

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

Deferred sales inducements

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

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

Unbundling

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

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

Bifurcation

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

Benefits and claims

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

2.4.1 Insurance contracts and investment contracts with DPF (continued)

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

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

Liability adequacy testing

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

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

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

Financial guarantees

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

2.4.2 Investment contracts

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

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

Investment contract fee revenue

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

2.4.2 Investment contracts (continued)

Deferred origination costs

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

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

Investment contract liabilities

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

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

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

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

Deferred fee income liability

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Insurance and investment contracts (continued)

Product classification (continued)

2.4.3 Insurance and investment contracts

Reinsurance

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

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

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

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

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

The upfront premium rebate received on reinsurance contracts is a reinsurance liability. This liability is initially recognised as a reduction in deferred acquisition and origination costs up to the carrying value of associated deferred acquisition costs or associated value of business acquired, if any, with any excess being recognised in other liabilities. This reinsurance liability is released in line with the release of the underlying insurance contracts. Change in this reinsurance liability during the period is recognised as insurance and investment contract benefits ceded.

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 20 Loans and deposits. Deposits are stated at amortised cost using the effective interest method.

Cash and cash equivalents

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

2.5.2 Fair values of non-derivative financial instruments

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

Financial instruments carried at fair value are measured using a fair value hierarchy described in note 22.

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 period 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 period 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 allocated to each of the Group's cash-generating units, or group of cash-generating units, the lowest level for which there are separately identifiable cash flows. 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 sells 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 period, 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 period end and the carrying value at the previous year end or purchase price if purchased during the period, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the period.

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 period.

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

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

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

2.23 Fiduciary activities

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Consolidated statement of cash flow

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

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

2.25 Related party transactions

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

3.1 Product classification

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

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

The judgements exercised in the valuation of insurance contract liabilities (including investment contracts with DPF) affect the amounts recognised in the consolidated financial statements as insurance contract benefits and insurance contract liabilities. Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 2.4, 26 and 28.

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 19.

3.4 Liability adequacy testing

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.5 Fair value measurement

3.5.1 Fair value of financial assets

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

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

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

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

Further details of the fair value of financial assets and the sensitivity analysis to interest rates and equity prices are provided in notes 22 and 37.

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 22.

3.6 Impairment of goodwill and other intangible assets

For the purposes of impairment testing, goodwill and other intangible assets are grouped into cash-generating units or groups of cash generating units. These assets are tested for impairment by comparing the carrying amount of the cash-generating unit (group of units), including goodwill, to the recoverable amount of that cash-generating unit (group of units). 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 period are provided in note 14.

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	
	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Hong Kong	**7.84**	7.79
Thailand	**32.35**	34.15
Singapore	**1.35**	1.39
Malaysia	**4.04**	4.33
China	**6.61**	6.78

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

	US dollar exchange rates	
	As at 31 December 2018	As at 30 November 2017
Hong Kong	**7.83**	7.81
Thailand	**32.47**	32.62
Singapore	**1.36**	1.35
Malaysia	**4.14**	4.09
China	**6.88**	6.61

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

5. CHANGE IN GROUP COMPOSITION

This note provides details of the acquisition of subsidiaries that the Group has made during the thirteen months ended 31 December 2018.

Acquisition

On 2 July 2018, the Group acquired 100 per cent of share capital of Sovereign Assurance Company Limited allowing 100 per cent control of its voting rights, included as part of the acquisition of ASB Group (Life) Limited and its subsidiaries (Sovereign), the life and health insurance businesses owned by Commonwealth Bank of Australia (CBA) in New Zealand. This acquisition presents the Group with an extensive customer reaches and distribution capabilities in New Zealand and a separate 20-year strategic bancassurance partnership with the ASB Bank Limited in New Zealand. The consideration with respect to this acquisition was AUD1,241m or US$918m at exchange rate on the date of the acquisition.

There is a related reinsurance agreement, resulting in Sovereign receiving an upfront reinsurance commission of US$482m.

The Group incurred US$15m of acquisition-related costs which were recognised as "other expenses" in the Group's consolidated income statement.

Details of the fair value of the assets and liabilities acquired and the goodwill arising from the acquisition of Sovereign are set out as follows:

US$m	Fair values as at the date of acquisition
Deferred acquisition costs (value of business acquired)	348
Property, plant and equipment	10
Reinsurance assets	19
Investment securities	1,083
Other assets[1]	37
Cash and cash equivalents	312
Insurance and investment contract liabilities	(571)
Deferred tax liabilities	(455)
Other liabilities	(32)
Net assets acquired	751
Goodwill arising on acquisition	167
Fair value of consideration	918
Less:	
Cash and cash equivalents held in acquired subsidiaries	(312)
Net change in cash and cash equivalents	606

Note:
(1) Fair value approximates the gross contractual amount.

Goodwill

The goodwill recognised is mainly attributable to the distribution strengths and synergies and other benefits from combining Sovereign and the Group's operations in Australia (including New Zealand). The goodwill is not expected to be deductible for tax purposes.

Impact of acquisition on the results of the Group

The acquired Sovereign contributed revenue of US$156m and profit before tax of US$16m to the Group's consolidated income statement for the thirteen months ended 31 December 2018. The impact of the acquisition would not be materially different had the acquisition been completed at the beginning of the reporting period.

6. OPERATING PROFIT AFTER TAX

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

US$m	Note	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Operating profit after tax	8	**5,731**	4,682
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: thirteen months ended 31 December 2018: US$164m; twelve months ended 30 November 2017: US$(117)m)[1]		**(1,881)**	1,764
Reclassification of revaluation gain for property held for own use (net of tax of: thirteen months ended 31 December 2018: US$11m; twelve months ended 30 November 2017: US$4m)[1][2]		**(212)**	(84)
Corporate transaction related costs (net of tax of: thirteen months ended 31 December 2018: US$(35)m; twelve months ended 30 November 2017: US$6m)[2]		**(148)**	(25)
Implementation costs for new accounting standards (net of tax of: thirteen months ended 31 December 2018: US$5m; twelve months ended 30 November 2017: nil)[2]		**(43)**	(6)
Other non-operating investment return and other items (net of tax of: thirteen months ended 31 December 2018: US$22m; twelve months ended 30 November 2017: US$30m)[2]		**(221)**	(144)
Net profit		**3,226**	6,187
Operating profit after tax attributable to:			
Shareholders of AIA Group Limited		**5,684**	4,647
Non-controlling interests		**47**	35
Net profit attributable to:			
Shareholders of AIA Group Limited		**3,163**	6,120
Non-controlling interests		**63**	67

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

Notes:

(1) Short-term fluctuations in investment return include the revaluation gain for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.

(2) The comparative information has been adjusted to conform to current period presentation.

7. TOTAL WEIGHTED PREMIUM INCOME AND ANNUALISED NEW PREMIUMS

For management decision-making and internal performance management purposes, the Group measures business volumes during the period 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 8.

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.

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

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.

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	**Thirteen months ended 31 December 2018**	Twelve months ended 30 November 2017
TWPI by geography		
Hong Kong	**12,501**	9,434
Thailand	**4,232**	3,517
Singapore	**2,906**	2,421
Malaysia	**2,245**	1,823
China	**4,366**	3,092
Other Markets	**6,859**	5,860
Total	**33,109**	26,147
First year premiums by geography		
Hong Kong	**2,458**	2,586
Thailand	**589**	477
Singapore	**349**	277
Malaysia	**328**	286
China	**1,082**	928
Other Markets	**1,127**	925
Total	**5,933**	5,479
Single premiums by geography		
Hong Kong	**2,767**	2,417
Thailand	**284**	194
Singapore	**1,800**	1,433
Malaysia	**202**	187
China	**151**	150
Other Markets	**737**	622
Total	**5,941**	5,003
Renewal premiums by geography		
Hong Kong	**9,766**	6,606
Thailand	**3,614**	3,021
Singapore	**2,377**	2,001
Malaysia	**1,897**	1,518
China	**3,269**	2,149
Other Markets	**5,658**	4,873
Total	**26,581**	20,168

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

ANP US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
ANP by geography		
Hong Kong	**2,793**	2,849
Thailand	**648**	518
Singapore	**562**	433
Malaysia	**396**	348
China	**1,098**	968
Other Markets	**1,273**	976
Total	**6,770**	6,092

8. SEGMENT INFORMATION

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

The acquired subsidiaries and respective operations mentioned in note 5 are included under the operations in Australia (including New Zealand).

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.

8. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
Thirteen months ended 31 December 2018								
ANP	**2,793**	**648**	**562**	**396**	**1,098**	**1,273**	**–**	**6,770**
TWPI	**12,501**	**4,232**	**2,906**	**2,245**	**4,366**	**6,859**	**–**	**33,109**
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	**14,046**	**4,156**	**3,295**	**1,970**	**4,222**	**4,505**	**28**	**32,222**
Investment return	**2,849**	**1,433**	**1,271**	**644**	**934**	**1,200**	**397**	**8,728**
Total revenue	**16,895**	**5,589**	**4,566**	**2,614**	**5,156**	**5,705**	**425**	**40,950**
Net insurance and investment contract benefits	**12,600**	**3,156**	**3,290**	**1,701**	**3,246**	**3,030**	**26**	**27,049**
Commission and other acquisition expenses	**1,568**	**828**	**380**	**273**	**294**	**775**	**13**	**4,131**
Operating expenses	**438**	**235**	**226**	**196**	**348**	**701**	**222**	**2,366**
Finance costs and other expenses	**149**	**55**	**32**	**13**	**38**	**55**	**169**	**511**
Total expenses	**14,755**	**4,274**	**3,928**	**2,183**	**3,926**	**4,561**	**430**	**34,057**
Share of profit from associates and joint ventures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Operating profit/(losses) before tax	**2,140**	**1,315**	**638**	**431**	**1,230**	**1,144**	**(5)**	**6,893**
Tax on operating profit/(losses) before tax	**(165)**	**(254)**	**(39)**	**(81)**	**(291)**	**(248)**	**(84)**	**(1,162)**
Operating profit/(losses) after tax	**1,975**	**1,061**	**599**	**350**	**939**	**896**	**(89)**	**5,731**
Operating profit/(losses) after tax attributable to:								
Shareholders of AIA Group Limited	**1,958**	**1,061**	**599**	**345**	**939**	**871**	**(89)**	**5,684**
Non-controlling interests	**17**	**–**	**–**	**5**	**–**	**25**	**–**	**47**
Key operating ratios:								
Expense ratio	**3.5%**	**5.6%**	**7.8%**	**8.7%**	**8.0%**	**10.2%**	**–**	**7.1%**
Operating margin	**15.8%**	**25.1%**	**20.6%**	**15.6%**	**21.5%**	**13.1%**	**–**	**17.3%**
Operating return on shareholders' allocated equity	**25.4%**	**18.2%**	**19.7%**	**22.1%**	**27.0%**	**13.1%**	**–**	**15.7%**
Operating profit/(losses) before tax includes:								
Finance costs	**33**	**1**	**–**	**–**	**23**	**4**	**149**	**210**
Depreciation and amortisation	**34**	**11**	**21**	**19**	**26**	**54**	**12**	**177**

8. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
31 December 2018								
Total assets	**71,898**	**31,632**	**36,064**	**14,526**	**24,228**	**39,095**	**12,363**	**229,806**
Total liabilities	**64,299**	**24,627**	**32,865**	**12,885**	**20,068**	**30,889**	**4,767**	**190,400**
Total equity	**7,599**	**7,005**	**3,199**	**1,641**	**4,160**	**8,206**	**7,596**	**39,406**
Shareholders' allocated equity	**7,508**	**6,181**	**3,116**	**1,600**	**3,565**	**6,901**	**7,924**	**36,795**
Net capital (out)/in flows	**(1,054)**	**(149)**	**(267)**	**(185)**	**(542)**	**(479)**	**1,172**	**(1,504)**
Total assets include:								
Investments in associates and joint ventures	**–**	**–**	**–**	**6**	**–**	**604**	**–**	**610**

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	
Thirteen months ended 31 December 2018					
Net premiums, fee income and other operating revenue	**32,222**	**–**	**(2)**	**32,220**	Net premiums, fee income and other operating revenue
Investment return	**8,728**	**(2,928)**	**(1,723)**	**4,077**	Investment return
Total revenue	**40,950**	**(2,928)**	**(1,725)**	**36,297**	**Total revenue**
Net insurance and investment contract benefits	**27,049**	**(883)**	**(1,570)**	**24,596**	Net insurance and investment contract benefits
Other expenses	**7,008**	**–**	**523**	**7,531**	Other expenses
Total expenses	**34,057**	**(883)**	**(1,047)**	**32,127**	**Total expenses**
Share of profit from associates and joint ventures	**–**	**–**	**–**	**–**	Share of profit from associates and joint ventures
Operating profit before tax	**6,893**	**(2,045)**	**(678)**	**4,170**	**Profit before tax**

Note:

(1) Include unit-linked contracts.

8. SEGMENT INFORMATION (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
Twelve months ended 30 November 2017								
ANP	2,849	518	433	348	968	976	–	6,092
TWPI	9,434	3,517	2,421	1,823	3,092	5,860	–	26,147
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	10,828	3,532	2,837	1,610	3,006	3,888	7	25,708
Investment return	2,148	1,189	1,083	547	734	1,057	338	7,096
Total revenue	12,976	4,721	3,920	2,157	3,740	4,945	345	32,804
Net insurance and investment contract benefits	9,454	2,659	2,822	1,439	2,406	2,603	4	21,387
Commission and other acquisition expenses	1,213	739	347	210	181	752	1	3,443
Operating expenses	407	199	181	164	278	552	188	1,969
Finance costs and other expenses	117	49	27	11	28	42	126	400
Total expenses	11,191	3,646	3,377	1,824	2,893	3,949	319	27,199
Share of profit from associates and joint ventures	–	–	–	–	–	–	–	–
Operating profit before tax	1,785	1,075	543	333	847	996	26	5,605
Tax on operating profit before tax	(137)	(210)	(39)	(59)	(208)	(217)	(53)	(923)
Operating profit/(losses) after tax	1,648	865	504	274	639	779	(27)	4,682
Operating profit/(losses) after tax attributable to:								
Shareholders of AIA Group Limited	1,636	865	504	272	639	758	(27)	4,647
Non-controlling interests	12	–	–	2	–	21	–	35
Key operating ratios:								
Expense ratio	4.3%	5.7%	7.5%	9.0%	9.0%	9.4%	–	7.5%
Operating margin	17.5%	24.6%	20.8%	15.0%	20.7%	13.3%	–	17.9%
Operating return on shareholders' allocated equity	23.6%	17.5%	18.5%	19.1%	20.4%	12.8%	–	14.2%
Operating profit before tax includes:								
Finance costs	29	6	–	–	16	2	104	157
Depreciation and amortisation	37	10	16	17	17	40	12	149

8. SEGMENT INFORMATION (continued)

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

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

US$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items[1]	Consolidated income statement	
Twelve months ended 30 November 2017					
Net premiums, fee income and other operating revenue	25,708	–	–	25,708	Net premiums, fee income and other operating revenue
Investment return	7,096	2,314	3,212	12,622	Investment return
Total revenue	32,804	2,314	3,212	38,330	**Total revenue**
Net insurance and investment contract benefits	21,387	433	3,021	24,841	Net insurance and investment contract benefits
Other expenses	5,812	–	362	6,174	Other expenses
Total expenses	27,199	433	3,383	31,015	**Total expenses**
Share of profit from associates and joint ventures	–	–	–	–	Share of profit from associates and joint ventures
Operating profit before tax	5,605	1,881	(171)	7,315	**Profit before tax**

Note:

(1) Include unit-linked contracts.

9. REVENUE

Investment return

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Interest income	**6,743**	5,599
Dividend income	**849**	695
Rental income	**184**	151
Investment income	**7,776**	6,445
Available for sale		
Net realised gains from debt securities	**10**	180
Impairment of debt securities	**(81)**	–
Net (losses)/gains of available for sale financial assets reflected in the consolidated income statement	**(71)**	180
At fair value through profit or loss		
Net (losses)/gains of financial assets designated at fair value through profit or loss		
Net gains/(losses) of debt securities	**63**	(89)
Net (losses)/gains of equity securities	**(4,028)**	5,789
Net fair value movement on derivatives	**(120)**	513
Net (losses)/gains in respect of financial instruments at fair value through profit or loss	**(4,085)**	6,213
Net fair value movement of investment property and property held for own use	**469**	367
Net foreign exchange losses	**(2)**	(560)
Other net realised losses	**(10)**	(23)
Investment experience	**(3,699)**	6,177
Investment return	**4,077**	12,622

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

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Foreign exchange gains/(losses)	**53**	(238)

Other operating revenue

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

10. EXPENSES

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Insurance contract benefits	**13,573**	11,530
Change in insurance contract liabilities	**13,272**	13,366
Investment contract benefits	**(462)**	1,212
Insurance and investment contract benefits	**26,383**	26,108
Insurance and investment contract benefits ceded	**(1,787)**	(1,267)
Insurance and investment contract benefits, net of reinsurance ceded	**24,596**	24,841
Commission and other acquisition expenses incurred	**6,664**	5,696
Deferral and amortisation of acquisition costs	**(2,528)**	(2,241)
Commission and other acquisition expenses	**4,136**	3,455
Employee benefit expenses	**1,486**	1,243
Depreciation	**80**	65
Amortisation	**57**	53
Operating lease rentals	**187**	147
Other operating expenses	**556**	461
Operating expenses	**2,366**	1,969
Investment management expenses and others	**517**	397
Depreciation on property held for own use	**37**	22
Restructuring and other non-operating costs(1)	**223**	142
Change in third-party interests in consolidated investment funds	**24**	6
Other expenses	**801**	567
Finance costs	**228**	183
Total	**32,127**	31,015

Other operating expenses include auditors' remuneration of US$23m (twelve months ended 30 November 2017: US$20m), an analysis of which is set out below:

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Audit services(2)	**17**	16
Non-audit services, including:		
Audit-related services(2)	**2**	2
Tax services	**2**	1
Other services	**2**	1
Total	**23**	20

Notes:

(1) Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Other non-operating costs primarily consist of corporate transaction related costs and implementation costs for new accounting standards.

(2) Expenses for audit services include the audit of the Supplementary Embedded Value Information which was reported as part of audit related services in prior period. The comparative information has been adjusted to conform to current period presentation.

10. EXPENSES (continued)

Finance costs may be analysed as:

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Repurchase agreements (see note 30 for details)	**43**	47
Medium-term notes	**176**	132
Other loans	**9**	4
Total	**228**	183

Employee benefit expenses consist of:

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Wages and salaries	**1,217**	1,012
Share-based compensation	**74**	73
Pension costs – defined contribution plans	**89**	72
Pension costs – defined benefit plans	**10**	7
Other employee benefit expenses	**96**	79
Total	**1,486**	1,243

11. INCOME TAX

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Tax charged in the consolidated income statement		
Current income tax – Hong Kong Profits Tax	**148**	124
Current income tax – overseas	**796**	526
Deferred income tax on temporary differences	**–**	478
Total	**944**	1,128

The tax benefit or expense attributable to life insurance policyholder returns in Singapore, Brunei, Malaysia, Australia, Indonesia, the Philippines, Sri Lanka and New Zealand 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 credit attributable to policyholders' returns included above is US$51m (twelve months ended 30 November 2017: tax expenses of US$128m).

11. INCOME TAX (continued)

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

	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Hong Kong	**16.5%**	16.5%
Thailand	**20%**	20%
Singapore	**17%**	17%
Malaysia	**24%**	24%
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 period. The rates reflect enacted or substantively enacted corporate tax rates throughout the period in each jurisdiction.

From fiscal years 2018 to 2020, AIA Korea is subject to an effective corporate income tax of 27.5%, which includes an Accumulated Earnings Tax following the subsidiarisation of the branch in AIA Korea. Based on current regulations, the corporate income tax rate will revert to 24.2% from fiscal year 2021.

11. INCOME TAX (continued)

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Income tax reconciliation		
Profit before income tax	**4,170**	7,315
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**874**	1,361
Reduction in tax payable from:		
Life insurance tax[1]	**–**	(108)
Exempt investment income	**(312)**	(266)
Amount over-provided in prior years	**(2)**	(10)
Provisions for uncertain tax positions	**(28)**	–
Others	**–**	(83)
	(342)	(467)
Increase in tax payable from:		
Life insurance tax[1]	**185**	–
Withholding taxes	**43**	17
Disallowed expenses	**164**	132
Unrecognised deferred tax assets	**6**	19
Provisions for uncertain tax positions	**–**	66
Change in tax rate and law	**2**	–
Others	**12**	–
	412	234
Total income tax expense	**944**	1,128

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.

11. 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	Acquisition of subsidiaries[3]	Credited/ (charged) to the income statement	Credited/(charged) to other comprehensive income: Fair value reserve[2]	Credited/(charged) to other comprehensive income: Foreign exchange	Credited/(charged) to other comprehensive income: Others	Net deferred tax asset/ (liability) at period end
31 December 2018							
Revaluation of financial instruments	**(1,156)**	**1**	**424**	**(159)**	**–**	**–**	**(890)**
Deferred acquisition costs	**(2,546)**	**(98)**	**(474)**	**–**	**56**	**–**	**(3,062)**
Insurance and investment contract liabilities	**1,086**	**(360)**	**12**	**–**	**(12)**	**–**	**726**
Withholding taxes	**(147)**	**–**	**(41)**	**–**	**7**	**–**	**(181)**
Provision for expenses	**146**	**2**	**(1)**	**–**	**(3)**	**(7)**	**137**
Losses available for offset against future taxable income	**31**	**–**	**25**	**–**	**(1)**	**–**	**55**
Life surplus [1]	**(674)**	**–**	**48**	**–**	**9**	**–**	**(617)**
Others	**(326)**	**–**	**7**	**–**	**–**	**(10)**	**(329)**
Total	**(3,586)**	**(455)**	**–**	**(159)**	**56**	**(17)**	**(4,161)**
30 November 2017							
Revaluation of financial instruments	(1,387)	–	(52)	316	(33)	–	(1,156)
Deferred acquisition costs	(2,196)	–	(214)	–	(136)	–	(2,546)
Insurance and investment contract liabilities	1,094	–	(78)	–	70	–	1,086
Withholding taxes	(132)	–	(16)	–	1	–	(147)
Provision for expenses	110	–	29	–	7	–	146
Losses available for offset against future taxable income	69	–	(39)	–	1	–	31
Life surplus [1]	(534)	–	(100)	–	(40)	–	(674)
Others	(293)	–	(8)	–	(11)	(14)	(326)
Total	(3,269)	–	(478)	316	(141)	(14)	(3,586)

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 charge/(credit) of US$159m for 2018 (twelve months ended 30 November 2017: US$(316)m), US$177m (twelve months ended 30 November 2017: US$(297)m) relates to fair value gains and losses on available for sale financial assets and US$(18)m (twelve months ended 30 November 2017: US$(19)m) relates to fair value gains and losses on available for sale financial assets transferred to income on disposal and impairment.

(3) The amount of US$455m represents a one-time adjustment in respect of the acquisition of Sovereign.

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$60m (30 November 2017: US$52m) 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$59m (30 November 2017: US$62m) in respect of unremitted earnings of operations in two 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, Singapore, Malaysia, China, Korea, Cambodia, New Zealand, the Philippines, Sri Lanka and Taiwan. The tax losses of Hong Kong, Singapore and New Zealand can be carried forward indefinitely. The tax losses of remaining branches and subsidiaries are due to expire within the periods ending 2021 (Macau and the Philippines), 2023 (Thailand, China and Cambodia), 2024 (Sri Lanka), 2025 (Malaysia) and 2028 (Korea and Taiwan).

12. 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 period. 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.

	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Net profit attributable to shareholders of AIA Group Limited (US$m)	**3,163**	6,120
Weighted average number of ordinary shares in issue (million)	**12,020**	12,000
Basic earnings per share (US cents per share)	**26.31**	51.00

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 31 December 2018 and 30 November 2017, 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 39.

	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Net profit attributable to shareholders of AIA Group Limited (US$m)	**3,163**	6,120
Weighted average number of ordinary shares in issue (million)	**12,020**	12,000
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded under share-based compensation plans (million)	**35**	37
Weighted average number of ordinary shares for diluted earnings per share (million)	**12,055**	12,037
Diluted earnings per share (US cents per share)	**26.24**	50.84

At 31 December 2018, 5,752,143 share options (30 November 2017: 5,340,052) 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 6) 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 period. As of 31 December 2018 and 30 November 2017, 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 39.

	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Basic (US cents per share)	**47.29**	38.73
Diluted (US cents per share)	**47.15**	38.61

13. DIVIDENDS

Dividends to shareholders of the Company attributable to the period:

US$m	**Thirteen months ended 31 December 2018**	Twelve months ended 30 November 2017
Interim dividend declared and paid of 29.20 Hong Kong cents per share (twelve months ended 30 November 2017: 25.62 Hong Kong cents per share)	**449**	393
Final dividend proposed after the reporting date of 84.80 Hong Kong cents per share (twelve months ended 30 November 2017: 74.38 Hong Kong cents per share) (1)	**1,302**	1,144
Total dividend excluding special dividend	**1,751**	1,537
Special dividend proposed after the reporting date of 9.50 Hong Kong cents per share (twelve months ended 30 November 2017: nil) (1)	**146**	–
	1,897	1,537

Note:

(1) Based upon shares outstanding at 31 December 2018 and 30 November 2017 that are entitled to a dividend, other than those held by employee share-based trusts.

The above final and special dividends were proposed by the Board on 15 March 2019 subject to shareholders' approval at the AGM to be held on 17 May 2019. The proposed final and special dividends have not been recognised as a liability at the reporting date.

The Board has recommended a special dividend for the additional month in the accounting period due to the change of the Group's financial year-end date from 30 November 2018 to 31 December 2018.

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

US$m	**Thirteen months ended 31 December 2018**	Twelve months ended 30 November 2017
Final dividend in respect of the previous financial year, approved and paid during the period of 74.38 Hong Kong cents per share (twelve months ended 30 November 2017: 63.75 Hong Kong cents per share)	**1,140**	983

14. INTANGIBLE ASSETS

US$m	Goodwill	Computer software	Distribution and other rights	Total
Cost				
At 1 December 2016	775	458	815	2,048
Additions	–	53	77	130
Disposals	–	(2)	–	(2)
Foreign exchange movements	60	17	15	92
At 30 November 2017	**835**	**526**	**907**	**2,268**
Additions	**–**	**86**	**1**	**87**
Acquisition of subsidiaries	**167**	**–**	**–**	**167**
Disposals	**–**	**(4)**	**(1)**	**(5)**
Foreign exchange movements	**(26)**	**(10)**	**(19)**	**(55)**
At 31 December 2018	**976**	**598**	**888**	**2,462**
Accumulated amortisation				
At 1 December 2016	(4)	(232)	(69)	(305)
Amortisation charge for the year	–	(51)	(33)	(84)
Foreign exchange movements	–	(14)	(1)	(15)
At 30 November 2017	**(4)**	**(297)**	**(103)**	**(404)**
Amortisation charge for the period	**–**	**(57)**	**(40)**	**(97)**
Disposals	**–**	**2**	**1**	**3**
Foreign exchange movements	**–**	**3**	**3**	**6**
At 31 December 2018	**(4)**	**(349)**	**(139)**	**(492)**
Net book value				
At 30 November 2017	831	229	804	1,864
At 31 December 2018	**972**	**249**	**749**	**1,970**

The Group holds intangible assets for its long-term use and the annual amortisation charge of US$90m (30 November 2017: US$84m) approximates the amount that is expected to be recovered through consumption within 12 months after the end of the reporting period.

Intangible assets in this note exclude deferred acquisition and origination costs, which are separately disclosed with further details provided in note 19.

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 (group of units), including goodwill, to the recoverable amount of that cash-generating unit (group of units). If the recoverable amount of the unit (group of units) exceeds the carrying amount of the unit (group of units), the goodwill allocated to that unit (group of units) shall be regarded as not impaired. The recoverable amount is the value in use of the cash-generating unit (group of units) 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, which are detailed in Section 5 of Supplementary Embedded Value Information, include risk discount rate, 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.

15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

US$m	As at 31 December 2018	As at 30 November 2017
Group		
Investments in associates	**602**	636
Investment in joint ventures	**8**	6
Total	**610**	642

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

The Group's interests in its principal associates and joint ventures are as follows:

	Place of incorporation	Principal activity	Type of shares held	Group's interest % As at 31 December 2018	Group's interest % As at 30 November 2017
Tata AIA Life Insurance Company Limited	India	Insurance	Ordinary	**49%**	49%

All associates and joint ventures are unlisted.

Aggregated financial information of associates and joint ventures

The investments in the associates and joint ventures are measured using the equity method. The following table analyses, in aggregate, the carrying amount and share of profit and other comprehensive income of these associates and joint ventures.

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Carrying amount in the statement of financial position	**610**	642
Profit from continuing operations	**–**	–
Other comprehensive expenses	**(45)**	(24)
Total comprehensive expenses	**(45)**	(24)

16. 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 2016	905	188	464	1,557
Additions	1	23	66	90
Disposals	(7)	(21)	(58)	(86)
Net transfers to investment property	(24)	–	–	(24)
Increase from valuation	62	–	–	62
Foreign exchange movements	42	11	18	71
At 30 November 2017	**979**	**201**	**490**	**1,670**
Additions	**1**	**23**	**75**	**99**
Acquisition of subsidiaries	**–**	**–**	**10**	**10**
Disposals	**(10)**	**(26)**	**(40)**	**(76)**
Net transfers from investment property	**12**	**–**	**–**	**12**
Increase from valuation	**5**	**–**	**–**	**5**
Foreign exchange movements	**(5)**	**(3)**	**(9)**	**(17)**
At 31 December 2018	**982**	**195**	**526**	**1,703**
Accumulated depreciation				
At 1 December 2016	–	(160)	(265)	(425)
Depreciation charge for the year	(16)	(18)	(47)	(81)
Disposals	5	19	37	61
Revaluation adjustment	10	–	–	10
Foreign exchange movements	1	(9)	(14)	(22)
At 30 November 2017	**–**	**(168)**	**(289)**	**(457)**
Depreciation charge for the period	**(30)**	**(20)**	**(60)**	**(110)**
Disposals	**–**	**23**	**35**	**58**
Net transfers from investment property	**(4)**	**–**	**–**	**(4)**
Revaluation adjustment	**33**	**–**	**–**	**33**
Foreign exchange movements	**1**	**3**	**6**	**10**
At 31 December 2018	**–**	**(162)**	**(308)**	**(470)**
Net book value				
At 30 November 2017	979	33	201	1,213
At 31 December 2018	**982**	**33**	**218**	**1,233**

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 22.

During the reporting period, no expenditure (30 November 2017: 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$38m (twelve months ended 30 November 2017: US$72m) 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$377m (30 November 2017: US$373m). 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.

17. INVESTMENT PROPERTY

US$m	
Fair value	
At 1 December 2016	3,910
Additions and capitalised subsequent expenditures	10
Disposals	(12)
Net transfers from property, plant and equipment	24
Fair value gain	367
Foreign exchange movements	66
At 30 November 2017	**4,365**
Additions and capitalised subsequent expenditures	**38**
Disposals	**(7)**
Net transfers to property, plant and equipment	**(8)**
Net transfers to other assets	**(34)**
Fair value gain	**477**
Foreign exchange movements	**(37)**
At 31 December 2018	**4,794**

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 22.

The Group leases out its investment property under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease based on future negotiations. Lease payments are usually negotiated every one to four years to reflect market rentals. There were not any material contingent rentals earned as income for the period. Rental income generated from investment property amounted to US$184m (twelve months ended 30 November 2017: US$151m). Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to US$38m (twelve months ended 30 November 2017: US$31m).

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 31 December 2018**	As at 30 November 2017
Leases of investment property		
Expiring no later than one year	**148**	135
Expiring later than one year and no later than five years	**252**	241
Expiring after five years or more	**24**	31
Total	**424**	407

18. REINSURANCE ASSETS

US$m	As at 31 December 2018	As at 30 November 2017
Amounts recoverable from reinsurers	**539**	506
Ceded insurance and investment contract liabilities	**2,348**	1,975
Total	**2,887**	2,481

19. DEFERRED ACQUISITION AND ORIGINATION COSTS

US$m	As at 31 December 2018	As at 30 November 2017
Carrying amount		
Deferred acquisition costs on insurance contracts	**24,162**	21,345
Deferred origination costs on investment contracts	**347**	373
Value of business acquired	**454**	129
Less: Upfront reinsurance premium rebate	**(337)**	–
Total	**24,626**	21,847

	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Movements in the period		
At beginning of financial period	**21,847**	18,898
Deferral and amortisation of acquisition and origination costs	**2,507**	2,318
Foreign exchange movements	**(301)**	833
Impact of assumption changes	**21**	(77)
Other movements	**552**	(125)
At end of financial period	**24,626**	21,847

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.

During the period, there was an addition to value of business of US$348m attributable to the acquisition of Sovereign, which has been applied in part against the reinsurance liability arising from the upfront reinsurance commission also attributable to the acquisition of Sovereign.

20. 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 period 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 period 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 period 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 participating business with discretionary expected sharing with policyholders and underlying distinct investment Portfolios ("Other Participating Business with distinct Portfolios") and Other Policyholder and Shareholder. Other Participating Business with distinct Portfolios refers to business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory.

The reason for separately analysing financial investments held by Participating Funds and Other Participating Business with distinct Portfolios is that Participating Funds are subject to local regulations that generally prescribe a minimum proportion of policyholder participation in declared dividends and for Other Participating Business with distinct Portfolios it is, as explained above, expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of the underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. 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 before tax for the period is impacted by the proportion of investment return that would be allocated to shareholders as described above. For Other Participating Business with distinct Portfolios, the Group either have discretion as to the timing or amount of additional benefits to the policyholders. The Group has elected the fair value option for equity securities and the available for sale classification of the majority of debt securities. The investment risk from Other Participating Business with distinct Portfolios directly impacts the Group's financial statements, but it is expected that a proportion of investment return may be allocated to policyholders through policyholder dividends.

Other Policyholder and Shareholder Investments are distinct from Unit-linked Investments, Participating Funds and Other Participating Business with distinct Portfolios as there is not any direct contractual or regulatory requirement governing the amount, if any, for allocation to policyholders or it is not expected that the policyholder will receive at the discretion of the insurer additional benefits based on the performance of the underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The Group has elected to apply the fair value option for equity securities in this category and the available for sale classification in respect of the majority of debt securities in this category. The investment risk from investments in this category directly impacts the Group's financial statements. Although a proportion of investment return may be allocated to policyholders through policyholder dividends, the Group's accounting policy for insurance and certain investment contract liabilities utilises a net level premium methodology that includes best estimates as at the date of issue for non-guaranteed participation. To the extent investment return from these investments either is not allocated to participating contracts or varies from the best estimates, it will impact the Group's profit before tax.

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

Debt securities

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

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

Note:
(1) Unless otherwise identified individually.

20. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

Debt securities by type comprise the following:

		Policyholder and shareholder							
		Participating funds and Other participating business with distinct portfolios		Other policyholder and shareholder			Unit-linked	Consolidated investment funds(2)	
US$m	Rating	FVTPL	AFS	FVTPL	AFS	Subtotal	FVTPL	FVTPL	Total
31 December 2018									
Government bonds – issued in local currency									
Thailand	A	–	–	–	13,108	13,108	–	–	13,108
China	A	1,952	–	–	10,267	12,219	42	–	12,261
Korea	AA	–	–	–	6,989	6,989	283	–	7,272
Singapore	AAA	2,753	–	–	1,247	4,000	602	–	4,602
Philippines	BBB	–	–	–	1,844	1,844	49	–	1,893
Malaysia	A	1,575	–	–	629	2,204	74	–	2,278
United States	AA	262	642	6	2,760	3,670	9	–	3,679
Indonesia	BBB	81	–	33	319	433	45	–	478
Other(1)		353	–	355	794	1,502	22	–	1,524
Subtotal		6,976	642	394	37,957	45,969	1,126	–	47,095
Government bonds – foreign currency									
AAA		–	–	–	–	–	7	–	7
AA		57	379	–	639	1,075	21	–	1,096
A		95	280	–	619	994	22	–	1,016
BBB		190	331	21	1,906	2,448	150	–	2,598
Below investment grade		3	2	6	31	42	–	–	42
Subtotal		345	992	27	3,195	4,559	200	–	4,759
Government agency bonds(3)									
AAA		1,683	35	–	828	2,546	55	–	2,601
AA		165	91	–	2,952	3,208	34	303	3,545
A		2,480	214	3	2,317	5,014	72	35	5,121
BBB		296	151	11	1,497	1,955	6	–	1,961
Below investment grade		51	–	1	129	181	11	–	192
Not rated		–	–	–	6	6	–	–	6
Subtotal		4,675	491	15	7,729	12,910	178	338	13,426

Notes:

(1) Of the total government bonds issued in local currency listed as "Other" at 31 December 2018, 71 per cent are rated as investment grade and a further 21 per cent are rated BB- and above. The remaining are rated below BB-.

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

(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.

20. FINANCIAL INVESTMENTS (continued)
Debt securities (continued)

US$m	Policyholder and shareholder: Participating funds and Other participating business with distinct portfolios FVTPL	AFS	Other policyholder and shareholder FVTPL	AFS	Subtotal	Unit-linked FVTPL	Consolidated investment funds[(2)] FVTPL	Total
31 December 2018								
Corporate bonds								
AAA	**43**	**178**	**–**	**368**	**589**	**5**	**–**	**594**
AA	**468**	**1,661**	**17**	**3,149**	**5,295**	**17**	**382**	**5,694**
A	**4,938**	**8,531**	**37**	**17,490**	**30,996**	**309**	**1,147**	**32,452**
BBB	**4,161**	**8,890**	**123**	**18,439**	**31,613**	**632**	**169**	**32,414**
Below investment grade	**500**	**276**	**15**	**1,739**	**2,530**	**149**	**–**	**2,679**
Not rated	**–**	**–**	**2**	**1**	**3**	**113**	**–**	**116**
Subtotal	**10,110**	**19,536**	**194**	**41,186**	**71,026**	**1,225**	**1,698**	**73,949**
Structured securities[(4)]								
AAA	**–**	**–**	**–**	**10**	**10**	**–**	**–**	**10**
AA	**30**	**10**	**–**	**100**	**140**	**–**	**–**	**140**
A	**27**	**132**	**–**	**191**	**350**	**–**	**–**	**350**
BBB	**143**	**178**	**–**	**131**	**452**	**–**	**–**	**452**
Below investment grade	**–**	**–**	**–**	**4**	**4**	**–**	**–**	**4**
Not rated	**17**	**–**	**18**	**1**	**36**	**–**	**–**	**36**
Subtotal	**217**	**320**	**18**	**437**	**992**	**–**	**–**	**992**
Total[(5)]	**22,323**	**21,981**	**648**	**90,504**	**135,456**	**2,729**	**2,036**	**140,221**

Notes:
(2) 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$5,282m are restricted due to local regulatory requirements.

20. FINANCIAL INVESTMENTS (continued)
Debt securities (continued)

US$m	Rating	Policyholder and shareholder[4] Participating funds and Other participating business with distinct portfolios FVTPL	AFS	Other policyholder and shareholder FVTPL	AFS	Subtotal	Unit-linked FVTPL	Consolidated investment funds[2] FVTPL	Total
30 November 2017									
Government bonds – issued in local currency									
Thailand	A	–	–	–	13,141	13,141	–	–	13,141
China	A	1,520	–	–	6,821	8,341	27	–	8,368
Korea	AA	–	–	–	5,439	5,439	272	–	5,711
Singapore	AAA	2,440	–	–	1,230	3,670	476	–	4,146
Philippines	BBB	–	–	–	2,346	2,346	55	–	2,401
Malaysia	A	1,249	–	–	562	1,811	25	–	1,836
United States	AA	168	24	–	3,076	3,268	1	–	3,269
Indonesia	BBB	77	–	25	379	481	55	–	536
Other[1]		6	–	–	744	750	2	–	752
Subtotal		5,460	24	25	33,738	39,247	913	–	40,160
Government bonds – foreign currency									
AAA		–	–	–	–	–	8	–	8
AA		36	274	–	525	835	25	–	860
A		90	252	–	579	921	16	–	937
BBB		117	338	23	1,339	1,817	185	–	2,002
Below investment grade		6	6	6	47	65	–	–	65
Subtotal		249	870	29	2,490	3,638	234	–	3,872
Government agency bonds[3]									
AAA		1,184	61	–	847	2,092	90	–	2,182
AA		367	119	–	3,398	3,884	63	263	4,210
A		2,084	205	3	2,846	5,138	38	56	5,232
BBB		198	127	10	1,366	1,701	5	–	1,706
Below investment grade		71	35	1	225	332	14	–	346
Subtotal		3,904	547	14	8,682	13,147	210	319	13,676

Notes:

(1) Of the total government bonds issued in local currency listed as "Other" at 30 November 2017, 44 per cent are rated as investment grade and a further 38 per cent are rated BB- and above. The remaining are rated below BB-.

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

(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) The comparative information has been adjusted to conform to the current period presentation.

20. FINANCIAL INVESTMENTS (continued)

Debt securities (continued)

US$m	Policyholder and shareholder[4] Participating funds and Other participating business with distinct portfolios FVTPL	AFS	Other policyholder and shareholder FVTPL	AFS	Subtotal	Unit-linked FVTPL	Consolidated investment funds[2] FVTPL	Total
30 November 2017								
Corporate bonds								
AAA	46	154	–	277	477	5	–	482
AA	475	1,148	17	2,873	4,513	11	349	4,873
A	5,198	7,511	30	18,639	31,378	377	1,139	32,894
BBB	4,510	7,541	106	17,920	30,077	598	181	30,856
Below investment grade	679	391	19	2,030	3,119	191	–	3,310
Not rated	–	–	2	–	2	177	–	179
Subtotal	10,908	16,745	174	41,739	69,566	1,359	1,669	72,594
Structured securities[5]								
AAA	–	–	–	9	9	–	–	9
AA	–	10	–	54	64	–	–	64
A	18	144	–	157	319	–	–	319
BBB	165	167	–	83	415	–	–	415
Below investment grade	–	–	–	6	6	–	–	6
Not rated	31	–	21	1	53	–	–	53
Subtotal	214	321	21	310	866	–	–	866
Total[6]	20,735	18,507	263	86,959	126,464	2,716	1,988	131,168

Notes:
(2) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.
(4) The comparative information has been adjusted to conform to the current period presentation.
(5) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
(6) Debt securities of US$4,900m are restricted due to local regulatory requirements.

The Group's debt securities classified at fair value through profit or loss are all designated at fair value through profit or loss.

20. FINANCIAL INVESTMENTS (continued)

Equity securities

Equity securities by type comprise the following:

US$m	Policyholder and shareholder: Participating funds and Other participating business with distinct portfolios FVTPL	Policyholder and shareholder: Other policyholder and shareholder FVTPL	Subtotal	Unit-linked FVTPL	Consolidated investment funds(1) FVTPL	Total
31 December 2018						
Equity shares	**9,225**	**5,042**	**14,267**	**4,516**	**–**	**18,783**
Interests in investment funds	**4,667**	**747**	**5,414**	**13,902**	**–**	**19,316**
Total	**13,892**	**5,789**	**19,681**	**18,418**	**–**	**38,099**

US$m	Policyholder and shareholder(2): Participating funds and Other participating business with distinct portfolios FVTPL	Policyholder and shareholder(2): Other policyholder and shareholder FVTPL	Subtotal	Unit-linked FVTPL	Consolidated investment funds(1) FVTPL	Total
30 November 2017						
Equity shares	8,730	5,168	13,898	4,610	–	18,508
Interests in investment funds	3,154	711	3,865	14,343	–	18,208
Total	11,884	5,879	17,763	18,953	–	36,716

Note:

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

(2) The comparative information has been adjusted to conform to the current year presentation.

Debt and equity securities

US$m	As at 31 December 2018	As at 30 November 2017
Debt securities		
Listed	**111,008**	100,647
Unlisted	**29,213**	30,521
Total	**140,221**	131,168
Equity securities		
Listed	**20,060**	20,205
Unlisted(1)	**18,039**	16,511
Total	**38,099**	36,716

Note:

(1) Including US$16,495m (30 November 2017: US$15,375m) of investment funds which can be redeemed daily.

20. 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 31 December 2018		As at 30 November 2017	
US$m	Investment funds	Structured securities[1]	Investment funds	Structured securities[1]
Available for sale debt securities	**1,506[2]**	**757**	1,250[2]	631
Debt securities at fair value through profit or loss	**638[2]**	**235**	520[2]	235
Equity securities at fair value through profit or loss	**19,316**	**–**	18,208	–
Total	**21,460**	**992**	19,978	866

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.

20. FINANCIAL INVESTMENTS (continued)

Loans and deposits

US$m	As at 31 December 2018	As at 30 November 2017
Policy loans	**2,896**	2,726
Mortgage loans on residential real estate	**613**	600
Mortgage loans on commercial real estate	**46**	53
Other loans	**742**	889
Allowance for loan losses	**(12)**	(12)
Loans	**4,285**	4,256
Term deposits	**1,521**	2,138
Promissory notes[1]	**1,586**	1,579
Total	**7,392**	7,973

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. The restricted balance held within term deposits and promissory notes is US$1,782m (30 November 2017: US$1,749m).

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 31 December 2018, the carrying value of such receivables is US$149m (30 November 2017: US$326m).

21. DERIVATIVE FINANCIAL INSTRUMENTS

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

		Fair value	
US$m	Notional amount	Assets	Liabilities
31 December 2018			
Foreign exchange contracts			
Cross-currency swaps	**7,825**	**224**	**(159)**
Forwards	**4,456**	**11**	**(42)**
Foreign exchange futures	**105**	**–**	**–**
Currency options	**6**	**–**	**–**
Total foreign exchange contracts	**12,392**	**235**	**(201)**
Interest rate contracts			
Interest rate swaps	**4,730**	**122**	**(42)**
Other			
Warrants and options	**4,211**	**57**	**–**
Forward contracts	**275**	**16**	**–**
Netting	**(105)**	**–**	**–**
Total	**21,503**	**430**	**(243)**
30 November 2017			
Foreign exchange contracts			
Cross-currency swaps	7,569	249	(164)
Forwards	5,921	47	(142)
Foreign exchange futures	139	–	–
Currency options	7	–	–
Total foreign exchange contracts	13,636	296	(306)
Interest rate contracts			
Interest rate swaps	3,157	51	(55)
Other			
Warrants and options	161	16	–
Netting	(139)	–	–
Total	16,815	363	(361)

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$6m (30 November 2017: US$8m) 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.

21. 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. Forward contracts are contractual obligations to buy or sell a financial instrument on a predetermined future date at a specified price.

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 31 December 2018, the Group had posted cash collateral of US$20m (30 November 2017: US$10m) and pledged debt securities with carrying value of US$141m (30 November 2017: US$227m) for liabilities and held cash collateral of US$251m (30 November 2017: US$141m), debt securities collateral with carrying value of US$41m (30 November 2017: US$15m) 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.

22. 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
31 December 2018						
Financial investments	20					
Loans and deposits		–	–	7,392	7,392	7,392
Debt securities		27,736	112,485	–	140,221	140,221
Equity securities		38,099	–	–	38,099	38,099
Derivative financial instruments	21	430	–	–	430	430
Reinsurance receivables	18	–	–	539	539	539
Other receivables	23	–	–	2,242	2,242	2,242
Accrued investment income	23	–	–	1,604	1,604	1,604
Cash and cash equivalents	25	–	–	2,451	2,451	2,451
Financial assets		**66,265**	**112,485**	**14,228**	**192,978**	**192,978**

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities	27	6,907	549	7,456	7,456
Borrowings	29	–	4,954	4,954	4,984
Obligations under repurchase and securities lending agreements	30	–	1,683	1,683	1,683
Derivative financial instruments	21	243	–	243	243
Other liabilities	33	1,153	4,831	5,984	5,984
Financial liabilities		**8,303**	**12,017**	**20,320**	**20,350**

22. 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 2017						
Financial investments	20					
Loans and deposits		–	–	7,973	7,973	7,977
Debt securities		25,702	105,466	–	131,168	131,168
Equity securities		36,716	–	–	36,716	36,716
Derivative financial instruments	21	363	–	–	363	363
Reinsurance receivables	18	–	–	506	506	506
Other receivables	23	–	–	2,150	2,150	2,150
Accrued investment income	23	–	–	1,541	1,541	1,541
Cash and cash equivalents	25	–	–	2,289	2,289	2,289
Financial assets		62,781	105,466	14,459	182,706	182,710

	Notes	Fair value through profit or loss	Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities					
Investment contract liabilities[(1)]	27	7,020	580	7,600	7,600
Borrowings	29	–	3,958	3,958	4,144
Obligations under repurchase agreements	30	–	1,883	1,883	1,883
Derivative financial instruments	21	361	–	361	361
Other liabilities	33	1,225	4,663	5,888	5,888
Financial liabilities		8,606	11,084	19,690	19,876

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 37 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.

Note:

(1) The comparative information has been adjusted to conform to the current period presentation.

22. 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 thirteen months ended 31 December 2018.

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.

22. FAIR VALUE MEASUREMENT (continued)

Determination of fair value (continued)

Derivative financial instruments

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

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

Property held for own use and investment property

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

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

Cash and cash equivalents

The carrying amount of cash approximates its fair value.

Reinsurance receivables

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

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

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

Other assets

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

22. 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 26. 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.

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.

22. 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
31 December 2018				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	–	–	982	982
Investment property	–	–	4,794	4,794
Financial assets				
Available for sale				
Debt securities				
Participating funds and Other participating business with distinct portfolios	27	21,645	309	21,981
Other policyholder and shareholder	–	89,591	913	90,504
At fair value through profit or loss				
Debt securities				
Participating funds and Other participating business with distinct portfolios	7	21,785	531	22,323
Unit-linked and consolidated investment funds	–	4,697	68	4,765
Other policyholder and shareholder	1	618	29	648
Equity securities				
Participating funds and Other participating business with distinct portfolios	12,124	710	1,058	13,892
Unit-linked and consolidated investment funds	18,223	195	–	18,418
Other policyholder and shareholder	4,859	655	275	5,789
Derivative financial instruments				
Foreign exchange contracts	–	235	–	235
Interest rate contracts	–	122	–	122
Other contracts	2	71	–	73
Total assets on a recurring fair value measurement basis	35,243	140,324	8,959	184,526
% of Total	*19.1*	*76.0*	*4.9*	*100.0*
Financial liabilities				
Investment contract liabilities	–	–	6,907	6,907
Derivative financial instruments				
Foreign exchange contracts	–	201	–	201
Interest rate contracts	–	42	–	42
Other liabilities	–	1,153	–	1,153
Total liabilities on a recurring fair value measurement basis	–	1,396	6,907	8,303
% of Total	*–*	*16.8*	*83.2*	*100.0*

22. FAIR VALUE MEASUREMENT (continued)

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

US$m	Fair value hierarchy Level 1	Level 2	Level 3	Total
30 November 2017				
Recurring fair value measurements				
Non-financial assets				
Property held for own use	–	–	979	979
Investment property	–	–	4,365	4,365
Financial assets				
Available for sale				
Debt securities				
Participating funds and Other participating business with distinct portfolios[1]	–	18,200	307	18,507
Other policyholder and shareholder[1]	–	86,118	841	86,959
At fair value through profit or loss				
Debt securities				
Participating funds and Other participating business with distinct portfolios[1]	–	20,283	452	20,735
Unit-linked and consolidated investment funds	–	4,604	100	4,704
Other policyholder and shareholder[1]	–	231	32	263
Equity securities				
Participating funds and Other participating business with distinct portfolios[1]	10,617	475	792	11,884
Unit-linked and consolidated investment funds	18,803	149	1	18,953
Other policyholder and shareholder[1]	5,042	570	267	5,879
Derivative financial instruments				
Foreign exchange contracts	–	296	–	296
Interest rate contracts	–	51	–	51
Other contracts	8	8	–	16
Total assets on a recurring fair value measurement basis	34,470	130,985	8,136	173,591
% of Total	*19.9*	*75.4*	*4.7*	*100.0*
Financial liabilities				
Investment contract liabilities[1]	–	–	7,020	7,020
Derivative financial instruments				
Foreign exchange contracts	–	306	–	306
Interest rate contracts	–	55	–	55
Other liabilities	–	1,225	–	1,225
Total liabilities on a recurring fair value measurement basis	–	1,586	7,020	8,606
% of Total	–	*18.4*	*81.6*	*100.0*

Note:

(1) The information has been adjusted to conform to the current period presentation.

22. FAIR VALUE MEASUREMENT (continued)

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

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 thirteen months ended 31 December 2018, the Group transferred US$15m (twelve months ended 30 November 2017: US$50m) 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 no asset (twelve months ended 30 November 2017: US$148m) from Level 2 to Level 1 during the thirteen months ended 31 December 2018.

The Group's Level 2 financial instruments include debt securities, equity securities, derivative instruments and other liabilities. 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.

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 thirteen months ended 31 December 2018 and the twelve months ended 30 November 2017. The tables reflect gains and losses, including gains and losses on assets and liabilities categorised as Level 3 as at 31 December 2018 and 30 November 2017.

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 2017	**979**	**4,365**	**1,732**	**1,060**	**–**	**(7,020)**
Net movement on investment contract liabilities	–	–	–	–	–	593
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	(30)	477	15	(14)	–	–
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	34	(37)	(55)	(16)	–	–
Acquisition of subsidiaries	–	–	–	–	–	(480)
Transfer to other assets	–	(34)	–	–	–	–
Transfer from investment property	8	(8)	–	–	–	–
Purchases	1	38	635	375	–	–
Sales	(10)	(7)	(11)	(72)	–	–
Settlements	–	–	(492)	–	–	–
Transfer into Level 3	–	–	26	–	–	–
At 31 December 2018	**982**	**4,794**	**1,850**	**1,333**	**–**	**(6,907)**
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 and other expenses	**(30)**	**477**	**14**	**19**	**–**	**–**

22. FAIR VALUE MEASUREMENT (continued)

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

Level 3 assets and liabilities (continued)

US$m	Property held for own use	Investment property	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts[1]
At 1 December 2016	905	3,910	1,947	688	–	(5,941)
Net movement on investment contract liabilities	–	–	–	–	–	(1,079)
Total gains/(losses)						
Reported under investment return and other expenses in the consolidated income statement	(16)	367	(56)	31	–	–
Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the consolidated statement of comprehensive income	115	66	55	18	–	–
Transfer to investment property	(24)	24	–	–	–	–
Purchases	1	10	216	369	–	–
Sales	(2)	(12)	(20)	(35)	–	–
Settlements	–	–	(410)	–	–	–
Transfer into Level 3	–	–	–	2	–	–
Transfer out of Level 3	–	–	–	(13)	–	–
At 30 November 2017	979	4,365	1,732	1,060	–	(7,020)
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 and other expenses	(16)	367	(61)	31	–	–

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 27.

Assets transferred out of Level 3 mainly relate to corporate debt instruments of which market-observable inputs became available during the period 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.

Note:

(1) The information has been adjusted to conform to the current period presentation.

22. FAIR VALUE MEASUREMENT (continued)

Significant unobservable inputs for level 3 fair value measurements

As at 31 December 2018 and 30 November 2017, 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 31 December 2018 (US$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	**872**	**Discounted cash flows**	**Risk adjusted discount rate**	**3.83% – 13.41%**

Description	Fair value at 30 November 2017 (US$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	943	Discounted cash flows	Risk adjusted discount rate	5.29% – 11.89%

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

Valuation processes

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

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

22. FAIR VALUE MEASUREMENT (continued)

Fair value of financial and insurance assets and liabilities for which the fair value is disclosed at reporting date

A summary of fair value hierarchy of assets and liabilities not carried at fair value but for which the fair value is disclosed as at 31 December 2018 and 30 November 2017 is given below.

	Fair value hierarchy			
US$m	Level 1	Level 2	Level 3	Total
31 December 2018				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	**601**	**2,525**	**4,266**	**7,392**
Reinsurance receivables	**–**	**539**	**–**	**539**
Other receivables	**5**	**2,178**	**59**	**2,242**
Accrued investment income	**26**	**1,578**	**–**	**1,604**
Cash and cash equivalents	**2,451**	**–**	**–**	**2,451**
Total assets for which the fair value is disclosed	**3,083**	**6,820**	**4,325**	**14,228**
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	**–**	**–**	**549**	**549**
Borrowings	**4,504**	**480**	**–**	**4,984**
Obligations under repurchase and securities lending agreements	**–**	**1,683**	**–**	**1,683**
Other liabilities	**476**	**4,131**	**224**	**4,831**
Total liabilities for which the fair value is disclosed	**4,980**	**6,294**	**773**	**12,047**

	Fair value hierarchy			
US$m	Level 1	Level 2	Level 3	Total
30 November 2017				
Assets for which the fair value is disclosed				
Financial assets				
Loans and deposits	1,112	2,680	4,185	7,977
Reinsurance receivables	–	506	–	506
Other receivables	–	2,109	41	2,150
Accrued investment income	21	1,520	–	1,541
Cash and cash equivalents	2,289	–	–	2,289
Total assets for which the fair value is disclosed	3,422	6,815	4,226	14,463
Liabilities for which the fair value is disclosed				
Financial liabilities				
Investment contract liabilities	–	–	580	580
Borrowings	3,630	514	–	4,144
Obligations under repurchase agreements	–	1,883	–	1,883
Other liabilities	692	3,938	33	4,663
Total liabilities for which the fair value is disclosed	4,322	6,335	613	11,270

23. OTHER ASSETS

US$m	As at 31 December 2018	As at 30 November 2017
Accrued investment income	**1,604**	1,541
Pension scheme assets		
Defined benefit pension scheme surpluses	**47**	44
Insurance receivables due from insurance and investment contract holders	**1,316**	1,223
Prepayments – operating lease of leasehold land	**385**	357
Others	**1,551**	1,465
Total	**4,903**	4,630

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

24. 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 thirteen months ended 31 December 2018, impairment loss of US$81m (twelve months ended 30 November 2017: nil) was recognised in respect of available for sale debt securities.

The carrying amounts of available for sale debt securities that are individually determined to be impaired at 31 December 2018 was nil (30 November 2017: nil).

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 20 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 31 December 2018 was US$13m (30 November 2017: US$12m).

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.

25. CASH AND CASH EQUIVALENTS

US$m	As at 31 December 2018	As at 30 November 2017
Cash	**1,657**	1,735
Cash equivalents	**794**	554
Total[(1)]	**2,451**	2,289

Note:

(1) Of cash and cash equivalents, US$590m (30 November 2017: US$385m) are held to back unit-linked contracts and US$82m (30 November 2017: US$71m) 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.

26. INSURANCE CONTRACT LIABILITIES

The movement of insurance contract liabilities (including liabilities in respect of investment contracts with DPF) is shown as follows:

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
At beginning of financial period	**148,897**	128,186
Valuation premiums and deposits	**31,660**	25,586
Liabilities released for policy termination or other policy benefits paid and related expenses	**(17,576)**	(14,929)
Fees from account balances	**(1,924)**	(1,817)
Accretion of interest	**5,610**	4,417
Change in net asset values attributable to policyholders	**(666)**	2,762
Acquisition of subsidiaries	**91**	–
Foreign exchange movements	**(1,949)**	5,232
Other movements	**621**	(540)
At end of financial period	**164,764**	148,897

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF) can also be analysed as follows:

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Deferred profit	**8,386**	7,046
Unearned revenue	**3,224**	2,674
Policyholders' share of participating surplus	**7,474**	7,935
Liabilities for future policyholder benefits	**145,680**	131,242
Total	**164,764**	148,897

26. 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.

26. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions

The most significant items to which profit for the period 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 period 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.

26. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions (continued)

Valuation interest rates

As at 31 December 2018 and 30 November 2017, the ranges of applicable valuation interest rates for traditional insurance contracts, which vary by operating segment, year of issuance and products, within the first 20 years are as follows:

	As at 31 December 2018	As at 30 November 2017
Hong Kong	**3.50% – 7.50%**	3.50% – 7.50%
Thailand	**3.13% – 9.00%**	3.13% – 9.00%
Singapore	**2.00% – 7.00%**	2.00% – 7.00%
Malaysia	**3.70% – 5.43%**	3.70% – 5.43%
China	**2.75% – 7.00%**	2.75% – 7.00%
Australia	**2.04% – 7.11%**	2.97% – 7.11%
Indonesia	**3.02% – 8.75%**	3.01% – 9.00%
Korea	**2.74% – 6.50%**	2.85% – 6.50%
Philippines	**2.20% – 9.20%**	2.20% – 9.20%
Sri Lanka	**8.34% – 12.57%**	7.10% – 10.78%
Taiwan	**1.75% – 6.50%**	1.75% – 6.50%
Vietnam	**5.53% – 11.48%**	5.53% – 11.48%

27. INVESTMENT CONTRACT LIABILITIES

US$m	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
At beginning of financial period	**8,082**	7,028
Investment contract benefits	**(462)**	1,212
Fees charged	**(134)**	(145)
Acquisition of subsidiaries	**480**	–
Net withdrawals and other movements	**(3)**	(136)
Foreign exchange movements	**(78)**	123
At end of financial period[(1)]	**7,885**	8,082

Note:

(1) Of investment contract liabilities, US$429m (30 November 2017: US$482m) represents deferred fee income.

28. 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 31 December 2018**	As at 30 November 2017
(Increase)/decrease in insurance contract liabilities, increase/(decrease) in equity and profit before tax		
0.5 pps increase in investment return	**42**	20
0.5 pps decrease in investment return	**(64)**	(39)
10% increase in expenses	**(11)**	(7)
10% increase in mortality rates	**(55)**	(42)
10% increase in lapse/discontinuance rates	**(39)**	(32)

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$11m (twelve months ended 30 November 2017: US$16m) increase in profit.

29. BORROWINGS

US$m	As at 31 December 2018	As at 30 November 2017
Medium-term notes	**4,954**	3,958
Total	**4,954**	3,958

Interest expense on borrowings is shown in note 10. Further information relating to interest rates and the maturity profile of borrowings is presented in note 37.

The following table summarises the Company's outstanding medium-term notes placed to the market at 31 December 2018:

Issue date	Nominal amount	Interest rate	Tenor
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
23 May 2017(2)	US$500m	4.470%	30 years
6 April 2018(1)	US$500m	3.900%	10 years
12 April 2018	HK$3,900m	2.760%	3 years
20 September 2018(1)	US$500m	3M LIBOR + 0.52%	3 years

Notes:

(1) These medium-term notes are listed on The Stock Exchange of Hong Kong Limited.

(2) These medium-term notes are listed on The Taipei Exchange, Taiwan. The Company has the right to redeem these notes at par on 23 May of each year beginning on 23 May 2022.

The net proceeds from issuance during the thirteen months ended 31 December 2018 and the twelve months ended 30 November 2017 are used for general corporate purposes.

The Group has access to an aggregate of US$2,374m unsecured committed credit facilities, which includes a US$300m revolving three-year credit facility expiring in 2020, as well as a US$2,074m five-year credit facility expiring in 2022. The credit facilities will be used for general corporate purposes. There were no outstanding borrowings under these credit facilities as of 31 December 2018 (30 November 2017: nil).

30. OBLIGATIONS UNDER REPURCHASE AND SECURITIES LENDING 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. In addition, the Group has entered into securities lending agreement whereby securities are loaned to a national monetary authority.

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 and securities lending 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 or securities lending agreements which do not qualify for de-recognition at each period end:

US$m	**As at 31 December 2018**	As at 30 November 2017
Debt securities – AFS		
Repurchase agreements	**1,748**	1,854
Securities lending	**340**	–
Debt securities – FVTPL		
Repurchase agreements	**16**	12
Total	**2,104**	1,866

Collateral

At 31 December 2018, the Group had no pledged debt securities (30 November 2017: US$1m). Cash collateral of US$5m (30 November 2017: US$1m) were held based on the market value of the securities transferred. In the absence of default, the Group does not sell or repledge the debt securities collateral received and they are not recognised in the consolidated statement of financial position.

The securities lending transactions outstanding as at 31 December 2018 are conducted with a national monetary authority on securities denominated in local currency issued by the same authority.

At 31 December 2018, the obligations under repurchase agreements were US$1,683m (30 November 2017: US$1,883m).

31. 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 period end:

US$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
31 December 2018						
Financial assets:						
Derivative assets	**430**	**–**	**430**	**(41)**	**(251)**	**138**
Reverse repurchase agreements	**149**	**–**	**149**	**(149)**	**–**	**–**
Total	**579**	**–**	**579**	**(190)**	**(251)**	**138**

US$m	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
30 November 2017						
Financial assets:						
Derivative assets	363	–	363	(15)	(141)	207
Reverse repurchase agreements	326	–	326	(326)	–	–
Total	689	–	689	(341)	(141)	207

31. 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 period 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	
31 December 2018						
Financial liabilities:						
Derivative liabilities	**243**	**–**	**243**	**(141)**	**(20)**	**82**
Repurchase agreements	**1,683**	**–**	**1,683**	**(1,683)**	**–**	**–**
Total	**1,926**	**–**	**1,926**	**(1,824)**	**(20)**	**82**

US$m	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
30 November 2017						
Financial liabilities:						
Derivative liabilities	361	–	361	(227)	(10)	124
Repurchase agreements	1,883	–	1,883	(1,883)	–	–
Total	2,244	–	2,244	(2,110)	(10)	124

The Group entered into enforceable master netting agreements for derivative transactions, as well as the repurchase and securities lending 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.

32. PROVISIONS

US$m	Employee benefits	Other	Total
At 1 December 2016	145	108	253
Charged to the consolidated income statement	7	94	101
Charged to other comprehensive income	(23)	–	(23)
Exchange differences	9	–	9
Released during the year	–	(29)	(29)
Utilised during the year	(12)	(83)	(95)
Other movements	17	1	18
At 30 November 2017	**143**	**91**	**234**
Charged to the consolidated income statement	**10**	**30**	**40**
Charged to other comprehensive income	**(8)**	**–**	**(8)**
Exchange differences	**–**	**(1)**	**(1)**
Released during the period	**–**	**(11)**	**(11)**
Utilised during the period	**(18)**	**(64)**	**(82)**
Other movements	**3**	**(7)**	**(4)**
At 31 December 2018	**130**	**38**	**168**

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.

33. OTHER LIABILITIES

US$m	**As at 31 December 2018**	As at 30 November 2017
Trade and other payables	**3,964**	3,958
Third-party interests in consolidated investment funds	**1,153**	1,225
Reinsurance-related payables	**867**	705
Total	**5,984**	5,888

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.

34. SHARE CAPITAL AND RESERVES

Share capital

	As at 31 December 2018		As at 30 November 2017	
	Million shares	US$m	Million shares	US$m
At beginning of the financial period	**12,074**	**14,065**	12,056	13,998
Shares issued under share option scheme and agency share purchase plan	**3**	**8**	18	67
At end of the financial period	**12,077**	**14,073**	12,074	14,065

The Company issued 1,355,304 shares under share option scheme (twelve months ended 30 November 2017: 17,053,136 shares) and 1,167,021 shares under agency share purchase plan (twelve months ended 30 November 2017: 1,037,294 shares) during the thirteen months ended 31 December 2018.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the thirteen months ended 31 December 2018 with the exception of 1,409,735 shares (twelve months ended 30 November 2017: 1,395,132 shares) of the Company purchased by and nil share (twelve months ended 30 November 2017: nil) 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 thirteen months ended 31 December 2018, 12,870,000 shares (twelve months ended 30 November 2017: 15,730,944 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 31 December 2018, 52,259,936 shares (30 November 2017: 63,720,201 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.

35. NON-CONTROLLING INTERESTS

US$m	As at 31 December 2018	As at 30 November 2017
Equity shares in subsidiaries	**71**	64
Share of earnings	**356**	310
Share of other reserves	**(27)**	4
Total	**400**	378

36. 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 AIA's capacity to pay dividends to shareholders.

Regulatory Solvency

The Group is in compliance with the solvency and capital adequacy requirements applied by its regulators. The Group's primary insurance regulator at the AIA Company Limited (AIA Co.) and AIA International Limited (AIA International) levels is the Hong Kong Insurance Authority (HKIA), which requires that AIA Co. and AIA International meet the solvency margin requirements of the Hong Kong Insurance Ordinance (HKIO). The HKIO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.

On 16 May 2017, the HKIA and the China Banking and Insurance Regulatory Commission (formerly the China Insurance Regulatory Commission) signed the Equivalence Assessment Framework Agreement on the Solvency Regulatory Regime. As a transitional arrangement, AIA will report under the HKIO the capital position of its China branches based on the China local regulatory solvency basis progressively over a 4-year phase-in period to full implementation on 31 March 2022.

AIA has given an undertaking to the HKIA to maintain an excess of assets over liabilities for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement in each of AIA Co. and AIA International.

The capital positions of the Group's two principal operating companies as of 31 December 2018 and 30 November 2017 are as follows:

	31 December 2018			30 November 2017		
US$m	**Total available capital**	**Regulatory minimum capital**	**Solvency ratio**	Total available capital	Regulatory minimum capital	Solvency ratio
AIA Co.	**9,208**	**2,189**	**421%**	8,248	1,862	443%
AIA International	**6,772**	**1,855**	**365%**	7,826	2,431	322%

For these purposes, the Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the HKIO and "regulatory minimum capital" as the required minimum margin of solvency calculated in accordance with the HKIO. The solvency ratio is the ratio of total available capital to regulatory minimum capital.

36. GROUP CAPITAL STRUCTURE (continued)

Regulatory Solvency (continued)

The Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries and their parent entity operate and, in relation to subsidiaries, in which they are incorporated. The various regulators overseeing the Group actively monitor our local solvency positions. AIA Co. and AIA International submit annual filings to the HKIA of their solvency margin position based on their annual audited financial statements.

The ability of the Company to pay dividends to shareholders and to meet other obligations depends ultimately on dividends and other payments being received from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations. The various regulators overseeing the individual branches and subsidiaries of the Group have the discretion to impose additional restrictions on the ability of those regulated subsidiaries and branches to make payment of dividends or other distributions and payments to AIA Co., including increasing the required margin of solvency that an operating unit must maintain. For example, capital may not be remitted without the consent from regulators for certain individual branches or subsidiaries of the Group. The payment of dividends, distributions and other payments to shareholders is subject to the oversight of the HKIA.

Capital and Regulatory Orders Specific to the Group

As of 31 December 2018, the requirements and restrictions summarised below may be considered material to the Group and remain in effect unless otherwise stated.

Hong Kong Insurance Authority

AIA Group Limited has given to the HKIA an undertaking that AIA Group Limited will:

(i) ensure that (a) each of AIA Co. and AIA International will at all times maintain an excess of assets over liabilities of not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of the Hong Kong branch and no less than 100% of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong ("minimum amount"); (b) it will not withdraw capital or transfer any funds or assets out of AIA Co. or AIA International that will cause the solvency ratio to fall below the minimum amounts specified in (a), except with, in either case, the prior written consent of the HKIA; 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 HKIA;

(ii) notify the HKIA in writing as soon as the Company becomes aware of any person (a) becoming a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the acquisition of our shares traded on the HKSE; or (b) ceasing to be a controller (within the meaning of Section 9(1)(a)(iii)(B) of the HKIO) of AIA Co. and AIA International through the disposal of our shares traded on the HKSE;

(iii) be subject to the supervision of the HKIA and AIA Group Limited will be required to continually comply with the HKIA's guidance on the "fit and proper" standards of a controller pursuant to Section 8(2) of the HKIO. The HKIA is empowered by the HKIO to raise objection if it appears to it that any person is not fit and proper to be a controller or director of an authorised insurer. These standards include the sufficiency of a holding company's financial resources; the viability of a holding company's business plan for its insurance subsidiaries which are regulated by the HKIA; 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 HKIA 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 HKIA; 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 HKIA or requirements that may be prescribed by the HKIA in accordance with the HKIO, regulations under the HKIO or guidelines issued by the HKIA from time to time.

37. RISK MANAGEMENT

Risk management framework

AIA recognises the importance of sound risk management in every aspect of our business and for all our stakeholders. The Risk Management Framework (RMF) provides the structure for identifying, quantifying and mitigating risk across the Group. An effective RMF is the key to avoiding the financial and reputational damage that arises from inadequate or ineffective control of the risks in the business.

Insurance risk

Insurance risk is the risk arising from changes in claims experience as well as more general exposure relating to the acquisition and persistency of insurance business. This also includes changes to assumptions regarding future experience for these risks.

Lapse

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

Ensuring customers buy products that meet their needs is central to the Group's Operating Philosophy. Through effective implementation of the Business Quality Framework, comprehensive sales training programmes and active monitoring of sales activities and persistency, the Group seeks to ensure that appropriate products are sold by qualified sales representatives and that standards of service consistently meet our customers' needs.

Expense

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

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

Morbidity and Mortality

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

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

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

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

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

37. 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 line of business. The Group's Risk Management function manages the Group's internal ratings framework and reviews these recommendations and make final decision on the assigned ratings. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

Interest rate risk

The Group's exposure to interest rate risk predominantly arises from any differences between the duration of the Group's liabilities and assets. Since most markets do not have assets of sufficient tenor to match life insurance liabilities, an uncertainty arises around the reinvestment of maturing assets to match the Group's insurance liabilities.

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

37. 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
31 December 2018				
Financial assets				
Loans and deposits	978	6,406	8	7,392
Other receivables	2	–	1,970	1,972
Debt securities	6,499	133,722	–	140,221
Equity securities	–	–	38,099	38,099
Reinsurance receivables	–	–	539	539
Accrued investment income	–	–	1,604	1,604
Cash and cash equivalents	2,201	–	250	2,451
Derivative financial instruments	–	–	430	430
Total financial assets	9,680	140,128	42,900	192,708
Financial liabilities				
Investment contract liabilities	–	–	7,456	7,456
Borrowings	500	4,454	–	4,954
Obligations under repurchase and securities lending agreements	1,683	–	–	1,683
Other liabilities	260	2	5,722	5,984
Derivative financial instruments	–	–	243	243
Total financial liabilities	2,443	4,456	13,421	20,320

37. 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 2017				
Financial assets				
Loans and deposits	1,045	6,919	9	7,973
Other receivables	1	–	1,898	1,899
Debt securities	8,392	122,776	–	131,168
Equity securities	–	–	36,716	36,716
Reinsurance receivables	–	–	506	506
Accrued investment income	–	–	1,541	1,541
Cash and cash equivalents	2,001	–	288	2,289
Derivative financial instruments	–	–	363	363
Total financial assets	11,439	129,695	41,321	182,455
Financial liabilities				
Investment contract liabilities[1]	–	–	7,600	7,600
Borrowings	–	3,958	–	3,958
Obligations under repurchase agreements	1,883	–	–	1,883
Other liabilities	92	–	5,796	5,888
Derivative financial instruments	–	–	361	361
Total financial liabilities	1,975	3,958	13,757	19,690

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 align policyholders expectations, 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.

Note:

(1) The information has been adjusted to conform to the current period presentation.

37. 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 28. 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.

	31 December 2018			30 November 2017		
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	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)
Equity price risk						
10 per cent increase in equity prices	**1,369**	**1,369**	**1,369**	1,182	1,182	1,182
10 per cent decrease in equity prices	**(1,369)**	**(1,369)**	**(1,369)**	(1,182)	(1,182)	(1,182)
Interest rate risk						
+50 basis points shift in yield curves	**(258)**	**(6,504)**	**(258)**	(157)	(5,676)	(157)
-50 basis points shift in yield curves	**274**	**7,231**	**274**	169	6,272	169

37. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Foreign exchange rate risk

The Group's foreign exchange rate risk arises mainly from the Group's operations in multiple geographical markets in the Asia-Pacific region and the translation of multiple currencies to US dollar for financial reporting purposes. The balance sheet values of our operating units and subsidiaries are not hedged to the Group's presentation currency, the US dollar.

However, assets, liabilities and local regulatory and stress capital in each business unit are generally currency matched with the exception of holdings of equities denominated in currencies other than the functional currency, or any expected capital movements due within one year which may be hedged. Bonds denominated in currencies other than the functional currency are commonly hedged with cross-currency swaps or foreign exchange forward contracts.

Foreign exchange rate net exposure

US$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
31 December 2018						
Equity analysed by original currency	**19,278**	**2,527**	**3,819**	**(1,821)**	**2,153**	**4,380**
Net notional amounts of currency derivative positions	**(8,448)**	**595**	**3,209**	**2,806**	**–**	**(560)**
Currency exposure	**10,830**	**3,122**	**7,028**	**985**	**2,153**	**3,820**
5% strengthening of original currency						
Impact on profit before tax	**100**	**(36)**	**7**	**12**	**3**	**(21)**
Impact on other comprehensive income	**(125)**	**158**	**344**	**37**	**105**	**212**
Impact on total equity	**(25)**	**122**	**351**	**49**	**108**	**191**
5% strengthening of the US dollar						
Impact on profit before tax	**100**	**70**	**(5)**	**4**	**(2)**	**23**
Impact on other comprehensive income	**(125)**	**(192)**	**(346)**	**(53)**	**(106)**	**(214)**
Impact on total equity	**(25)**	**(122)**	**(351)**	**(49)**	**(108)**	**(191)**

US$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
30 November 2017						
Equity analysed by original currency	24,497	2,772	3,768	(2,356)	2,157	3,527
Net notional amounts of currency derivative positions	(9,225)	597	2,535	3,005	–	8
Currency exposure	15,272	3,369	6,303	649	2,157	3,535
5% strengthening of original currency						
Impact on profit before tax	164	3	(8)	21	4	19
Impact on other comprehensive income	(188)	133	323	12	104	158
Impact on total equity	(24)	136	315	33	108	177
5% strengthening of the US dollar						
Impact on profit before tax	164	30	9	(5)	(3)	(16)
Impact on other comprehensive income	(188)	(166)	(324)	(28)	(105)	(161)
Impact on total equity	(24)	(136)	(315)	(33)	(108)	(177)

37. RISK MANAGEMENT (continued)

Investment and financial risks (continued)

Liquidity risk

AIA identifies liquidity risk as occurring in two ways, financial liquidity risk and investment liquidity risk. Financial liquidity risk is the risk that insufficient cash is available to meet payment obligations to counterparties as they fall due. One area of particular focus in the management of financial liquidity is collateral. AIA manages this exposure by determining limits for its activities in the derivatives and repurchase agreement markets based on the collateral available within the relevant fund or subsidiary to withstand extreme market events. More broadly AIA supports its liquidity through committed bank facilities, use of the bond repurchase markets and maintaining access to debt markets via the Company's Global Medium-term Note and Securities programme.

Investment liquidity risk occurs in relation to the Group's ability to buy and sell investments. This is a function of the size of the Group's holdings relative to the availability of counterparties willing to buy or sell these holdings at any given time. In times of stress, market losses will generally be compounded by forced sellers seeking unwilling buyers.

While life insurance companies are characterised by a relatively low need for liquidity to cover those of their liabilities which are directly linked to mortality and morbidity, this risk is nevertheless carefully managed by continuously assessing the relative liquidity of the Group's assets and managing the size of individual holdings through limits.

US$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
31 December 2018						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	**7,311**	**1,011**	**708**	**270**	**2,422**	**2,900**
Other receivables	**1,913**	**1,788**	**68**	**5**	**–**	**52**
Debt securities	**135,456**	**2,683**	**17,352**	**30,450**	**84,971**	**–**
Equity securities	**19,681**	**–**	**–**	**–**	**–**	**19,681**
Reinsurance receivables	**539**	**539**	**–**	**–**	**–**	**–**
Accrued investment income	**1,546**	**1,537**	**–**	**–**	**–**	**9**
Cash and cash equivalents	**1,779**	**1,779**	**–**	**–**	**–**	**–**
Derivative financial instruments	**428**	**121**	**85**	**164**	**58**	**–**
Subtotal	**168,653**	**9,458**	**18,213**	**30,889**	**87,451**	**22,642**
Financial assets (Unit-linked contracts and consolidated investment funds)	**24,055**	**–**	**–**	**–**	**–**	**24,055**
Total	**192,708**	**9,458**	**18,213**	**30,889**	**87,451**	**46,697**
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	**122,563**	**2,914**	**10,824**	**11,965**	**96,860**	**–**
Borrowings	**4,954**	**500**	**1,496**(1)	**1,241**	**1,717**	**–**
Obligations under repurchase and securities lending agreements	**1,683**	**1,683**	**–**	**–**	**–**	**–**
Other liabilities	**4,754**	**3,526**	**126**	**5**	**2**	**1,095**
Derivative financial instruments	**243**	**54**	**98**	**53**	**38**	**–**
Subtotal	**134,197**	**8,677**	**12,544**	**13,264**	**98,617**	**1,095**
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	**24,073**	**–**	**–**	**–**	**–**	**24,073**
Total	**158,270**	**8,677**	**12,544**	**13,264**	**98,617**	**25,168**

Note:

(1) These borrowings fall due after 2 years through 5 years.

37. 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 2017						
Financial assets (Policyholders and shareholder investments)						
Loans and deposits	7,866	1,427	919	399	2,392	2,729
Other receivables	1,727	1,617	59	6	–	45
Debt securities	126,464	3,834	17,553	31,334	73,743	–
Equity securities	17,763	–	–	–	–	17,763
Reinsurance receivables	506	506	–	–	–	–
Accrued investment income	1,494	1,486	1	–	–	7
Cash and cash equivalents	1,833	1,833	–	–	–	–
Derivative financial instruments	352	76	142	122	12	–
Subtotal	158,005	10,779	18,674	31,861	76,147	20,544
Financial assets (Unit-linked contracts and consolidated investment funds)	24,450	–	–	–	–	24,450
Total	182,455	10,779	18,674	31,861	76,147	44,994
Financial and insurance contract liabilities (Policyholders and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	109,900	2,609	10,420	11,404	85,467	–
Borrowings	3,958	500	499(1)	1,242	1,717	–
Obligations under repurchase agreements	1,883	1,883	–	–	–	–
Other liabilities	4,445	3,314	47	2	–	1,082
Derivative financial instruments	361	170	57	86	48	–
Subtotal	120,547	8,476	11,023	12,734	87,232	1,082
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	24,450	–	–	–	–	24,450
Total	144,997	8,476	11,023	12,734	87,232	25,532

Note:
(1) No borrowings are due after 2 years through 5 years.

38. EMPLOYEE BENEFITS

Defined benefit plans

The Group operates funded and unfunded defined benefit plans that provide life and medical benefits for participating employees after retirement and a lump sum benefit on cessation of employment. The locations covered by these plans include Hong Kong, Singapore, Malaysia, Thailand, Indonesia, Korea, the Philippines, Sri Lanka, Taiwan and Vietnam. The latest independent actuarial valuations of the plans were at 31 December 2018 and were prepared by credentialed actuaries of Mercer (Hong Kong) Limited and Mercer Philippines Inc. 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 48 per cent (30 November 2017: 44 per cent) covered by the plan assets held by the trustees. The fair value of plan assets as at period end at the date of valuation was US$82m (30 November 2017: US$79m). The total expenses relating to these plans recognised in the consolidated income statement was US$10m (twelve months ended 30 November 2017: US$7m).

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current thirteen months was US$89m (twelve months ended 30 November 2017: US$72m). 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.

39. SHARE-BASED COMPENSATION

Share-based compensation plans

During the thirteen months ended 31 December 2018, 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 (30 November 2017: 301,100,000), representing approximately 2.5 per cent (30 November 2017: 2.5 per cent) of the number of shares in issue at 31 December 2018.

39. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

RSU Scheme (continued)

	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Number of shares		
Restricted Share Units		
Outstanding at beginning of financial period	**42,600,687**	49,337,302
Awarded	**11,617,538**	16,003,902
Forfeited	**(4,544,909)**	(7,751,321)
Vested	**(11,871,992)**	(14,989,196)
Outstanding at end of financial period	**37,801,324**	42,600,687

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 (30 November 2017: 301,100,000), representing approximately 2.5 per cent (30 November 2017: 2.5 per cent) of the number of shares in issue at 31 December 2018.

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:

	Thirteen months ended 31 December 2018		Twelve months ended 30 November 2017	
	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 period	**29,112,234**	**42.58**	41,581,033	35.88
Awarded	**4,601,313**	**67.03**	9,460,949	51.70
Exercised	**(1,355,304)**	**38.00**	(17,053,136)	30.10
Forfeited or expired	**(1,954,299)**	**46.73**	(4,876,612)	46.79
Outstanding at end of financial period	**30,403,944**	**46.22**	29,112,234	42.58
Share options exercisable at end of financial period	**12,849,114**	**38.11**	14,134,157	37.38

At the respective dates on which the share options were exercised, the weighted average share price of the Company was HK$67.88 for the thirteen months ended 31 December 2018 (twelve months ended 30 November 2017: HK$52.61).

39. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

SO Scheme (continued)

The range of exercise prices for the share options outstanding as of 31 December 2018 and 30 November 2017 is summarised in the table below.

	Thirteen months ended 31 December 2018		Twelve months ended 30 November 2017	
	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	**4,350,787**	**3.11**	5,059,663	4.21
HK$36 – HK$45	**11,259,533**	**6.40**	12,090,822	7.58
HK$46 – HK$55	**9,041,481**	**7.29**	10,787,231	8.34
HK$56 – HK$65	**1,336,469**	**8.72**	1,174,518	9.67
HK$66 – HK$75	**4,415,674**	**9.20**	–	–
Outstanding at end of financial period	**30,403,944**	**6.70**	29,112,234	7.36

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 thirteen months ended 31 December 2018, eligible employees paid US$24m (twelve months ended 30 November 2017: US$20m) to purchase 2,833,351 ordinary shares (twelve months ended 30 November 2017: 2,739,064 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 thirteen months ended 31 December 2018, eligible agents paid US$25m (twelve months ended 30 November 2017: US$20m) to purchase 2,886,679 ordinary shares (twelve months ended 30 November 2017: 2,708,018 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.

39. 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.

	Thirteen months ended 31 December 2018			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	**1.87%-2.33%**	**1.48%-2.11%***	**1.35%-2.27%**	**1.44%**
Volatility	**20%**	**20%**	**20%**	**20%**
Dividend yield	**1.50%-1.80%**	**1.50%-1.80%**	**1.50%-1.80%**	**1.80%**
Exercise price (HK$)	**63.64-67.15**	**n/a**	**n/a**	**n/a**
Share option life (in years)	**10**	**n/a**	**n/a**	**n/a**
Expected life (in years)	**7.89-7.95**	**n/a**	**n/a**	**n/a**
Weighted average fair value per option/unit at measurement date (HK$)	**13.69**	**57.52**	**60.26**	**54.26**

	Twelve months ended 30 November 2017			
	Share options	Restricted share units	ESPP Restricted stock purchase units	ASPP Restricted stock subscription units
Assumptions				
Risk-free interest rate	1.45% – 1.90%	0.83% – 1.29%*	0.68% – 1.29%	1.25%
Volatility	20%	20%	20%	20%
Dividend yield	1.8%	1.8%	1.8%	1.8%
Exercise price (HK$)	50.30 – 61.55	n/a	n/a	n/a
Share option life (in years)	10	n/a	n/a	n/a
Expected life (in years)	7.95 – 8.00	n/a	n/a	n/a
Weighted average fair value per option/unit at measurement date (HK$)	10.47	39.95	58.25	45.81

* Applicable to RSU with market conditions.

The weighted average share price for share option valuation for awards made during the thirteen months ended 31 December 2018 is HK$67.03 (twelve months ended 30 November 2017: HK$51.70). The total fair value of share options awarded during the thirteen months ended 31 December 2018 is US$8m (twelve months ended 30 November 2017: US$13m).

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 thirteen months ended 31 December 2018 is US$82m (twelve months ended 30 November 2017: US$79m).

40. 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 39.

US$	**Director's fees**	**Salaries, allowances and benefits in kind[1]**	**Bonuses**	**Share-based payments[2]**	**Pension scheme contributions**	**Other benefits**	**Inducement fees**	**Total**
Thirteen months ended 31 December 2018								
Executive Director								
Mr. Ng Keng Hooi[3]	**–**	**1,689,773**	**3,854,533**	**4,023,357**	**99,406**	**–**	**–**	**9,667,069**
Total	**–**	**1,689,773**	**3,854,533**	**4,023,357**	**99,406**	**–**	**–**	**9,667,069**

US$	Director's fees	Salaries, allowances and benefits in kind[1]	Bonuses	Share-based payments[2]	Pension scheme contributions	Other benefits[4]	Inducement fees	Total
Twelve months ended 30 November 2017								
Executive Directors								
Mr. Mark Edward Tucker[5]	–	1,135,952	4,824,000	8,336,772	70,949	1,154,706	–	15,522,379
Mr. Ng Keng Hooi[3]	–	749,333	1,504,110	1,375,587	44,788	–	–	3,673,818
Total	–	1,885,285	6,328,110	9,712,359	115,737	1,154,706	–	19,196,197

Notes:

(1) Includes non-cash benefits for housing, medical and life insurance, club and professional membership, company car and perquisites.

(2) Includes SOs and RSUs awarded based upon the fair value at grant date.

(3) Mr. Ng Keng Hooi is currently the Group Chief Executive and President of the Company. He receives his remuneration exclusively for his role as Group Chief Executive and President and receives no separate fees for his role as Director of the Company or for acting as a director of any subsidiary of the Company.

(4) Includes post-employment benefits received during garden leave and termination benefits.

(5) Mr. Mark Edward Tucker retired as Group Chief Executive and President with effect from 1 June 2017. Formerly, he received remuneration exclusively for his role as Group Chief Executive and President and received no separate fees for his role as Director of the Company or for acting as a director of any subsidiary of the Company.

40. 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 31 December 2018 and 30 November 2017 are included in the tables below:

US$	Director's fees[1]	Salaries, allowances and benefits in kind[2]	Bonuses	Share-based payments	Pension scheme contributions	Other benefits	Inducement fees	Total
Thirteen months ended 31 December 2018								
Independent Non-executive Directors								
Mr. Edmund Sze-Wing Tse	**618,411**	**133,594**	**–**	**–**	**–**	**–**	**–**	**752,005**
Mr. Jack Chak-Kwong So	**282,082**	**–**	**–**	**–**	**–**	**–**	**–**	**282,082**
Mr. Chung-Kong Chow	**238,685**	**–**	**–**	**–**	**–**	**–**	**–**	**238,685**
Mr. John Barrie Harrison	**282,082**	**–**	**–**	**–**	**–**	**–**	**–**	**282,082**
Mr. George Yong-Boon Yeo	**265,808**	**–**	**–**	**–**	**–**	**–**	**–**	**265,808**
Mr. Mohamed Azman Yahya	**222,411**	**–**	**–**	**–**	**–**	**–**	**–**	**222,411**
Professor Lawrence Juen-Yee Lau	**222,411**	**–**	**–**	**–**	**–**	**–**	**–**	**222,411**
Ms. Swee-Lian Teo	**222,411**	**–**	**–**	**–**	**–**	**–**	**–**	**222,411**
Dr. Narongchai Akrasanee[3]	**287,427**	**–**	**–**	**–**	**–**	**–**	**–**	**287,427**
Mr. Cesar Velasquez Purisima	**189,863**	**–**	**–**	**–**	**–**	**–**	**–**	**189,863**
Total	**2,831,591**	**133,594**	**–**	**–**	**–**	**–**	**–**	**2,965,185**

40. 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 contributions	Other benefits	Inducement fees	Total
Twelve months ended 30 November 2017								
Non-executive Director								
Mr. Mark Edward Tucker[4]	–	–	–	–	–	–	–	–
Independent Non-executive Directors								
Mr. Edmund Sze-Wing Tse[5]	570,000	109,383	–	–	–	–	–	679,383
Mr. Jack Chak-Kwong So	260,000	–	–	–	–	–	–	260,000
Mr. Chung-Kong Chow	220,000	–	–	–	–	–	–	220,000
Mr. John Barrie Harrison	260,000	–	–	–	–	–	–	260,000
Mr. George Yong-Boon Yeo	245,000	–	–	–	–	–	–	245,000
Mr. Mohamed Azman Yahya	205,000	–	–	–	–	–	–	205,000
Professor Lawrence Juen-Yee Lau	205,000	–	–	–	–	–	–	205,000
Ms. Swee-Lian Teo	205,000	–	–	–	–	–	–	205,000
Dr. Narongchai Akrasanee[3]	265,000	–	–	–	–	–	–	265,000
Mr. Cesar Velasquez Purisima[6]	43,630	–	–	–	–	–	–	43,630
Total	2,478,630	109,383	–	–	–	–	–	2,588,013

Notes:

(1) Saved as disclosed below, all Directors receive the fees for their role as a Director of the Company and not for acting as a director of any subsidiary of the Company.

(2) Includes non-cash benefits for housing, club and professional membership, medical insurance and company car.

(3) Dr. Narongchai Akrasanee was appointed as Independent Non-executive Director of the Company on 15 January 2016. US$50,000 and US$54,167 which represented remuneration to Dr. Narongchai Akrasanee in respect of his services as Chairman of Advisory Board of AIA Thailand for the twelve months ended 30 November 2017 and for the thirteen months ended 31 December 2018 respectively were included in his fees stated above.

(4) Mr. Mark Edward Tucker was re-designated as Non-executive Director of the Company on 1 June 2017 and retired from the position on 1 September 2017. He did not receive a Director's fee during his tenure of office as a Non-executive Director of the Company.

(5) Mr. Edmund Sze-Wing Tse was re-designated as Independent Non-executive Director of the Company on 23 March 2017.

(6) Mr. Cesar Velasquez Purisima was appointed as Independent Non-executive Director of the Company on 1 September 2017.

Remuneration of five highest-paid individuals

The aggregate remuneration of the five highest-paid individuals employed by the Group in each of the thirteen months ended 31 December 2018 and the twelve months ended 30 November 2017 is presented in the table below.

US$	Director's fees	Salaries, allowances and benefits in kind[1]	Bonuses	Share-based payments[2]	Pension scheme contributions	Other benefits[3]	Inducement fees	Total
Thirteen months ended 31 December 2018	**–**	**5,885,017**	**8,676,292**	**10,343,424**	**326,851**	**465,665**	**–**	**25,697,249**
Twelve months ended 30 November 2017	–	5,098,393	10,523,042	15,462,857	247,032	2,458,727	–	33,790,051

Notes:

(1) 2018 and 2017 non-cash benefits include housing, medical and life insurance, medical check-up, children's education, club and professional membership, company car and perquisites.

(2) Includes SOs and RSUs awarded to the five highest-paid individuals based upon the fair value at grant date.

(3) 2018 other benefits include tax equalisation, 2017 other benefits include post-employment benefits received during garden leave, termination benefits and tax equalisation.

40. 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$	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
28,500,001 to 29,000,000	**–**	1
29,000,001 to 29,500,000	**1**	–
31,500,001 to 32,000,000	**2**	–
32,000,001 to 32,500,000	**–**	1
32,500,001 to 33,000,000	**1**	–
35,000,001 to 35,500,000	**–**	1
45,500,001 to 46,000,000	**–**	1
75,500,001 to 76,000,000	**1**	–
120,500,001 to 121,000,000	**–**	1

Key management personnel remuneration

Key management personnel have been identified as the members of the Group's Executive Committee.

US$	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Key management compensation and other expenses		
Salaries and other short-term employee benefits	**28,562,471**	27,287,043
Post-employment benefits	**726,421**	3,731,580
Share-based payments[1]	**16,266,771**	18,646,971
Termination benefits	**–**	3,078,510
Total	**45,555,663**	52,744,104

Note:

(1) Include SOs and RSUs awarded to the key management personnel based upon the fair value at grant date.

The emoluments of the key management personnel are within the following bands:

US$	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Below 1,000,000	**1**	4
1,000,001 to 2,000,000	**–**	5
2,000,001 to 3,000,000	**4**	1
3,000,001 to 4,000,000	**4**	3
4,000,001 to 5,000,000	**3**	2
5,000,001 to 6,000,000	**–**	1
Over 7,000,000	**1**	1

41. RELATED PARTY TRANSACTIONS

Remuneration of Directors and key management personnel is disclosed in note 40.

42. 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 31 December 2018	As at 30 November 2017
Properties and others expiring		
Not later than one year	**171**	128
Later than one and not later than five years	**301**	219
Later than five years	**41**	48
Total	**513**	395

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 31 December 2018	As at 30 November 2017
Not later than one year	**1,353**	1,231
Later than one and not later than five years	**5**	6
Total	**1,358**	1,237

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$486m at 31 December 2018 (30 November 2017: US$561m). The liabilities and related reinsurance assets, which totalled US$2m (30 November 2017: US$2m), 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.

43. 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 31 December 2018		As at 30 November 2017	
				Group's interest %	**NCI's interest %**	Group's interest %	NCI's interest %
AIA Company Limited[1]	Hong Kong	Insurance	1,151,049,861 ordinary shares of 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 RM1,450,890,000 issued share capital	**100%**	**–**	100%	–
AIA Singapore Private Limited	Singapore	Insurance	1,374,000,001 ordinary shares of S$1 each	**100%**	**–**	100%	–
PT. AIA Financial	Indonesia	Insurance	1,910,844,140 ordinary shares of Rp1,000 each	**100%**	**–**	100%	–
The Philippine American Life and General Insurance (PHILAM LIFE) Company	Philippines	Insurance	199,560,671 ordinary shares of PHP10 each and 439,329 treasury shares	**100%**	**–**	100%	–
AIA (Vietnam) Life Insurance Company Limited	Vietnam	Insurance	Contributed capital of VND3,224,420,000,000	**100%**	**–**	100%	–
AIA Insurance Lanka PLC	Sri Lanka	Insurance	Stated capital of LKR511,921,836	**97.16%**	**2.84%**	97.16%	2.84%
Bayshore Development Group Limited	British Virgin Islands	Investment holding company	100 ordinary shares of US$1 each	**90%**	**10%**	90%	10%
BPI-Philam Life Assurance (BPLAC) Corporation	Philippines	Insurance	749,993,979 ordinary shares of PHP1 each and 6,000 treasury shares	**51%**	**49%**	51%	49%
AIA Reinsurance Limited	Bermuda	Reinsurance	250,000 common shares of US$1 each	**100%**	**–**	100%	–
AIA Life Insurance Co. Ltd.	Korea	Insurance	60,328,932 ordinary shares of KRW603,289,320,000 issued share capital	**100%**	**–**	–	–
Sovereign Assurance Company Limited	New Zealand	Insurance	187,805,849 ordinary shares of NZD539,676,534 issued share capital	**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.

44. EVENTS AFTER THE REPORTING PERIOD

In September 2017, the Group reached an agreement to acquire Commonwealth Bank of Australia's (CBA) life insurance business in Australia, including a 20-year strategic bancassurance partnership with CBA in Australia. The acquisition remains in progress, subject to securing all necessary regulatory and governmental approvals. The transaction aims to expand the Group's distribution capabilities and customer reach in Australia. The total gross consideration to be paid with respect to the proposed transaction is expected to be approximately US$2.0 billion payable in cash on completion of the proposed transaction and subject to certain adjustments at completion. After taking into account the expected proceeds from reinsurance agreement and the expected free surplus of the acquired business, the final net cash outlay by AIA is expected to be approximately US$1.0 billion.

On 16 January 2019, the Group issued Hong Kong dollar-denominated fixed rate medium-term notes that are unlisted. The offering comprised of HK$1,300 million of 3.5-year notes at an annual rate of 2.95 per cent and HK$1,100 million of 12-year notes at an annual rate of 3.68 per cent. In aggregate the US dollar-equivalent is approximately US$307 million.

On 15 March 2019, a Committee appointed by the Board of Directors proposed a final dividend of 84.80 Hong Kong cents per share (twelve months ended 30 November 2017: 74.38 Hong Kong cents per share), and a special dividend of 9.50 Hong Kong cents per share (twelve months ended 30 November 2017: nil) for the additional month in the accounting period due to the change of the Group's financial year-end date from 30 November 2018 to 31 December 2018.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

US$m	As at 31 December 2018	As at 30 November 2017
Assets		
Investment in subsidiaries	**15,751**	15,750
Available for sale – debt securities	**2,917**	2,442
At fair value through profit or loss – derivative financial instruments	**5**	37
Loans to/amounts due from subsidiaries	**7,384**	3,554
Other assets	**115**	17
Cash and cash equivalents	**14**	5
Total assets	**26,186**	21,805
Liabilities		
Borrowings	**5,547**	4,420
Derivative financial instruments	**33**	125
Other liabilities	**151**	43
Total liabilities	**5,731**	4,588
Equity		
Share capital	**14,073**	14,065
Employee share-based trusts	**(258)**	(297)
Other reserves	**231**	200
Retained earnings	**6,488**	3,315
Amounts reflected in other comprehensive income	**(79)**	(66)
Total equity	**20,455**	17,217
Total liabilities and equity	**26,186**	21,805

Note:

(1) The financial information of the Company should be read in conjunction with the consolidated financial statements of the Group.

46. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

US$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 December 2017	**14,065**	**(297)**	**200**	**3,315**	**(66)**	**17,217**
Net profit	**–**	**–**	**–**	**4,762**	**–**	**4,762**
Fair value losses on available for sale financial assets	**–**	**–**	**–**	**–**	**(34)**	**(34)**
Fair value losses on available for sale financial assets transferred to income on disposal	**–**	**–**	**–**	**–**	**21**	**21**
Dividends	**–**	**–**	**–**	**(1,589)**	**–**	**(1,589)**
Shares issued under share option scheme and agency share purchase plan	**8**	**–**	**–**	**–**	**–**	**8**
Share-based compensation	**–**	**–**	**82**	**–**	**–**	**82**
Purchase of shares held by employee share-based trusts	**–**	**(12)**	**–**	**–**	**–**	**(12)**
Transfer of vested shares from employee share-based trusts	**–**	**51**	**(51)**	**–**	**–**	**–**
Balance at 31 December 2018	**14,073**	**(258)**	**231**	**6,488**	**(79)**	**20,455**

US$m	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Amounts reflected in other comprehensive income	Total equity
Balance at 1 December 2016	13,998	(351)	185	2,620	(59)	16,393
Net profit	–	–	–	2,071	–	2,071
Cash flow hedges	–	–	–	–	(11)	(11)
Fair value losses on available for sale financial assets	–	–	–	–	(4)	(4)
Fair value losses on available for sale financial assets transferred to income on disposal	–	–	–	–	8	8
Dividends	–	–	–	(1,376)	–	(1,376)
Shares issued under share option scheme and agency share purchase plan	67	–	–	–	–	67
Share-based compensation	–	–	79	–	–	79
Purchase of shares held by employee share-based trusts	–	(10)	–	–	–	(10)
Transfer of vested shares from employee share-based trusts	–	64	(64)	–	–	–
Balance at 30 November 2017	14,065	(297)	200	3,315	(66)	17,217

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS

In February 2018, the Board resolved to change the Company's financial year-end date from 30 November to 31 December. Accordingly, the current financial period-end date of the Company is 31 December 2018 and the consolidated financial statements of the Group cover the 13-month period from 1 December 2017 to 31 December 2018. In conjunction with this change, the following financial information is voluntarily disclosed by the Company for comparison purpose.

The accounting policies adopted to prepare the following supplementary financial information are consistent with those shown in note 2 of this 2018 consolidated financial statements.

(a) Consolidated Income Statement

US$m	Twelve months ended 31 December 2018	Twelve months ended 31 December 2017
Revenue		
Premiums and fee income	**31,271**	27,241
Premiums ceded to reinsurers	**(1,842)**	(1,524)
Net premiums and fee income	**29,429**	25,717
Investment return	**2,655**	13,907
Other operating revenue	**285**	224
Total revenue	**32,369**	39,848
Expenses		
Insurance and investment contract benefits	**23,633**	27,112
Insurance and investment contract benefits ceded	**(1,675)**	(1,282)
Net insurance and investment contract benefits	**21,958**	25,830
Commission and other acquisition expenses	**3,781**	3,486
Operating expenses	**2,171**	2,019
Finance costs	**212**	185
Other expenses	**739**	607
Total expenses	**28,861**	32,127
Profit before share of profit from associates and joint ventures	**3,508**	7,721
Share of profit from associates and joint ventures	**–**	–
Profit before tax	**3,508**	7,721
Income tax credit/(expense) attributable to policyholders' returns	**65**	(135)
Profit before tax attributable to shareholders' profits	**3,573**	7,586
Tax expense	**(849)**	(1,159)
Tax attributable to policyholders' returns	**(65)**	135
Tax expense attributable to shareholders' profits	**(914)**	(1,024)
Net profit	**2,659**	6,562
Net profit attributable to:		
Shareholders of AIA Group Limited	**2,597**	6,496
Non-controlling interests	**62**	66
Earnings per share (US$)		
Basic	**0.22**	0.54
Diluted	**0.22**	0.54

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(b) Consolidated Statement of Financial Position

US$m	As at 31 December 2018	As at 31 December 2017
Assets		
Intangible assets	**1,970**	1,870
Investments in associates and joint ventures	**610**	643
Property, plant and equipment[1]	**1,233**	1,225
Investment property[1]	**4,794**	4,363
Reinsurance assets	**2,887**	2,549
Deferred acquisition and origination costs	**24,626**	21,950
Financial investments:		
Loans and deposits	**7,392**	8,210
Available for sale		
Debt securities	**112,485**	106,788
At fair value through profit or loss		
Debt securities	**27,736**	26,081
Equity securities	**38,099**	38,079
Derivative financial instruments	**430**	345
	186,142	179,503
Deferred tax assets	**26**	13
Current tax recoverable	**164**	117
Other assets	**4,903**	4,491
Cash and cash equivalents	**2,451**	1,922
Total assets	**229,806**	218,646
Liabilities		
Insurance contract liabilities	**164,764**	151,475
Investment contract liabilities	**7,885**	8,210
Borrowings	**4,954**	3,958
Obligations under repurchase and securities lending agreements	**1,683**	1,557
Derivative financial instruments	**243**	271
Provisions	**168**	223
Deferred tax liabilities	**4,187**	3,611
Current tax liabilities	**532**	497
Other liabilities	**5,984**	5,288
Total liabilities	**190,400**	175,090

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(b) Consolidated Statement of Financial Position (continued)

US$m	As at 31 December 2018	As at 31 December 2017
Equity		
Share capital	**14,073**	14,065
Employee share-based trusts	**(258)**	(298)
Other reserves	**(11,910)**	(11,943)
Retained earnings	**35,661**	34,653
Fair value reserve	**2,211**	6,763
Foreign currency translation reserve	**(1,301)**	(569)
Property revaluation reserve	**538**	530
Others	**(8)**	(25)
Amounts reflected in other comprehensive income	**1,440**	6,699
Total equity attributable to:		
Shareholders of AIA Group Limited	**39,006**	43,176
Non-controlling interests	**400**	380
Total equity	**39,406**	43,556
Total liabilities and equity	**229,806**	218,646

Note:

(1) The appraisal values for the real estate of the Group as at 31 December 2017 remain unchanged from those reported in the consolidated financial statements of the Group as at 30 November 2017.

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(c) 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	
	Twelve months ended 31 December 2018	Twelve months ended 31 December 2017
Hong Kong	**7.84**	7.79
Thailand	**32.33**	33.90
Singapore	**1.35**	1.38
Malaysia	**4.03**	4.30
China	**6.61**	6.75

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

	US dollar exchange rates	
	As at 31 December 2018	As at 31 December 2017
Hong Kong	**7.83**	7.82
Thailand	**32.47**	32.61
Singapore	**1.36**	1.34
Malaysia	**4.14**	4.05
China	**6.88**	6.51

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

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(d) Operating profit after tax

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

US$m	Twelve months ended 31 December 2018	Twelve months ended 31 December 2017
Operating profit after tax	**5,343**	4,670
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: twelve months ended 31 December 2018: US$187m; twelve months ended 31 December 2017: US$(143)m)	**(2,036)**	2,063
Reclassification of revaluation gain for property held for own use (net of tax of: twelve months ended 31 December 2018: US$11m; twelve months ended 31 December 2017: US$4m)(1)(2)	**(212)**	(84)
Corporate transaction related costs (net of tax of: twelve months ended 31 December 2018: US$(35)m; twelve months ended 31 December 2017: US$6m)(2)	**(148)**	(25)
Implementation costs for new accounting standards (net of tax of: twelve months ended 31 December 2018: US$5m; twelve months ended 31 December 2017: nil)(2)	**(42)**	(7)
Other non-operating investment return and other items (net of tax of: twelve months ended 31 December 2018: US$12m; twelve months ended 31 December 2017: US$26m)(2)	**(246)**	(55)
Net profit	**2,659**	6,562
Operating profit after tax attributable to:		
Shareholders of AIA Group Limited	**5,298**	4,635
Non-controlling interests	**45**	35
Net profit attributable to:		
Shareholders of AIA Group Limited	**2,597**	6,496
Non-controlling interests	**62**	66

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

Notes:

(1) Short-term fluctuations in investment return include the revaluation gain for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.

(2) The comparative information has been adjusted to conform to current period presentation.

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(e) Total weighted premium income and annualised new premiums

TWPI US$m	**Twelve months ended 31 December 2018**	Twelve months ended 31 December 2017
TWPI by geography		
Hong Kong	**11,444**	9,535
Thailand	**3,895**	3,559
Singapore	**2,738**	2,435
Malaysia	**2,083**	1,848
China	**4,006**	3,118
Other Markets	**6,377**	5,898
Total	**30,543**	26,393
First year premiums by geography		
Hong Kong	**2,386**	2,231
Thailand	**554**	477
Singapore	**337**	272
Malaysia	**307**	285
China	**1,050**	838
Other Markets	**1,067**	925
Total	**5,701**	5,028
Single premiums by geography		
Hong Kong	**2,556**	2,405
Thailand	**269**	194
Singapore	**1,747**	1,422
Malaysia	**195**	182
China	**142**	136
Other Markets	**687**	620
Total	**5,596**	4,959
Renewal premiums by geography		
Hong Kong	**8,802**	7,063
Thailand	**3,314**	3,063
Singapore	**2,226**	2,021
Malaysia	**1,757**	1,545
China	**2,942**	2,266
Other Markets	**5,241**	4,911
Total	**24,282**	20,869

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(e) Total weighted premium income and annualised new premiums (continued)

ANP US$m	Twelve months ended 31 December 2018	Twelve months ended 31 December 2017
ANP by geography		
Hong Kong	**2,697**	2,493
Thailand	**611**	519
Singapore	**547**	426
Malaysia	**382**	340
China	**1,067**	873
Other Markets	**1,206**	973
Total	**6,510**	5,624

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(f) Segment information

US$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
Twelve months ended 31 December 2018								
ANP	**2,697**	**611**	**547**	**382**	**1,067**	**1,206**	**–**	**6,510**
TWPI	**11,444**	**3,895**	**2,738**	**2,083**	**4,006**	**6,377**	**–**	**30,543**
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	12,858	3,832	3,114	1,831	3,878	4,177	26	29,716
Investment return	2,647	1,322	1,175	592	860	1,112	368	8,076
Total revenue	**15,505**	**5,154**	**4,289**	**2,423**	**4,738**	**5,289**	**394**	**37,792**
Net insurance and investment contract benefits	11,572	2,895	3,103	1,577	2,968	2,791	25	24,931
Commission and other acquisition expenses	1,414	757	353	254	266	721	13	3,778
Operating expenses	401	218	209	180	323	640	200	2,171
Finance costs and other expenses	137	51	29	12	35	52	159	475
Total expenses	**13,524**	**3,921**	**3,694**	**2,023**	**3,592**	**4,204**	**397**	**31,355**
Share of profit from associates and joint ventures	–	–	–	–	–	–	–	–
Operating profit/(losses) before tax	**1,981**	**1,233**	**595**	**400**	**1,146**	**1,085**	**(3)**	**6,437**
Tax on operating profit/(losses) before tax	(152)	(238)	(37)	(75)	(276)	(234)	(82)	(1,094)
Operating profit/(losses) after tax	**1,829**	**995**	**558**	**325**	**870**	**851**	**(85)**	**5,343**
Operating profit/(losses) after tax attributable to:								
Shareholders of AIA Group Limited	1,814	995	558	320	870	826	(85)	5,298
Non-controlling interests	15	–	–	5	–	25	–	45
Key operating ratios:								
Expense ratio	3.5%	5.6%	7.6%	8.6%	8.1%	10.0%	–	7.1%
Operating margin	16.0%	25.5%	20.4%	15.6%	21.7%	13.3%	–	17.5%
Operating return on shareholders' allocated equity	23.2%	16.8%	18.2%	20.2%	24.6%	12.3%	–	14.5%
Operating profit/(losses) before tax includes:								
Finance costs	31	1	–	–	21	3	139	195
Depreciation and amortisation	33	11	19	16	25	49	11	164

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(f) Segment information (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
31 December 2018								
Total assets	**71,898**	**31,632**	**36,064**	**14,526**	**24,228**	**39,095**	**12,363**	**229,806**
Total liabilities	**64,299**	**24,627**	**32,865**	**12,885**	**20,068**	**30,889**	**4,767**	**190,400**
Total equity	**7,599**	**7,005**	**3,199**	**1,641**	**4,160**	**8,206**	**7,596**	**39,406**
Shareholders' allocated equity	**7,508**	**6,181**	**3,115**	**1,601**	**3,565**	**6,901**	**7,924**	**36,795**
Net capital (out)/in flows	**(1,054)**	**(149)**	**(267)**	**(185)**	**(542)**	**(556)**	**1,245**	**(1,508)**
Total assets includes:								
Investments in associates and joint ventures	**–**	**–**	**–**	**6**	**–**	**604**	**–**	**610**

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	
Twelve months ended 31 December 2018					
Net premiums, fee income and other operating revenue	**29,716**	**–**	**(2)**	**29,714**	Net premiums, fee income and other operating revenue
Investment return	**8,076**	**(3,140)**	**(2,281)**	**2,655**	Investment return
Total revenue	**37,792**	**(3,140)**	**(2,283)**	**32,369**	**Total revenue**
Net insurance and investment contract benefits	**24,931**	**(917)**	**(2,056)**	**21,958**	Net insurance and investment contract benefits
Other expenses	**6,424**	**–**	**479**	**6,903**	Other expenses
Total expenses	**31,355**	**(917)**	**(1,577)**	**28,861**	**Total expenses**
Share of profit from associates and joint ventures	**–**	**–**	**–**	**–**	Share of profit from associates and joint ventures
Operating profit before tax	**6,437**	**(2,223)**	**(706)**	**3,508**	**Profit before tax**

Note:

(1) Include unit-linked contracts.

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(f) Segment information (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
Twelve months ended 31 December 2017								
ANP	2,493	519	426	340	873	973	–	5,624
TWPI	9,535	3,559	2,435	1,848	3,118	5,898	–	26,393
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	10,972	3,567	2,840	1,622	3,011	3,921	8	25,941
Investment return	2,187	1,208	1,094	554	747	1,058	341	7,189
Total revenue	13,159	4,775	3,934	2,176	3,758	4,979	349	33,130
Net insurance and investment contract benefits	9,615	2,697	2,821	1,457	2,410	2,642	4	21,646
Commission and other acquisition expenses	1,232	747	352	209	183	748	1	3,472
Operating expenses	416	202	183	167	286	569	196	2,019
Finance costs and other expenses	119	49	28	11	30	43	126	406
Total expenses	11,382	3,695	3,384	1,844	2,909	4,002	327	27,543
Share of profit from associates and joint ventures	–	–	–	–	–	–	–	–
Operating profit before tax	1,777	1,080	550	332	849	977	22	5,587
Tax on operating profit before tax	(138)	(212)	(37)	(56)	(206)	(214)	(54)	(917)
Operating profit/(losses) after tax	1,639	868	513	276	643	763	(32)	4,670
Operating profit/(losses) after tax attributable to:								
Shareholders of AIA Group Limited	1,627	868	513	274	643	742	(32)	4,635
Non-controlling interests	12	–	–	2	–	21	–	35
Key operating ratios:								
Expense ratio	4.4%	5.7%	7.5%	9.0%	9.2%	9.6%	–	7.6%
Operating margin	17.2%	24.4%	21.1%	14.9%	20.6%	12.9%	–	17.7%
Operating return on shareholders' allocated equity	23.1%	17.2%	18.6%	18.8%	20.3%	12.5%	–	14.0%
Operating profit before tax includes:								
Finance costs	29	7	–	–	18	2	106	162
Depreciation and amortisation	37	10	16	17	18	41	11	150

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(f) Segment information (continued)

US$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
31 December 2017								
Total assets	66,710	31,299	36,175	14,546	20,470	37,913	11,533	218,646
Total liabilities	54,658	24,111	32,665	12,957	17,263	29,852	3,584	175,090
Total equity	12,052	7,188	3,510	1,589	3,207	8,061	7,949	43,556
Shareholders' allocated equity	8,122	5,656	3,019	1,566	3,511	6,539	8,000	36,413
Net capital (out)/in flows	(952)	(467)	(238)	(192)	(207)	17	799	(1,240)
Total assets includes:								
Investments in associates and joint ventures	–	–	1	7	–	635	–	643

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	
Twelve months ended 31 December 2017					
Net premiums, fee income and other operating revenue	25,941	–	–	25,941	Net premiums, fee income and other operating revenue
Investment return	7,189	2,713	4,005	13,907	Investment return
Total revenue	33,130	2,713	4,005	39,848	**Total revenue**
Net insurance and investment contract benefits	21,646	507	3,677	25,830	Net insurance and investment contract benefits
Other expenses	5,897	–	400	6,297	Other expenses
Total expenses	27,543	507	4,077	32,127	**Total expenses**
Share of profit from associates and joint ventures	–	–	–	–	Share of profit from associates and joint ventures
Operating profit before tax	5,587	2,206	(72)	7,721	**Profit before tax**

Note:

(1) Include unit-linked contracts.

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(g) Investment return

US$m	Twelve months ended 31 December 2018	Twelve months ended 31 December 2017
Interest income	**6,235**	5,652
Dividend income	**795**	693
Rental income	**171**	152
Investment income	**7,201**	6,497
Available for sale		
Net realised (losses)/gains from debt securities	**(13)**	202
Impairment of debt securities	**(81)**	–
Net (losses)/gains of available for sale financial assets reflected in the consolidated income statement	**(94)**	202
At fair value through profit or loss		
Net gains/(losses) of financial assets designated at fair value through profit or loss		
Net gains of debt securities	**53**	53
Net (losses)/gains of equity securities	**(4,814)**	6,781
Net fair value movement on derivatives	**(206)**	743
Net (losses)/gains in respect of financial instruments at fair value through profit or loss	**(4,967)**	7,577
Net fair value movement of investment property and property held for own use	**469**	367
Net foreign exchange gains/(losses)	**54**	(709)
Other net realised losses	**(8)**	(27)
Investment experience	**(4,546)**	7,410
Investment return	**2,655**	13,907

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

US$m	Twelve months ended 31 December 2018	Twelve months ended 31 December 2017
Foreign exchange gains/(losses)	**69**	(279)

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(h) Expenses

US$m	Twelve months ended 31 December 2018	Twelve months ended 31 December 2017
Insurance contract benefits	**12,471**	11,735
Change in insurance contract liabilities	**11,758**	13,982
Investment contract benefits	**(596)**	1,395
Insurance and investment contract benefits	**23,633**	27,112
Insurance and investment contract benefits ceded	**(1,675)**	(1,282)
Insurance and investment contract benefits, net of reinsurance ceded	**21,958**	25,830
Commission and other acquisition expenses incurred	**6,271**	5,505
Deferral and amortisation of acquisition costs	**(2,490)**	(2,019)
Commission and other acquisition expenses	**3,781**	3,486
Employee benefit expenses	**1,370**	1,265
Depreciation	**74**	65
Amortisation	**53**	53
Operating lease rentals	**174**	148
Other operating expenses	**500**	488
Operating expenses	**2,171**	2,019
Investment management expenses and others	**479**	408
Depreciation on property held for own use	**35**	22
Restructuring and other non-operating costs[1]	**204**	153
Change in third-party interests in consolidated investment funds	**21**	24
Other expenses	**739**	607
Finance costs	**212**	185
Total	**28,861**	32,127

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 corporate transaction related costs and implementation costs for new accounting standards.

Finance costs may be analysed as:

US$m	Twelve months ended 31 December 2018	Twelve months ended 31 December 2017
Repurchase agreements	**39**	47
Medium-term notes	**164**	134
Other loans	**9**	4
Total	**212**	185

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(i) Earnings per share

Basic

	Twelve months ended 31 December 2018	Twelve months ended 31 December 2017
Net profit attributable to shareholders of AIA Group Limited (US$m)	**2,597**	6,496
Weighted average number of ordinary shares in issue (million)	**12,021**	12,002
Basic earnings per share (US cents per share)	**21.60**	54.12

Diluted

	Twelve months ended 31 December 2018	Twelve months ended 31 December 2017
Net profit attributable to shareholders of AIA Group Limited (US$m)	**2,597**	6,496
Weighted average number of ordinary shares in issue (million)	**12,021**	12,002
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded under share-based compensation plans (million)	**35**	37
Weighted average number of ordinary shares for diluted earnings per share (million)	**12,056**	12,039
Diluted earnings per share (US cents per share)	**21.54**	53.96

At 31 December 2018, share options of 5,752,143 (31 December 2017: 5,835,750) 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

	Twelve months ended 31 December 2018	Twelve months ended 31 December 2017
Basic (US cents per share)	**44.07**	38.62
Diluted (US cents per share)	**43.94**	38.50

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(j) Financial investments

Debt securities

Debt securities by type comprise the following:

	Policyholder and shareholder[5]							
	Participating funds and Other participating business with distinct portfolios		Other policyholder and shareholder			Unit-linked	Consolidated investment funds[4]	
US$m	FVTPL	AFS	FVTPL	AFS	Subtotal	FVTPL	FVTPL	Total
31 December 2017								
Government bonds	6,097	896	60	36,927	43,980	1,131	–	45,111
Government agency bonds[1]	3,942	535	13	8,693	13,183	212	344	13,739
Corporate bonds	10,854	17,033	174	42,083	70,144	1,365	1,668	73,177
Structured securities[2]	199	317	22	304	842	–	–	842
Total[3]	21,092	18,781	269	88,007	128,149	2,708	2,012	132,869

Notes:

(1) 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.

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

(3) Debt securities of US$4,692m are restricted due to local regulatory requirements.

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

(5) The information has been adjusted to conform to the current period presentation.

Equity securities

Equity securities by type comprise the following:

	Policyholder and shareholder[2]					
	Participating funds and Other participating business with distinct portfolios	Other policyholder and shareholder		Unit-linked	Consolidated investment funds[1]	
US$m	FVTPL	FVTPL	Subtotal	FVTPL	FVTPL	Total
31 December 2017						
Equity shares	9,173	5,340	14,513	4,832	–	19,345
Interests in investment funds	3,325	719	4,044	14,690	–	18,734
Total	12,498	6,059	18,557	19,522	–	38,079

Notes:

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

(2) The information has been adjusted to conform to the current period presentation.

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(j) Financial investments (continued)

Debt and equity securities

US$m	As at 31 December 2017
Debt securities	
Listed	102,106
Unlisted	30,763
Total	132,869
Equity securities	
Listed	21,118
Unlisted[1]	16,961
Total	38,079

Note:
(1) Including US$15,804m of investment funds which can be redeemed daily.

Loans and deposits

US$m	As at 31 December 2017
Policy loans	2,765
Mortgage loans on residential real estate	607
Mortgage loans on commercial real estate	44
Other loans	1,114
Allowance for loan losses	(12)
Loans	4,518
Term deposits	2,113
Promissory notes[1]	1,579
Total	8,210

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

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(k) Insurance and investment contract liabilities

Insurance contract liabilities

The movement of insurance contract liabilities (including liabilities in respect of investment contracts with DPF) is shown as follows:

US$m	**Twelve months ended 31 December 2018**	Twelve months ended 31 December 2017
At beginning of financial period	**151,475**	128,588
Valuation premiums and deposits	**29,220**	26,424
Liabilities released for policy termination or other policy benefits paid and related expenses	**(16,155)**	(15,994)
Fees from account balances	**(1,742)**	(1,834)
Accretion of interest	**5,208**	4,483
Change in net asset values attributable to policyholders	**(1,162)**	3,363
Acquisition of subsidiaries	**91**	–
Foreign exchange movements	**(2,865)**	7,041
Other movements	**694**	(596)
At end of financial period	**164,764**	151,475

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF) can also be analysed as follows:

US$m	As at 31 December 2017
Deferred profit	7,213
Unearned revenue	2,605
Policyholders' share of participating surplus	8,117
Liabilities for future policyholder benefits	133,540
Total	151,475

Investment contract liabilities

US$m	**Twelve months ended 31 December 2018**	Twelve months ended 31 December 2017
At beginning of financial period	**8,210**	6,926
Investment contract benefits	**(594)**	1,395
Fees charged	**(122)**	(144)
Acquisition of subsidiaries	**480**	–
Net withdrawals and other movements	**17**	(145)
Foreign exchange movements	**(106)**	178
At end of financial period	**7,885**	8,210[1]

Note:

(1) Of investment contract liabilities, US$475m represents deferred fee income.

47. SUPPLEMENTARY FINANCIAL INFORMATION ON A CALENDAR YEAR BASIS (continued)

(l) Group capital structure

Regulatory Solvency

The capital positions of the Group's two principal operating companies as of 31 December 2017 are as follows:

	31 December 2017 (unaudited)		
US$m	Total available capital	Regulatory minimum capital	Solvency ratio
AIA Co.	8,395	1,882	446%
AIA International	7,883	2,511	314%

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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018
TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

We have audited the Supplementary Embedded Value Information (the "EV Information") of AIA Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 180 to 203, which comprises:

- the consolidated EV results as at and for the year ended 31 December 2018;
- the sensitivity analysis as at and for the year then ended; and
- a summary of significant methodology and assumptions and other explanatory notes.

Our opinion

In our opinion, the EV Information of the Group as at and for the year ended 31 December 2018 is prepared, in all material respects, in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the EV Information section of our report.

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

Independence

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

Emphasis of Matter – Basis of Preparation

We draw attention to Sections 4 and 5 of the EV Information, which describe the EV basis of preparation. As a result, the EV Information may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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Other Matter

The Group has prepared a separate set of consolidated financial statements for the thirteen months period ended 31 December 2018 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), on which we issued a separate auditor's report to the shareholders of the Company dated 15 March 2019.

Other Information

The Directors of the Company are responsible for the other information. The other information comprises the Group Chief Executive and President's Report, Financial Review, Business Review, Regulatory and International Developments, Consolidated Financial Statements and our auditor's report thereon, Condensed Business and Financial Review for the Thirteen Months ended 31 December 2018 and Glossary (but does not include the EV Information of AIA Group Limited and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Financial Highlights, Chairman's Statement, Risk Management, Valuing Our People, Corporate Social Responsibility, Statement of Directors' Responsibilities, Board of Directors, Executive Committee, Report of the Directors, Corporate Governance Report, Remuneration Report, Information for Shareholders and Corporate Information, which are expected to be made available to us after that date.

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

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

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

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

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Responsibilities of Directors and Those Charged with Governance for the EV Information

The Directors of the Company are responsible for the preparation of the EV Information in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information and for such internal control as the Directors determine is necessary to enable the preparation of the EV Information that is free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the EV Information

Our objectives are to obtain reasonable assurance about whether the EV Information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this EV Information.

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

- Identify and assess the risks of material misstatement of the EV Information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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Auditor's Responsibilities for the Audit of the EV Information (continued)

- Evaluate the appropriateness of the EV basis of preparation used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the EV Information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the EV Information of the entities or business activities within the Group to express an opinion on the EV Information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

15 March 2019

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CAUTIONARY STATEMENTS CONCERNING SUPPLEMENTARY EMBEDDED VALUE INFORMATION

This report includes non-IFRS financial measures and should not be viewed as a substitute for IFRS financial measures.

The results shown in this report are not intended to represent an opinion of market value and should not be interpreted in that manner. This report does not purport to encompass all of the many factors that may bear upon a market value.

The results shown in this report are based on a series of assumptions as to the future. It should be recognised that actual future results may differ from those shown, on account of changes in the operating and economic environments and natural variations in experience. The results shown are presented at the valuation dates stated in this report and no warranty is given by the Group that future experience after these valuation dates will be in line with the assumptions made.

1. HIGHLIGHTS

The embedded value (EV) is a measure of the value of shareholders' interests in the earnings distributable from assets allocated to the in-force business after allowance for the aggregate risks in that business. The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB). This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. The equity attributable to shareholders of the Company on the embedded value basis (EV Equity) is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company. More details on the EV results, methodology and assumptions are covered in later sections of this report.

As set out in our 2017 annual results preliminary announcement published on 27 February 2018, the Board resolved to change the Company's financial year-end date from 30 November to 31 December in February 2018. Accordingly, the current financial year-end date of the Company is 31 December 2018. In conjunction with this change, the financial information as at 31 December 2017 is provided for comparative purposes.

The Group completed the acquisition of Sovereign Assurance Company Limited, included as part of the acquisition of ASB Group (Life) Limited and its subsidiaries (Sovereign) on 2 July 2018. The financial results of this newly-acquired business are reported in the Group's results for the year ended 31 December 2018 from the date of completion. See Sections 2 and 4 of this report and note 5 to the IFRS consolidated financial statements for more details.

Summary of key metrics(1) (US$ millions)

	As at 31 December 2018	As at 31 December 2017	Change CER	Change AER
Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)	**56,203**	52,429	9%	7%
Embedded value (EV)	**54,517**	50,779	10%	7%
Adjusted net worth (ANW)	**24,637**	20,974	19%	17%
Value of in-force business (VIF)	**29,880**	29,805	3%	–

	Year ended 31 December 2018	Year ended 31 December 2017	YoY CER	YoY AER
Value of new business (VONB)	**3,955**	3,206	22%	23%
Annualised new premiums (ANP)	**6,510**	5,624	15%	16%
VONB margin	**60.0%**	56.0%	3.7 pps	4.0 pps
EV operating profit	**8,278**	6,654	23%	24%
Operating return on EV (Operating ROEV)	**16.3%**	15.5%	1.1 pps	0.8 pps

Note:

(1) The results are after adjustment to reflect the consolidated reserving and capital requirements and the present value of future after-tax unallocated Group Office expenses.

2. EMBEDDED VALUE RESULTS

2.1 Embedded Value by Business Unit

The EV as at 31 December 2018 is presented consistently with the segment information in the IFRS consolidated financial statements.

Summary of EV by Business Unit (US$ millions)

	As at 31 December 2018				
Business Unit	ANW[1]	VIF before CoC	CoC	VIF after CoC	EV
AIA Hong Kong	6,608	12,617	867	11,750	**18,358**
AIA Thailand	4,787	4,861	808	4,053	**8,840**
AIA Singapore	2,376	3,968	665	3,303	**5,679**
AIA Malaysia	1,206	1,630	206	1,424	**2,630**
AIA China	2,938	5,248	–	5,248	**8,186**
Other Markets	4,873	3,833	985	2,848	**7,721**
Group Corporate Centre	7,870	(131)	–	(131)	**7,739**
Subtotal	30,658	32,026	3,531	28,495	**59,153**
Adjustment to reflect consolidated reserving and capital requirements[2]	(6,021)	3,284	936	2,348	**(3,673)**
After-tax value of unallocated Group Office expenses	–	(963)	–	(963)	**(963)**
Total	**24,637**	**34,347**	**4,467**	**29,880**	**54,517**

	As at 31 December 2017				
Business Unit	ANW[1]	VIF before CoC	CoC	VIF after CoC	EV
AIA Hong Kong	6,701	11,158	935	10,223	16,924
AIA Thailand	4,566	4,719	784	3,935	8,501
AIA Singapore	2,516	3,643	721	2,922	5,438
AIA Malaysia	1,200	1,508	218	1,290	2,490
AIA China	2,143	4,863	–	4,863	7,006
Other Markets	4,823	3,258	978	2,280	7,103
Group Corporate Centre	8,381	(121)	(1)	(120)	8,261
Subtotal	30,330	29,028	3,635	25,393	55,723
Adjustment to reflect consolidated reserving and capital requirements[2]	(9,356)	5,597	118	5,479	(3,877)
After-tax value of unallocated Group Office expenses	–	(1,067)	–	(1,067)	(1,067)
Total	20,974	33,558	3,753	29,805	50,779

Notes:

(1) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS consolidated financial statements.

(2) Adjustment to reflect consolidated reserving and capital requirements as described in Section 4.4 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.2 Reconciliation of ANW from IFRS Equity

Derivation of the consolidated ANW from IFRS equity (US$ millions)

	As at 31 December 2018	As at 31 December 2017
IFRS equity attributable to shareholders of the Company	**39,006**	43,176
Elimination of IFRS deferred acquisition and origination costs assets	**(24,626)**	(21,950)
Difference between IFRS policy liabilities and local statutory policy liabilities	**15,587**	8,588
Difference between net IFRS policy liabilities and local statutory policy liabilities	**(9,039)**	(13,362)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	**523**	348
Elimination of intangible assets	**(1,970)**	(1,870)
Recognition of deferred tax impacts of the above adjustments	**2,075**	1,979
Recognition of non-controlling interests impacts of the above adjustments	**63**	59
ANW (Business Unit)	**30,658**	30,330
Adjustment to reflect consolidated reserving requirements, net of tax	**(6,021)**	(9,356)
ANW (Consolidated)	**24,637**	20,974

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 31 December 2018		As at 31 December 2017	
	Business Unit	Consolidated	Business Unit	Consolidated
Free surplus	**22,093**	**14,751**	21,831	12,586
Required capital	**8,565**	**9,886**	8,499	8,388
ANW	**30,658**	**24,637**	30,330	20,974

The Company's subsidiaries, AIA Company Limited (AIA Co.) and AIA International Limited (AIA International), are both subject to the Hong Kong reserving and capital requirements. In addition, AIA International, which is incorporated in Bermuda, is subject to the Bermuda Monetary Authority (BMA) reserving and capital requirements. These regulatory reserving and capital requirements, and other consolidated reserving and capital requirements, as determined by the Group, apply in addition to the relevant local requirements applicable to our Business Units.

2. EMBEDDED VALUE RESULTS (continued)

2.4 Earnings Profile

The tables below show how the after-tax distributable earnings from the assets backing the statutory reserves and required capital of the in-force business of the Group are projected to emerge over future years. The projected values reflect the consolidated reserving and capital requirements.

Profile of projected after-tax distributable earnings for the Group's in-force business (US$ millions)

	As at 31 December 2018	
Expected period of emergence	Undiscounted	Discounted
1 – 5 years	**18,922**	**15,668**
6 – 10 years	**15,095**	**8,280**
11 – 15 years	**14,753**	**5,440**
16 – 20 years	**14,312**	**3,588**
21 years and thereafter	**151,000**	**6,790**
Total	**214,082**	**39,766**

	As at 31 December 2017	
Expected period of emergence	Undiscounted	Discounted
1 – 5 years	18,434	15,175
6 – 10 years	14,491	7,952
11 – 15 years	14,499	5,386
16 – 20 years	13,425	3,434
21 years and thereafter	126,545	6,246
Total	187,394	38,193

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US$39,766 million (2017: US$38,193 million) plus the free surplus of US$14,751 million (2017: US$12,586 million) shown in Section 2.3 of this report is equal to the EV of US$54,517 million (2017: US$50,779 million) shown in Section 2.1 of this report.

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business

The VONB for the Group for the year ended 31 December 2018 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 consolidated financial statements. Section 4.1 of this report contains a list of the entities included in this report and the mapping of these entities to Business Units for the purpose of this report.

The Group VONB for the year ended 31 December 2018 was US$3,955 million, an increase of US$749 million, or 23 per cent on actual exchange rates (AER), from US$3,206 million for the year ended 31 December 2017.

Summary of VONB by Business Unit (US$ millions)

	Year ended 31 December 2018			Year ended 31 December 2017		
Business Unit	**VONB before CoC**	**CoC**	**VONB after CoC[1]**	VONB before CoC	CoC	VONB after CoC[1]
AIA Hong Kong	1,837	125	**1,712**	1,520	136	1,384
AIA Thailand	503	56	**447**	434	53	381
AIA Singapore	410	53	**357**	344	47	297
AIA Malaysia	264	17	**247**	233	18	215
AIA China	1,051	86	**965**	791	66	725
Other Markets	522	87	**435**	479	84	395
Total before unallocated Group Office expenses (Business Unit)	4,587	424	**4,163**	3,801	404	3,397
Adjustment to reflect consolidated reserving and capital requirements	(76)	(20)	**(56)**	(86)	(25)	(61)
Total before unallocated Group Office expenses (Consolidated)	4,511	404	**4,107**	3,715	379	3,336
After-tax value of unallocated Group Office expenses	(152)	–	**(152)**	(130)	–	(130)
Total	**4,359**	**404**	**3,955**	3,585	379	3,206

Note:

(1) VONB for the Group is calculated before deducting the amount attributable to non-controlling interests. The amounts of VONB attributable to non-controlling interests for the year ended 31 December 2018 and 31 December 2017 were US$27 million and US$22 million respectively.

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the breakdown of the VONB, ANP, VONB margin, and present value of new business premium (PVNBP) margin for the Group, by quarter, for business written in the year ended 31 December 2018.

The VONB margin and PVNBP margin are defined as VONB, excluding pension business, expressed as a percentage of ANP and PVNBP, respectively. The VONB for pension business is excluded from the margin calculation to be consistent with the definition of ANP and PVNBP.

The Group VONB margin for the year ended 31 December 2018 was 60.0 per cent compared with 56.0 per cent for the year ended 31 December 2017. The Group PVNBP margin for the year ended 31 December 2018 was 10 per cent compared with 9 per cent for the year ended 31 December 2017.

Breakdown of VONB, ANP, VONB margin and PVNBP margin (US$ millions)

	VONB after CoC	ANP	VONB Margin	PVNBP Margin
Year				
Values for 2018				
12 months ended 31 December 2018	**3,955**	**6,510**	**60.0%**	**10%**
Values for 2017				
12 months ended 31 December 2017	3,206	5,624	56.0%	9%
Quarter				
Values for 2018				
3 months ended 31 March 2018	**1,021**	**1,696**	**59.7%**	**10%**
3 months ended 30 June 2018	**933**	**1,556**	**59.3%**	**10%**
3 months ended 30 September 2018	**979**	**1,582**	**61.1%**	**10%**
3 months ended 31 December 2018	**1,022**	**1,676**	**60.1%**	**10%**
Values for 2017				
3 months ended 31 March 2017	811	1,630	49.2%	9%
3 months ended 30 June 2017	794	1,276	61.3%	10%
3 months ended 30 September 2017	846	1,422	58.4%	10%
3 months ended 31 December 2017	755	1,296	56.9%	9%

2. EMBEDDED VALUE RESULTS (continued)

2.5 Value of New Business (continued)

The table below shows the VONB (excluding pension business), ANP, and VONB margin by Business Unit.

Summary of VONB excluding pension, ANP and VONB margin by Business Unit (US$ millions)

	Year ended 31 December 2018			Year ended 31 December 2017		
Business Unit	**VONB Excluding Pension**	**ANP**	**VONB Margin**	VONB Excluding Pension	ANP	VONB Margin
AIA Hong Kong	1,671	2,697	**62.0%**	1,338	2,493	53.7%
AIA Thailand	447	611	**73.1%**	381	519	73.4%
AIA Singapore	357	547	**65.4%**	297	426	69.7%
AIA Malaysia	244	382	**63.8%**	213	340	62.5%
AIA China	965	1,067	**90.5%**	725	873	83.1%
Other Markets	431	1,206	**35.8%**	388	973	39.9%
Total before unallocated Group Office expenses (Business Unit)	4,115	6,510	**63.2%**	3,342	5,624	59.4%
Adjustment to reflect consolidated reserving and capital requirements	(56)	–		(61)	–	
Total before unallocated Group Office expenses (Consolidated)	4,059	6,510	**62.4%**	3,281	5,624	58.4%
After-tax value of unallocated Group Office expenses	(152)	–		(130)	–	
Total	**3,907**	**6,510**	**60.0%**	3,151	5,624	56.0%

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement

Analysis of movement in EV (US$ millions)

	Year ended 31 December 2018			Year ended 31 December 2017			YoY AER
	ANW	VIF	EV	ANW	VIF	EV	EV
Opening EV	20,974	29,805	**50,779**	16,862	25,986	42,848	19%
Purchase price	(918)	–	**(918)**	–	–	–	n/m[1]
Acquired EV[2]	487	320	**807**	–	–	–	n/m
Effect of acquisition	(431)	320	**(111)**	–	–	–	n/m
Value of new business	(660)	4,615	**3,955**	(591)	3,797	3,206	23%
Expected return on EV	4,550	(657)	**3,893**	4,154	(846)	3,308	18%
Operating experience variances	355	257	**612**	297	64	361	70%
Operating assumption changes	29	(38)	**(9)**	(229)	146	(83)	(89)%
Finance costs	(173)	–	**(173)**	(138)	–	(138)	25%
EV operating profit	4,101	4,177	**8,278**	3,493	3,161	6,654	24%
Investment return variances	(1,428)	(790)	**(2,218)**	1,272	61	1,333	n/m
Effect of changes in economic assumptions	(3)	50	**47**	(7)	(185)	(192)	n/m
Other non-operating variances	3,452	(3,182)	**270**	387	(741)	(354)	n/m
Total EV profit	6,122	255	**6,377**	5,145	2,296	7,441	(14)%
Dividends	(1,589)	–	**(1,589)**	(1,376)	–	(1,376)	15%
Other capital movements	98	–	**98**	134	–	134	(27)%
Effect of changes in exchange rates	(537)	(500)	**(1,037)**	209	1,523	1,732	n/m
Closing EV	**24,637**	**29,880**	**54,517**	20,974	29,805	50,779	7%

Notes:

(1) Not meaningful (n/m).

(2) The acquired EV for Sovereign is calculated as at 2 July 2018 net of the related reinsurance agreement. See note 5 to the IFRS consolidated financial statements for more details.

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

EV grew to US$54,517 million at 31 December 2018, an increase of 7 per cent over the year from US$50,779 million at 31 December 2017. The growth in EV of US$3,738 million was shown after a deduction of US$111 million as of 2 July 2018 relating to the acquisition of Sovereign. The purchase price of US$918 million for the acquisition as at 2 July 2018 was as per note 5 to the IFRS consolidated financial statements. The acquired EV of US$807 million is calculated as at 2 July 2018 net of the related reinsurance agreement.

EV operating profit grew by 24 per cent on AER to US$8,278 million (2017: US$6,654 million) compared with 2017. The growth reflected a combination of a higher VONB of US$3,955 million (2017: US$3,206 million) and a higher expected return on EV of US$3,893 million (2017: US$3,308 million). Overall operating experience variances and operating assumption changes were again positive at US$603 million (2017:US$278 million). Finance costs were US$173 million (2017: US$138 million).

The VONB is calculated at the point of sale for business written during the year before deducting the amount attributable to non-controlling interests. The expected return on EV is the expected change in the EV over the year plus the expected return on the VONB from the point of sale to 31 December 2018 less the VONB attributable to non-controlling interests. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the year and that expected based on the operating assumptions.

The main operating experience variances, net of tax, of US$612 million (2017: US$361 million), comprised of:

- Expense variances of US$53 million (2017: US$9 million);
- Mortality and morbidity claims variances of US$233 million (2017: US$193 million); and
- Persistency and other variances of US$326 million (2017: US$159 million) which included persistency variances of US$94 million (2017: US$27 million) and other variances arising from management actions of US$232 million (2017: US$132 million).

The effect of changes in operating assumptions during the year was US$(9) million (2017: US$(83) million).

The EV profit of US$6,377 million (2017: US$7,441 million) is the total of EV operating profit, investment return variances, the effect of changes in economic assumptions and other non-operating variances.

The investment return variances arise from the impact of differences between the actual investment returns in the year and the expected investment returns reflecting short-term fluctuations in investment returns. This amounted to US$(2,218) million (2017: US$1,333 million) from the effect of short-term equity market and other capital market movements on the Group's investment portfolio and statutory reserves compared with the expected returns.

The effect of changes in economic assumptions amounted to US$47 million (2017: US$(192) million).

Other non-operating variances amounted to US$270 million (2017: US$(354) million) which comprised of the effects of subsidiarising AIA Korea, the transitional arrangement for equivalence and other adjustments as described in Section 4.6 partly offset by other items including modelling-related enhancements.

The Group paid total shareholder dividends of US$1,589 million (2017: US$1,376 million). Other capital movements increased EV by US$98 million (2017: US$134 million).

Foreign exchange movements were US$(1,037) million (2017: US$1,732 million).

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

Operating ROEV (US$ millions)

Operating return on EV (operating ROEV) is calculated as EV operating profit expressed as a percentage of the opening EV and was 16.3 per cent (2017: 15.5 per cent) for the year ended 31 December 2018.

	Year ended 31 December 2018	Year ended 31 December 2017	YoY CER	YoY AER
EV operating profit	**8,278**	6,654	23%	24%
Opening EV	**50,779**	42,848	14%	19%
Operating ROEV	**16.3%**	15.5%	1.1pps	0.8pps

2.7 EV Equity

The EV Equity grew to US$56,203 million at 31 December 2018, an increase of 7 per cent on AER from US$52,429 million as at 31 December 2017.

Derivation of EV Equity from EV (US$ millions)

	As at 31 December 2018	As at 31 December 2017	Change CER	Change AER
EV	**54,517**	50,779	10%	7%
Goodwill and other intangible assets[1]	**1,686**	1,650	5%	2%
EV Equity	**56,203**	52,429	9%	7%

Note:

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

3. SENSITIVITY ANALYSIS

The EV as at 31 December 2018 and the VONB for the year ended 31 December 2018 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 31 December 2018 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 31 December 2018); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 31 December 2018).

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 31 December 2018 and the values of debt instruments held at 31 December 2018 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

As the Group operates in multiple geographical markets in the Asia-Pacific region, the EV results for the Group are translated from multiple currencies to US dollar which is the Group's presentation currency. In order to provide sensitivity results for EV and VONB of the impact of foreign currency movements, a change of 5 per cent to the US dollar is included.

3. SENSITIVITY ANALYSIS (continued)

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 31 December 2018 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 31 December 2018 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

Sensitivity of EV (US$ millions)

	As at 31 December 2018		As at 31 December 2017	
Scenario	**EV**	**Ratio**	EV	Ratio
Central value	**54,517**		50,779	
Impact of:				
200 bps increase in risk discount rates	**(6,607)**	**(12.1)%**	(6,227)	(12.3)%
200 bps decrease in risk discount rates	**10,604**	**19.5%**	10,052	19.8%
10% increase in equity prices	**736**	**1.4%**	750	1.5%
10% decrease in equity prices	**(731)**	**(1.3)%**	(743)	(1.5)%
50 bps increase in interest rates	**158**	**0.3%**	49	0.1%
50 bps decrease in interest rates	**(249)**	**(0.5)%**	(456)	(0.9)%
5% appreciation in the presentation currency	**(1,711)**	**(3.1)%**	(1,589)	(3.1)%
5% depreciation in the presentation currency	**1,711**	**3.1%**	1,589	3.1%
10% increase in lapse/discontinuance rates	**(885)**	**(1.6)%**	(763)	(1.5)%
10% decrease in lapse/discontinuance rates	**984**	**1.8%**	886	1.7%
10% increase in mortality/morbidity rates	**(3,796)**	**(7.0)%**	(3,730)	(7.3)%
10% decrease in mortality/morbidity rates	**3,779**	**6.9%**	3,665	7.2%
10% decrease in maintenance expenses	**625**	**1.1%**	574	1.1%
Expense inflation set to 0%	**672**	**1.2%**	605	1.2%

3. SENSITIVITY ANALYSIS (continued)

Sensitivity of VONB (US$ millions)

	Year ended 31 December 2018		Year ended 31 December 2017	
Scenario	VONB	Ratio	VONB	Ratio
Central value	**3,955**		3,206	
Impact of:				
200 bps increase in risk discount rates	**(952)**	**(24.1)%**	(906)	(28.3)%
200 bps decrease in risk discount rates	**1,599**	**40.4%**	1,689	52.7%
50 bps increase in interest rates	**142**	**3.6%**	162	5.1%
50 bps decrease in interest rates	**(184)**	**(4.7)%**	(225)	(7.0)%
5% appreciation in the presentation currency	**(120)**	**(3.0)%**	(100)	(3.1)%
5% depreciation in the presentation currency	**120**	**3.0%**	100	3.1%
10% increase in lapse/discontinuance rates	**(195)**	**(4.9)%**	(178)	(5.6)%
10% decrease in lapse/discontinuance rates	**215**	**5.4%**	185	5.8%
10% increase in mortality/morbidity rates	**(359)**	**(9.1)%**	(335)	(10.4)%
10% decrease in mortality/morbidity rates	**351**	**8.9%**	320	10.0%
10% decrease in maintenance expenses	**96**	**2.4%**	79	2.5%
Expense inflation set to 0%	**60**	**1.5%**	52	1.6%

4. METHODOLOGY

4.1 Entities Included in This Report

The Group operates through a number of subsidiaries and branches. Its two main operating subsidiaries are AIA Co., a company incorporated in Hong Kong and a subsidiary of the Company, and AIA International, a company incorporated in Bermuda and an indirect subsidiary of the Company. Furthermore, AIA Co. has branches located in Brunei, China and Thailand and AIA International has branches located in Hong Kong, Macau, New Zealand and Taiwan.

The following is a list of the entities and their mapping to Business Units included in this report.

- AIA Australia refers to AIA Australia Limited, a subsidiary of AIA Co., Sovereign Assurance Company Limited, a subsidiary of AIA International, and the New Zealand branch of AIA International;
- AIA Cambodia refers to AIA (Cambodia) Life Insurance Plc., a subsidiary of AIA International;
- AIA China refers to the China branches of AIA Co.;
- AIA Hong Kong refers to the total of the following three entities:
  - the Hong Kong and Macau branches of AIA International;
  - the Hong Kong and Macau business written by AIA Co.; and
  - AIA Pension and Trustee Co. Ltd., a subsidiary of AIA Co.
- AIA Indonesia refers to PT. AIA Financial, a subsidiary of AIA International;
- AIA Korea refers to AIA Life Insurance Co. Ltd., a subsidiary 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 Philippines refers to The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co. and its 51 per cent owned subsidiary BPI-Philam Life Assurance Corporation;
- AIA Singapore refers to AIA Singapore Private Limited, a subsidiary of AIA Co., and the Brunei branch of AIA Co.;
- AIA Sri Lanka refers to AIA Insurance Lanka PLC, a 97.16 per cent owned subsidiary of AIA Co.;
- AIA Taiwan refers to the Taiwan branch of AIA International;
- AIA Thailand refers to the Thailand branches of AIA Co.; and
- AIA Vietnam refers to AIA (Vietnam) Life Insurance Company Limited, a subsidiary of AIA International.

In addition, the financial results from the entity Tata AIA Life Insurance Company Limited (Tata AIA), which is 49 per cent owned by AIA International, are accounted for using the equity method and have been included in the Group ANW presented in this report. For clarity, the Group's ANP and VONB exclude any contribution from Tata AIA.

Results are presented consistently with the segment information in the IFRS consolidated financial statements. The summary of the EV of the Group by Business Unit in this report also includes the results for the "Group Corporate Centre" segment. 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. The ANW has been derived from 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.

4. METHODOLOGY (continued)

4.2 Embedded Value and Value of New Business

The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and VONB. This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. Typically, the higher the risk discount rate, the greater the allowance for these factors. This is a common methodology used by life insurance companies in Asia currently. Alternative valuation methodologies and approaches continue to emerge and may be considered by AIA.

The business included in the VIF and VONB calculations includes all life business written by the Business Units of the Group, plus other lines of business which may not be classified as life business but have similar characteristics. These include accident and health, group and pension businesses. The projected in-force business included in the VIF also incorporates expected renewals on short-term business with a term of one year or less.

The EV is the sum of the ANW and VIF. The ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of the Group, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of the Company. The market value of investment property and property held for own use that is used to determine the ANW is based on the fair value disclosed in the Group's IFRS consolidated 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$27 million for the year ended 31 December 2018 (2017: US$22 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 and Subsidiaries of AIA Co. and AIA International

The Group's subsidiaries, AIA Co. and AIA International, are both Hong Kong-regulated entities. AIA operates in a number of territories as branches and subsidiaries of these entities. In addition, AIA International, which is incorporated in Bermuda, is subject to the BMA reserving and capital requirements. These regulatory and other consolidated reserving and capital requirements apply in addition to the relevant local requirements applicable to our Business Units.

The EV and VONB results for the Group shown in Section 2 of this report have been adjusted to reflect the consolidated reserving and capital requirements. This approach was taken to reflect the distribution of profits from AIA Co. and AIA International after allowing for the Hong Kong, BMA, local regulatory and other reserving and capital requirements as applied by the Group. The EV and VONB for each Business Unit reflect the local reserving and capital requirements, as discussed in Section 4.6 of this report, before a Group-level adjustment to reflect the consolidated reserving and capital requirements.

4.5 Valuation of Future Statutory Losses

For certain lines of business, projected future statutory profits are negative due to the local statutory reserves being insufficient to meet the value of future policyholder cash flows. Within a traditional embedded value framework, there are a number of acceptable methods for determining the value of a combination of positive and negative statutory profits for different lines of business.

For the purposes of this valuation, future projected statutory losses have been valued by discounting them at the risk discount rate for the relevant Business Unit, with any negative VIF eliminated for each reported segment by reducing the ANW and EV. This has been done because the allowance for risk in the range of selected risk discount rates for each Business Unit has been set taking into account the presence of any such business lines with projected statutory losses. Also, the consolidated reserving and capital requirements have the effect of reducing the level of any future projected statutory losses. Based on the assumptions described in Section 5 of this report, and allowing for the consolidated statutory reserving and capital requirements, the overall projected annual distributable profits from the current in-force business and the assets backing the required capital of the Group are positive over the remaining lifetime of the business. Therefore, it is not considered necessary to change the discounting approach described above.

4. 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 local required capital for each Business Unit are set out in the table below:

Business Unit	Required Capital
AIA Australia	
Australia	100% of regulatory capital adequacy requirement
New Zealand	100% of regulatory capital adequacy requirement
AIA China	100% of required capital as specified under the CAA EV assessment guidance
AIA Hong Kong	150% of required minimum solvency margin
AIA Indonesia	120% of regulatory Risk-Based Capital requirement
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
AIA Philippines	100% of regulatory Risk-Based Capital requirement
AIA Singapore	180% of regulatory Risk-Based Capital requirement
AIA Sri Lanka	120% of regulatory Risk-Based Capital requirement
AIA Taiwan	250% of regulatory Risk-Based Capital requirement
AIA Thailand	140% of regulatory Risk-Based Capital requirement
AIA Vietnam	100% of required minimum solvency margin

Capital Requirements on Consolidation

The Group has an undertaking to the Hong Kong Insurance Authority (HKIA) to maintain required capital not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of AIA Hong Kong and no less than 100% of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong.

AIA International and its subsidiaries hold required capital of no less than 120% of the BMA regulatory capital requirements.

On 16 May 2017, the HKIA and the China Banking and Insurance Regulatory Commission (formerly the China Insurance Regulatory Commission) signed the Equivalence Assessment Framework Agreement on the Solvency Regulatory Regime. As a transitional arrangement, AIA reports under the Hong Kong Insurance Ordinance the capital position of its China branches based on the China local regulatory solvency basis progressively over a 4-year phase-in period to full implementation on 31 March 2022.

In addition to the above, the reserving and capital requirements for the purpose of consolidation allow for the local regulatory requirements outlined above and other reserving and capital requirements as determined by the Group.

4.7 Foreign Exchange

The EV as at 31 December 2018 and 31 December 2017 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.

Change on AER is calculated based on the translated figures as described above. Change on constant exchange rates (CER) is calculated for all figures for the current year and for the prior year, using constant average exchange rates, other than for EV as at the end of the current year and as at the end of the prior year, which is translated using the CER.

5. ASSUMPTIONS

5.1 Introduction

This section summarises the assumptions used by the Group to determine the EV as at 31 December 2018 and the VONB for the year ended 31 December 2018 and highlights certain differences in assumptions between the EV as at 31 December 2017 and the EV as at 31 December 2018.

5.2 Economic Assumptions

Investment returns

The Group has set the assumed long-term future returns for fixed income assets to reflect its view of expected returns having regard to estimates of long-term forward rates from yields available on government bonds and current bond yields. In determining returns on fixed income assets the Group allows for the risk of default, and this allowance varies by the credit rating of the underlying asset.

Where long-term views of investment return assumptions differ from current market yields on existing fixed income assets such that there would be a significant impact on value, an adjustment was made to make allowance for the current market yields. In these cases, in calculating the VIF, adjustments have been made to the investment return assumptions such that the investment returns on existing fixed income assets were set consistently with the current market yield on these assets for their full remaining term, to be consistent with the valuation of the assets backing the policy liabilities.

The Group has set the equity return and property return assumptions by reference to the return on 10-year government bonds, allowing for an internal assessment of risk premia that vary by asset class and by territory.

For each Business Unit, the non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major asset classes.

For unit-linked business, fund growth assumptions have been determined based on actual asset mix within the funds at the valuation date and expected long-term returns for major asset classes.

Risk discount rates

The risk discount rates can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make an implicit overall level of allowance for risk.

The table below summarises the current market 10-year government bond yields referenced in EV calculations.

	Current market 10-year government bond yields referenced in EV calculations (%)	
Business Unit	**As at 31 December 2018**	As at 31 December 2017
AIA Australia		
Australia	**2.32**	2.63
New Zealand	**2.37**	2.72
AIA China	**3.31**	3.88
AIA Hong Kong(1)	**2.68**	2.42
AIA Indonesia	**8.03**	6.32
AIA Korea	**1.96**	2.47
AIA Malaysia	**4.08**	3.91
AIA Philippines	**7.07**	5.70
AIA Singapore	**2.04**	2.00
AIA Sri Lanka	**11.87**	11.17
AIA Taiwan	**0.86**	0.95
AIA Thailand	**2.51**	2.54
AIA Vietnam	**5.10**	5.15

Note:

(1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond yields shown above are those of US dollar-denominated bonds.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

Risk discount rates (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The same risk discount rates were used for all the EV results shown in Section 1 and Section 2 of this report. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. Note that the 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 31 Dec 2018**	As at 31 Dec 2017	**As at 31 Dec 2018**	As at 31 Dec 2017	**As at 31 Dec 2018**	As at 31 Dec 2017
AIA Australia						
Australia	**7.35**	7.35	**3.00**	3.00	**7.50**	7.50
New Zealand	**7.75**	7.75	**3.50**	3.50	**8.00**	n/a(2)
AIA China	**9.75**	9.75	**3.70**	3.70	**9.30**	9.30
AIA Hong Kong(1)	**7.50**	7.30	**3.00**	2.80	**7.80**	7.60
AIA Indonesia	**13.00**	13.00	**7.50**	7.50	**12.00**	12.00
AIA Korea	**8.60**	8.60	**2.70**	2.70	**7.20**	7.20
AIA Malaysia	**8.75**	8.75	**4.20**	4.20	**8.80**	8.80
AIA Philippines	**11.80**	11.30	**5.30**	4.80	**10.50**	10.00
AIA Singapore	**7.10**	6.90	**2.70**	2.50	**7.20**	7.00
AIA Sri Lanka	**15.70**	15.70	**10.00**	10.00	**12.00**	12.00
AIA Taiwan	**7.85**	7.85	**1.60**	1.60	**6.60**	6.60
AIA Thailand	**8.60**	8.60	**3.20**	3.20	**9.00**	9.00
AIA Vietnam	**11.80**	12.30	**6.00**	6.50	**11.30**	11.80

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 did 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-operating expenses, based on actual acquisition and maintenance expenses in the year ended 31 December 2018. 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 expected long-term expense inflation rates used by Business Unit are set out below:

Expense inflation assumptions by Business Unit (%)

Business Unit	**As at 31 December 2018**	As at 31 December 2017
AIA Australia		
Australia	**2.75**	3.00
New Zealand	**2.00**	2.50
AIA China	**2.00**	2.00
AIA Hong Kong	**2.00**	2.00
AIA Indonesia	**6.00**	6.00
AIA Korea	**3.50**	3.50
AIA Malaysia	**3.00**	3.00
AIA Philippines	**3.50**	3.50
AIA Singapore	**2.00**	2.00
AIA Sri Lanka	**6.50**	6.50
AIA Taiwan	**1.20**	1.20
AIA Thailand	**2.00**	2.00
AIA Vietnam	**5.00**	5.00

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 31 December 2018**	As at 31 December 2017
AIA Australia		
Australia	**30.0**	30.0
New Zealand	**28.0**	28.0
AIA China	**25.0**	25.0
AIA Hong Kong	**16.5**	16.5
AIA Indonesia	**25.0**	25.0
AIA Korea	**27.5**[1]	24.2
AIA Malaysia	**24.0**	24.0
AIA Philippines	**30.0**	30.0
AIA Singapore	**17.0**	17.0
AIA Sri Lanka	**28.0**	28.0
AIA Taiwan	**20.0**	17.0
AIA Thailand	**20.0**	20.0
AIA Vietnam	**20.0**	20.0

Note:

(1) From fiscal years 2018 to 2020, AIA Korea is subject to an assumed corporate income tax of 27.5%, which includes an Accumulated Earnings Tax following the subsidiarisation of the branch in AIA Korea. Based on current regulations, the corporate income tax rate will revert to 24.2% from fiscal year 2021.

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 31 December 2018 is calculated after deducting any remittance taxes payable on the anticipated distribution of both the ANW and VIF.

5. ASSUMPTIONS (continued)

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.

5.12 Product Charges

Management fees and product charges reflected in the VIF and VONB have been assumed to follow existing scales.

6. EVENTS AFTER THE REPORTING PERIOD

In September 2017, the Group reached an agreement to acquire Commonwealth Bank of Australia's (CBA) life insurance business in Australia, including a 20-year strategic bancassurance partnership with CBA in Australia. The acquisition remains in progress, subject to securing all necessary regulatory and governmental approvals. The transaction aims to expand the Group's distribution capabilities and customer reach in Australia. The total gross consideration to be paid with respect to the proposed transaction is expected to be approximately US$2.0 billion payable in cash on completion of the proposed transaction and subject to certain adjustments at completion. After taking into account the expected proceeds from reinsurance agreement and the expected free surplus of the acquired business, the final net cash outlay by AIA is expected to be approximately US$1.0 billion.

On 16 January 2019, the Group issued Hong Kong dollar-denominated fixed rate medium-term notes that are unlisted. The offering comprised of HK$1,300 million of 3.5-year notes at an annual rate of 2.95 per cent and HK$1,100 million of 12-year notes at an annual rate of 3.68 per cent. In aggregate the US dollar-equivalent is approximately US$307 million.

On 15 March 2019, a Committee appointed by the Board of Directors proposed a final dividend of 84.80 Hong Kong cents per share (twelve months ended 30 November 2017: 74.38 Hong Kong cents per share), and a special dividend of 9.50 Hong Kong cents per share (twelve months ended 30 November 2017: nil) for the additional month in the accounting period due to the change of the Group's financial year-end date from 30 November 2018 to 31 December 2018.

The Company has changed its financial year-end to 31 December with the first set of consolidated financial statements adopting the new year-end date for the thirteen months ended 31 December 2018. To facilitate a meaningful comparison of our performance in 2018 and 2017, we are also reporting supplementary financial information on a calendar year basis covering the twelve months ended 31 December 2018 for the current period and the twelve months ended 31 December 2017 for the prior period, and these are set out in note 47 to the financial statements. The financial information in the Financial and Operating Review as set out on page 8 to page 37 has been prepared on a like-for-like basis, that also covers the twelve months period from 1 January 2018 to 31 December 2018 for the current period and the twelve months period from 1 January 2017 to 31 December 2017 for the prior period.

This set of management discussion and analysis covers the financial results for the thirteen months period from 1 December 2017 to 31 December 2018 for the current period and for the twelve months period from 1 December 2016 to 30 November 2017 for the prior period. When reporting the Group's consolidated figures, there is currency translation effect as we report in US dollars. We have provided growth rates and commentaries on our key operating performance on a CER basis unless otherwise stated, as this provides a clearer picture of the performance of the underlying businesses.

BUSINESS REVIEW FOR THE THIRTEEN MONTHS ENDED 31 DECEMBER 2018

US$ millions, unless otherwise stated	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017	YoY CER	YoY AER
VONB	**4,067**	3,512	**14%**	16%
VONB margin	**59.3%**	56.8%	**2.2pps**	2.5pps
ANP	**6,770**	6,092	**10%**	11%
Operating profit after tax	**5,684**	4,647	**20%**	22%

VONB increased by 14 per cent to US$4,067 million with all our reportable market segments delivering positive VONB growth. Agency distribution remains our main source of new business and accounted for 71 per cent of the Group's total VONB for the thirteen months ended 31 December 2018. The focused execution of our Premier Agency strategy has continued to drive VONB growth of 16 per cent from the agency channel. VONB from partnership distribution delivered solid growth of 8 per cent, building on the exceptionally strong performance from Hong Kong's retail IFA channel for the six months ended 31 May 2017 as previously highlighted.

ANP grew by 10 per cent to US$6,770 million and VONB margin was up by 2.2 pps to 59.3 per cent.

OPAT grew by 20 per cent for the thirteen months ended 31 December 2018, primarily due to the additional one-month of profit relative to the result for the twelve months ended 30 November 2017, the new business growth over time and the proactive management of our in-force portfolio.

NEW BUSINESS PERFORMANCE

VONB, ANP and Margin by Segment

US$ millions, unless otherwise stated	Thirteen months ended 31 December 2018 VONB	VONB Margin	ANP	Twelve months ended 30 November 2017 VONB	VONB Margin	ANP	VONB Change YoY CER	YoY AER
Hong Kong	**1,763**	**61.5%**	**2,793**	1,559	53.2%	2,849	**13%**	13%
Thailand	**472**	**72.8%**	**648**	381	73.6%	518	**18%**	24%
Singapore	**360**	**64.1%**	**562**	311	71.8%	433	**13%**	16%
Malaysia	**256**	**63.6%**	**396**	220	62.5%	348	**8%**	16%
China	**988**	**90.0%**	**1,098**	828	85.5%	968	**16%**	19%
Other Markets	**450**	**35.1%**	**1,273**	408	41.2%	976	**13%**	10%
Subtotal	**4,289**	**62.6%**	**6,770**	3,707	60.0%	6,092	**14%**	16%
Adjustment to reflect consolidated reserving and capital requirements	**(59)**	**n/m**	**n/m**	(65)	n/m	n/m	**n/m**	n/m
After-tax value of unallocated Group Office expenses	**(163)**	**n/m**	**n/m**	(130)	n/m	n/m	**n/m**	n/m
Total	**4,067**	**59.3%**	**6,770**	3,512	56.8%	6,092	**14%**	16%

VONB grew by 14 per cent to US$4,067 million for the thirteen months ended 31 December 2018, building on a strong performance of 28 per cent growth in VONB for the twelve months ended 30 November 2017.

ANP was higher by 10 per cent to US$6,770 million. VONB margin increased by 2.2 pps to 59.3 per cent and PVNBP margin remained stable at 10 per cent compared with the twelve months ended 30 November 2017.

Agency distribution remains our main source of new business and accounted for 71 per cent of the Group's total VONB for the thirteen months ended 31 December 2018. The focused execution of our Premier Agency strategy has continued to drive strong VONB growth of 16 per cent from the agency channel. This was delivered through strong ANP growth of 10 per cent to US$4,341 million and a higher VONB margin of 69.7 per cent. VONB from partnership distribution delivered solid growth of 8 per cent, building on the exceptionally strong performance from Hong Kong's retail IFA channel for the six months ended 31 May 2017.

Hong Kong delivered VONB growth of 13 per cent to US$1,763 million for the thirteen months ended 31 December 2018 with strong performance across both domestic and Mainland Chinese visitor customer segments. VONB margin increased by 8.3 pps to 61.5 per cent as our product mix continued to shift towards higher-margin long-term savings and protection products.

AIA's wholly-owned operation in China delivered VONB growth of 16 per cent to US$988 million for the thirteen months ended 31 December 2018. This strong performance reflects the disciplined execution of our Premier Agency strategy, focusing on quality recruitment together with continuing productivity enhancements.

Thailand reported VONB growth of 18 per cent to US$472 million for the thirteen months ended 31 December 2018. Sales momentum continued as we continued to transform the agency through our Financial Adviser programme.

Singapore delivered VONB growth of 13 per cent for the thirteen months ended 31 December 2018, mainly driven by our core agency channel and strategic partnership with Citibank. VONB margin was lower at 64.1 per cent as a result of lower profitability from our HealthShield business as previously highlighted and higher volumes of single premium unit-linked business ahead of a regulatory change in October 2018.

Despite reduced consumer activity and changes to tax regulations during the period, Malaysia reported VONB growth of 8 per cent to US$256 million for the thirteen months ended 31 December 2018.

Other Markets reported VONB growth of 13 per cent to US$450 million for the thirteen months ended 31 December 2018. Highlights included strong growth from Australia (including New Zealand), Korea, the Philippines and Taiwan.

The VONB results for the Group are reported after a deduction of US$222 million for the consolidated reserving and capital requirements over and above local statutory requirements and for the present value of unallocated Group Office expenses.

IFRS FINANCIAL REVIEW FOR THE THIRTEEN MONTHS ENDED 31 DECEMBER 2018

OPAT[(1)] by Segment

US$ millions, unless otherwise stated	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017	YoY CER	YoY AER
Hong Kong	**1,958**	1,636	**20%**	20%
Thailand	**1,061**	865	**16%**	23%
Singapore	**599**	504	**16%**	19%
Malaysia	**345**	272	**18%**	27%
China	**939**	639	**42%**	47%
Other Markets	**871**	758	**17%**	15%
Group Corporate Centre	**(89)**	(27)	**n/m**	n/m
Total	**5,684**	4,647	**20%**	22%

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

OPAT for the thirteen months ended 31 December 2018 was US$5,684 million, up by 20 per cent as compared with the twelve months ended 30 November 2017, primarily due to the additional one-month of profit for December 2018, new business growth over time and the proactive management of our in-force portfolio.

Hong Kong delivered strong result reflecting growth in our business and improved claims experience, partly offset by a shift in product mix towards participating business, as previously highlighted in our Interim Report 2018.

China achieved excellent OPAT growth, primarily driven by the growing scale of our business and positive claims experience.

OPAT in Thailand increased as a result of our business growth and improved persistency.

Singapore reported an increase in OPAT despite pressure on profitability from double-digit medical inflation in the market. Malaysia also had strong OPAT in line with business growth.

Other Markets delivered strong OPAT growth. Highlights included strong performances from Australia (including New Zealand), the Philippines, Taiwan and Vietnam.

Operating ROE for the thirteen months ended 31 December 2018 was 15.7 per cent compared with 14.2 per cent for the twelve months ended 30 November 2017, driven by OPAT growth partly offset by higher average shareholders' allocated equity for the thirteen months ended 31 December 2018.

TWPI by Segment

US$ millions, unless otherwise stated	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017	YoY CER	YoY AER
Hong Kong	**12,501**	9,434	**33%**	33%
Thailand	**4,232**	3,517	**14%**	20%
Singapore	**2,906**	2,421	**17%**	20%
Malaysia	**2,245**	1,823	**15%**	23%
China	**4,366**	3,092	**37%**	41%
Other Markets	**6,859**	5,860	**18%**	17%
Total	**33,109**	26,147	**25%**	27%

TWPI increased to US$33,109 million for the thirteen months ended 31 December 2018 compared with the twelve month period ended 30 November 2017 due to business growth.

IFRS Operating Profit Investment Return

US$ millions, unless otherwise stated	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017	YoY CER	YoY AER
Interest income	**6,623**	5,440	**19%**	22%
Expected long-term investment return for equities and real estate	**2,105**	1,656	**25%**	27%
Total	**8,728**	7,096	**20%**	23%

IFRS operating profit investment return increased to US$8,728 million for the thirteen months ended 31 December 2018 compared with US$7,096 million for the twelve months ended 30 November 2017. The growth was primarily driven by the increased size of our investments portfolio.

Operating Expenses

US$ millions, unless otherwise stated	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017	YoY CER	YoY AER
Operating expenses	**2,366**	1,969	**19%**	20%

Operating expenses grew to US$2,366 million for the thirteen months ended 31 December 2018 mainly due to the additional month compared to the twelve months ended 30 November 2017. The expense ratio for the thirteen months ended 31 December 2018 was 7.1 per cent compared with 7.5 per cent for the twelve months ended 30 November 2017 as we continued to benefit from increasing scale.

Net Profit[1]

US$ millions, unless otherwise stated	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017	YoY CER	YoY AER
OPAT	**5,684**	4,647	**20%**	22%
Short-term fluctuations in investment return related to equities and real estate, net of tax[2]	**(1,908)**	1,741	**n/m**	n/m
Reclassification of revaluation gain for property held for own use, net of tax[2][3]	**(212)**	(84)	**n/m**	n/m
Corporate transaction related costs, net of tax[3]	**(148)**	(25)	**n/m**	n/m
Implementation costs of new accounting standards, net of tax[3]	**(43)**	(6)	**n/m**	n/m
Other non-operating investment return and other items, net of tax[3]	**(210)**	(153)	**n/m**	n/m
Total	**3,163**	6,120	**(49)%**	(48)%

Notes:
(1) Attributable to shareholders of the Company only excluding non-controlling interests.
(2) Short-term fluctuations in investment return include the revaluation gain for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.
(3) The comparative information has been adjusted to conform to current period presentation.

IFRS NON-OPERATING MOVEMENT

AIA's IFRS net profit definition includes mark-to-market movements from our equity portfolio. IFRS net profit for the thirteen months ended 31 December 2018 decreased by 49 per cent to US$3,163 million. The decrease was due to negative short-term fluctuations from equities and real estate of US$1,908 million for the thirteen months ended 31 December 2018, particularly in respect of our other participating business with distinct portfolios compared with positive movements of US$1,741 million for the twelve months ended 30 November 2017. Other non-operating items for the thirteen months ended 31 December 2018 included corporate transaction related costs of US$148 million, representing tax expenses in relation to the subsidiarisation of AIA Korea and costs associated with the acquisition of Sovereign, and implementation costs of new accounting standards of US$43 million.

Movement in Shareholders' Allocated Equity

US$ millions, unless otherwise stated	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Opening shareholders' allocated equity	**35,658**	29,632
Net profit	**3,163**	6,120
Purchase of shares held by employee share-based trusts	**(12)**	(10)
Dividends	**(1,589)**	(1,376)
Revaluation gains on property held for own use	**11**	78
Foreign currency translation adjustments	**(550)**	1,061
Other capital movements	**114**	153
Total movement in shareholders' allocated equity	**1,137**	6,026
Closing shareholders' allocated equity	**36,795**	35,658
Average shareholders' allocated equity	**36,227**	32,645

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 market value movements in available for sale bonds.

Average shareholders' allocated equity increased by US$3,582 million to US$36,227 million for the thirteen months ended 31 December 2018 compared with US$32,645 million for the twelve months ended 30 November 2017 as a result of a higher opening position for 2018 arising from significant mark-to-market gains in our equity portfolio during 2017.

At 31 December 2018, shareholders' allocated equity grew to US$36,795 million compared to US$35,658 million at 30 November 2017, after the payment of shareholder dividends of US$1,589 million, reflecting the depreciation of local currencies against our US dollar reporting currency of US$550 million and net profit of US$3,163 million which included negative mark-to-market movement from our equity portfolio.

IFRS EARNINGS PER SHARE (EPS)

Basic EPS based on IFRS OPAT attributable to shareholders was 47.29 US cents for the thirteen months ended 31 December 2018.

Basic EPS based on IFRS net profit attributable to shareholders, including mark-to-market movements from our equity and investment property portfolios, was 26.31 US cents for the thirteen months ended 31 December 2018.

IFRS EPS – Basic

	Net Profit(1)		OPAT(1)	
	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Profit (US$ millions)	**3,163**	6,120	**5,684**	4,647
Weighted average number of ordinary shares (millions)	**12,020**	12,000	**12,020**	12,000
Basic earnings per share (US cents)	**26.31**	51.00	**47.29**	38.73

IFRS EPS – Diluted

	Net Profit(1)		OPAT(1)	
	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Profit (US$ millions)	**3,163**	6,120	**5,684**	4,647
Weighted average number of ordinary shares(2) (millions)	**12,055**	12,037	**12,055**	12,037
Diluted earnings per share(2) (US cents)	**26.24**	50.84	**47.15**	38.61

Notes:
(1) Attributable to shareholders of the Company only excluding non-controlling interests.
(2) Diluted earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, RSPUs and RSSUs granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 39 to the financial statements.

IFRS BALANCE SHEET

Consolidated Statement of Financial Position

US$ millions, unless otherwise stated	As at 31 December 2018	As at 30 November 2017	Change AER
Assets			
Financial investments	**186,142**	176,220	6%
Investment property	**4,794**	4,365	10%
Cash and cash equivalents	**2,451**	2,289	7%
Deferred acquisition and origination costs	**24,626**	21,847	13%
Other assets	**11,793**	10,970	8%
Total assets	**229,806**	215,691	7%
Liabilities			
Insurance and investment contract liabilities	**172,649**	156,979	10%
Borrowings	**4,954**	3,958	25%
Other liabilities	**12,797**	12,382	3%
Less total liabilities	**190,400**	173,319	10%
Equity			
Total equity	**39,406**	42,372	(7)%
Less non-controlling interests	**400**	378	6%
Total equity attributable to shareholders of AIA Group Limited	**39,006**	41,994	(7)%
Shareholders' allocated equity	**36,795**	35,658	3%

Movement in Shareholders' Equity

US$ millions, unless otherwise stated	Thirteen months ended 31 December 2018	Twelve months ended 30 November 2017
Opening shareholders' equity	**41,994**	34,984
Net profit	**3,163**	6,120
Fair value (losses)/gains on assets	**(4,125)**	984
Purchase of shares held by employee share-based trusts	**(12)**	(10)
Dividends	**(1,589)**	(1,376)
Revaluation gains on property held for own use	**11**	78
Foreign currency translation adjustments	**(550)**	1,061
Other capital movements	**114**	153
Total movement in shareholders' equity	**(2,988)**	7,010
Closing shareholders' equity	**39,006**	41,994

Total Investments

US$ millions, unless otherwise stated	As at 31 December 2018	Percentage of total	As at 30 November 2017	Percentage of total
Total policyholder and shareholder	**171,337**	**88%**	160,327	87%
Total unit-linked contracts and consolidated investment funds	**23,938**	**12%**	24,231	13%
Total investments	**195,275**	**100%**	184,558	100%

The investment mix remained stable for the thirteen months ended 31 December 2018 as set out below:

Unit-Linked Contracts and Consolidated Investment Funds

US$ millions, unless otherwise stated	As at 31 December 2018	Percentage of total	As at 30 November 2017	Percentage of total
Unit-linked contracts and consolidated investment funds				
Debt securities	**4,765**	**20%**	4,704	19%
Loans and deposits	**81**	**–**	107	1%
Equities	**18,418**	**77%**	18,953	78%
Cash and cash equivalents	**672**	**3%**	456	2%
Derivatives	**2**	**–**	11	–
Total unit-linked contracts and consolidated investment funds	**23,938**	**100%**	24,231	100%

Policyholder and Shareholder Investments

US$ millions, unless otherwise stated	As at 31 December 2018	Percentage of total	As at 30 November 2017	Percentage of total
Participating funds and Other participating business with distinct portfolios[(1)]				
Government and government agency bonds	**14,121**	**8%**	11,054	7%
Corporate bonds and structured securities	**30,183**	**18%**	28,188	18%
Loans and deposits	**2,179**	**1%**	2,282	1%
Subtotal – Fixed income investments	**46,483**	**27%**	41,524	26%
Equities	**13,892**	**8%**	11,884	7%
Investment property and property held for own use	**888**	**1%**	757	1%
Cash and cash equivalents	**395**	**–**	272	–
Derivatives	**148**	**–**	73	–
Subtotal Participating funds and Other participating business with distinct portfolios	**61,806**	**36%**	54,510	34%
Other policyholder and shareholder[(1)]				
Government and government agency bonds	**49,317**	**29%**	44,978	28%
Corporate bonds and structured securities	**41,835**	**24%**	42,244	26%
Loans and deposits	**5,132**	**3%**	5,584	4%
Subtotal – Fixed income investments	**96,284**	**56%**	92,806	58%
Equities	**5,789**	**3%**	5,879	4%
Investment property and property held for own use	**5,794**	**4%**	5,292	3%
Cash and cash equivalents	**1,384**	**1%**	1,561	1%
Derivatives	**280**	**–**	279	–
Subtotal other policyholder and shareholder	**109,531**	**64%**	105,817	66%
Total policyholder and shareholder	**171,337**	**100%**	160,327	100%

Note:
(1) Presentation of Participating funds and Other participating business with distinct portfolios and Other policyholder and shareholder is consistent with note 20 to the financial statements. The comparative information has been adjusted to conform to current period presentation. Please refer to note 20 to the financial statements for additional information.

ASSETS

Participating business is written in a segregated statutory fund, with regulations governing the division of surplus between policyholders and shareholders. "Other participating business with distinct portfolios" is supported by segregated investment assets and explicit provisions for future surplus distribution though the division of surplus between policyholders and shareholders is not defined in regulations. We have enhanced our investment disclosures to reflect the nature and greater size of this business by grouping its assets together with participating business. Comparative information is also shown for 30 November 2017.

Total assets increased by US$14,115 million to US$229,806 million at 31 December 2018, compared with US$215,691 million at 30 November 2017.

Total investments including financial investments, investment property, property held for own use, and cash and cash equivalents increased by US$10,717 million to US$195,275 million at 31 December 2018, compared with US$184,558 million at 30 November 2017.

Of the total US$195,275 million investments at 31 December 2018, US$171,337 million were held in respect of policyholders and shareholders and the remaining US$23,938 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$142,767 million at 31 December 2018 compared with US$134,330 million at 30 November 2017. The average credit rating of the fixed income portfolio of A remained consistent with the position at 30 November 2017.

Government and government agency bonds represented 44 per cent of fixed income investments at 31 December 2018, compared with 42 per cent at 30 November 2017. Corporate bonds and structured securities accounted for 50 per cent of fixed income investments at 31 December 2018, compared with 52 per cent at 30 November 2017.

Equity securities held in respect of policyholders and shareholders totalled US$19,681 million at 31 December 2018, compared with US$17,763 million at 30 November 2017. The US$1,918 million increase in carrying value was mainly attributable to new purchases offset by negative mark-to-market movements. Within this figure, equity securities of US$13,892 million were held in participating funds and other participating business with distinct portfolios.

Cash and cash equivalents increased by US$162 million to US$2,451 million at 31 December 2018 compared with US$2,289 million at 30 November 2017. The increase largely reflected positive net cash inflows from our operating business, net proceeds of the issuances of medium-term notes totalling US$1,490 million during the period, partly offset by the redemption of medium-term notes of US$500 million upon maturity and the payment of shareholder dividends of US$1,589 million.

Investment property and property held for own use in respect of policyholders and shareholders totalled US$6,682 million at 31 December 2018 compared with US$6,049 million at 30 November 2017.

Deferred acquisition and origination costs increased to US$24,626 million at 31 December 2018 compared with US$21,847 million at 30 November 2017, largely reflecting new business growth.

Other assets increased to US$11,793 million at 31 December 2018 compared with US$10,970 million at 30 November 2017, reflecting an increase in reinsurance recoveries, accrued interest and prepayments.

LIABILITIES

Total liabilities increased to US$190,400 million at 31 December 2018 from US$173,319 million at 30 November 2017.

Insurance and investment contract liabilities grew to US$172,649 million at 31 December 2018 compared with US$156,979 million at 30 November 2017, reflecting the underlying growth of the in-force portfolio offset by negative mark-to-market movements on equities backing unit-linked and participating policies and negative foreign exchange translation.

Borrowings increased to US$4,954 million at 31 December 2018, due to the net proceeds of the issuances of medium-term notes totalling US$1,490 million during the period, partly offset by the redemption of medium-term notes of US$500 million upon maturity. Medium-term notes with a notional amount of US$500 million issued in 2014 will mature in March 2019 as disclosed in note 29 to the financial statements. Leverage ratio, which is defined as borrowings expressed as a percentage of total borrowings and equity, was 11.2 per cent, compared with 8.5 per cent at 30 November 2017.

Other liabilities were US$12,797 million at 31 December 2018, compared with US$12,382 million at 30 November 2017, reflecting an increase in deferred tax liabilities and investment-related payables.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the thirteen-month period ended 31 December 2018, including the accounting principles and practices adopted by the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company complied with all applicable code provisions set out in the Corporate Governance Code throughout the thirteen-month period ended 31 December 2018.

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

Save for the purchase of 1,409,735 shares of the Company under the Employee Share Purchase Plan at a total consideration of approximately US$12 million, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the thirteen-month period ended 31 December 2018. These purchases were made by the trustees of the relevant scheme/plan on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant scheme/plan and therefore were not cancelled. Please refer to note 39 to the financial statements for details.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events after the thirteen-month period ended 31 December 2018 are set out in note 44 to the financial statements.

PUBLICATION OF CERTAIN FINANCIAL AND OTHER DATA PURSUANT TO LOCAL REGULATORY REQUIREMENTS

The Company and its subsidiaries or their respective branches are subject to local regulatory oversight in each of the countries or jurisdictions in which they operate. In a number of these jurisdictions, local insurance and other regulations require the publication of certain financial and other data primarily for policyholders' information and prudential supervisory purposes. Such local statutory data is often produced pursuant to regulations that are not designed with the protection or requirements of public shareholders as a primary objective.

The Company uses HKFRS and IFRS to prepare its consolidated financial information. The local statutory data may be prepared on bases different from HKFRS and IFRS and may be substantially different from the Company's HKFRS and IFRS financial information.

Accordingly, our shareholders and potential investors are advised that the local statutory data should not be relied on for an assessment of the Company's financial performance.

DIVIDENDS

The Board has recommended an increase in the payment of a final dividend of 14 per cent to 84.80 Hong Kong cents per share for the thirteen-month period ended 31 December 2018 (for the twelve-month period ended 30 November 2017: 74.38 Hong Kong cents per share), consistent with AIA’s established prudent, sustainable and progressive dividend policy. The Board has also recommended the payment of a special dividend of 9.50 Hong Kong cents per share for the additional month in the accounting period due to the change of the Company’s financial year-end date from 30 November 2018 to 31 December 2018. The dividends reflect the strength of our financial results and the Board’s continued confidence in the future prospects of the Group.

Subject to shareholders’ approval at the AGM, the final dividend and the special dividend will be payable on Thursday, 6 June 2019 to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 22 May 2019, being the record date for determining the entitlements to the final dividend and the special dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 14 May 2019 to Friday, 17 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 10 May 2019.

In order to qualify for the entitlements of the final dividend and the special dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 22 May 2019.

ANNUAL GENERAL MEETING

The AGM will be held at 11:00 a.m. (Hong Kong time) on Friday, 17 May 2019 at the Grand Ballroom, 2/F, New World Millennium Hong Kong Hotel, 72 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong. Notice of the AGM will be published on the websites of both the Hong Kong Stock Exchange and the Company.

Details of voting results at the AGM can be found on the websites of both the Hong Kong Stock Exchange at www.hkex.com.hk and the Company at www.aia.com on Friday, 17 May 2019 after the AGM.

FORWARD-LOOKING STATEMENTS

This document may contain certain forward-looking statements relating to the Group that are based on the beliefs of the Group's management as well as assumptions made by and information currently available to the Group's management. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to the Group's business prospects, future developments, trends and conditions in the industry and geographical markets in which the Group operates, its strategies, plans, objectives and goals, its ability to control costs, statements relating to prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

When used in this document, the words "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "will", "would" and similar expressions, as they relate to the Group or the Group's management, are intended to identify forward-looking statements. These forward-looking statements reflect the Group's views as of the date hereof with respect to future events and are not a guarantee of future performance or developments. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. Actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including any changes in the laws, rules and regulations relating to any aspects of the Group's business operations, general economic, market and business conditions, including capital market developments, changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, the actions and developments of the Group's competitors and the effects of competition in the insurance industry on the demand for, and price of, the Group's products and services, various business opportunities that the Group may or may not pursue, changes in population growth and other demographic trends, including mortality, morbidity and longevity rates, persistency levels, the Group's ability to identify, measure, monitor and control risks in the Group's business, including its ability to manage and adapt its overall risk profile and risk management practices, its ability to properly price its products and services and establish reserves for future policy benefits and claims, seasonal fluctuations and factors beyond the Group's control. Subject to the requirements of the Listing Rules, the Group does not intend to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, forward-looking events and circumstances discussed in this document might not occur in the way the Group expects, or at all. Accordingly, you should not place reliance on any forward-looking information or statements. All forward-looking statements in this document are qualified by reference to the cautionary statements set forth in this section.

By Order of the Board
Ng Keng Hooi
Executive Director,
Group Chief Executive and President

Hong Kong, 15 March 2019

As at the date of this announcement, the Board comprises:

Independent Non-executive Chairman and Independent Non-executive Director:
Mr. Edmund Sze-Wing Tse

Executive Director, Group Chief Executive and President:
Mr. Ng Keng Hooi

Independent Non-executive Directors:
Mr. Jack Chak-Kwong So, Mr. Chung-Kong Chow, Mr. John Barrie Harrison, Mr. George Yong-Boon Yeo, Mr. Mohamed Azman Yahya, Professor Lawrence Juen-Yee Lau, Ms. Swee-Lian Teo, Dr. Narongchai Akrasanee and Mr. Cesar Velasquez Purisima

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. ANW for AIA is stated after adjustment to reflect consolidated reserving requirements. ANW by market is stated before adjustment to reflect consolidated reserving requirements, and presented on a local statutory basis.
AER	Actual exchange rates.
AGM	2019 Annual General Meeting of the Company to be held at 11:00 a.m. (Hong Kong time) on Friday, 17 May 2019.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA Co.	AIA Company Limited, a company incorporated in Hong Kong and a subsidiary of the Company.
AIA International	AIA International Limited, a company incorporated in Bermuda and an indirect subsidiary of the Company.
AIA Vitality	A science-backed wellness programme that provides participants with the knowledge, tools and motivation to help them achieve their personal health goals. The programme is a partnership between AIA and Discovery Limited, a specialist insurer headquartered in South Africa.
ALC	The AIA Leadership Centre located in Bangkok, Thailand.
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. For group renewable business, it includes any premium payable on existing schemes that exceeds the prior year's premiums.
ASPP	Agency Share Purchase Plan, adopted by the Company on 23 February 2012, a share purchase plan with matching offer to facilitate and encourage AIA share ownership by agents.
available for sale (AFS) financial assets	Financial assets that may be sold before maturity and that are used to back insurance and investment contract liabilities and shareholders' equity, and which are not managed on a fair value basis. Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value recorded in other comprehensive income.
bancassurance	The distribution of insurance products through banks or other financial institutions.
Board	The board of Directors.
CER	Constant exchange rates. Change on constant exchange rates is calculated for all figures for the current year and for the prior year, using constant average exchange rates, other than for balance sheet items as at the end of the current year and as at the end of the prior year, which is translated using the constant exchange rates
Company	AIA Group Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1299).
consolidated investment funds	Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds.
Corporate Governance Code	Corporate Governance Code set out in Appendix 14 to the Listing Rules.
cost of capital or CoC	CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing the required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in participating funds, there is no associated cost of capital included in the VIF or VONB. CoC for AIA is stated after adjustment to reflect consolidated capital requirements. CoC by market is stated before adjustment to reflect consolidated capital requirements, and presented on a local statutory basis.

deferred acquisition costs or DAC	Acquisition costs 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. Such assets are tested for recoverability at least annually.
deferred origination costs or DOC	Origination costs are expenses which are incurred in connection with the origination of new investment contracts or the renewal of existing investment contracts. For contracts that involve the provision of investment management services, these include commissions and other incremental expenses directly related to the issue of each new contract. Origination costs on contracts with investment management services are deferred and recognised as an asset in the consolidated statement of financial position and expensed to the consolidated income statement on a systematic basis in line with the revenue generated by the investment management services provided. Such assets are tested for recoverability.
Director(s)	The director(s) of the Company.
embedded value or EV	An actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business. EV for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. EV by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
EPS	Earnings per share.
equity attributable to shareholders of the Company on the embedded value basis or EV Equity	EV Equity is the total of embedded value, goodwill and other intangible assets attributable to shareholders of the Company.
ESPP	Employee Share Purchase Plan, adopted by the Company on 25 July 2011 (as amended), a share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees.
ExCo	The Executive Committee of the Group.
fair value through profit or loss or FVTPL	Financial assets that are held to back unit-linked contracts and participating funds or financial assets and liabilities that are held for trading. A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year.

first half	The six months from 1 January to 30 June.
first year premiums	First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold.
free surplus	ANW in excess of the required capital. Free surplus for AIA is stated after adjustment to reflect consolidated reserving and capital requirements.
group insurance	An insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf.
Group Office	Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions.
HKFRS	Hong Kong Financial Reporting Standards.
HKIA	Insurance Authority established under the Insurance Companies (Amendment) Ordinance 2015 or prior to 26 June 2017, the Office of the Commissioner of Insurance.
HKICPA	Hong Kong Institute of Certified Public Accountants.
Hong Kong	The Hong Kong Special Administrative Region of the PRC; in the context of our reportable segments, Hong Kong includes Macau.
Hong Kong Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time.
Hong Kong Insurance Ordinance or HKIO	Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), as amended from time to time. It provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong.
Hong Kong Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited.
IAIS	International Association of Insurance Supervisors.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
IFA	Independent financial adviser.

IFRS	Standards and interpretations adopted by the IASB comprising: • International Financial Reporting Standards; • IAS; and • Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC).
interactive Mobile Office or iMO	iMO is a mobile office platform with a comprehensive suite of applications that allow agents and agency leaders to manage their daily activities from lead generation, sales productivity and recruitment activity through to development training and customer analytics.
interactive Point of Sale or iPoS	iPoS is a secure, mobile point-of-sale technology that features a paperless sales process from the completion of the customer's financial-needs analysis to proposal generation with electronic biometric signature of life insurance applications on tablet devices. It is part of iMO.
investment experience	Realised and unrealised investment gains and losses recognised in the consolidated income statement.
investment income	Investment income comprises interest income, dividend income and rental income.
investment return	Investment return consists of investment income plus investment experience.
IPO	Initial Public Offering.
liability adequacy testing	An assessment of whether the carrying amount of an insurance liability needs to be increased or the carrying amount of related deferred acquisition and origination costs or related intangible assets decreased based on a review of future cash flows.
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
LOMA	LOMA is an international trade association for the insurance and financial services industry.
Million Dollar Round Table or MDRT	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.
net funds to Group Corporate Centre	In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable segments by the Group Corporate Centre segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.

n/a	Not available.
n/m	Not meaningful.
operating profit after tax or OPAT	Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.
operating return on EV or operating ROEV	Operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value.
operating return on shareholders' allocated equity or operating ROE	Operating return on shareholders' allocated equity is calculated as operating profit after tax attributable to shareholders of the Company, expressed as a percentage of the simple average of opening and closing shareholders' allocated equity.
OTC	Over-the-counter.
Other participating business with distinct portfolios	Business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory.
Participating funds	Participating funds are distinct portfolios where the policyholders have a contractual right to receive, at the discretion of the insurer as to the timing, 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 allocation of benefits from the assets held in the participating funds is subject to minimum policyholder participation mechanisms established by 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.
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.
PVNBP margin	VONB excluding pension business, expressed as a percentage of present value of new business premiums (PVNBP). PVNBP margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses.
regulatory minimum capital	Net assets held to meet the minimum solvency margin requirement set by the HKIO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.
renewal premiums	Premiums receivable in subsequent years of a recurring premium policy.
rider	A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premiums.
Risk-Based Capital or RBC	RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.
RMF	Risk Management Framework.
RSPUs	Restricted stock purchase units.
RSSUs	Restricted stock subscription units.
RSU Scheme	Restricted Share Unit Scheme, adopted by the Company on 28 September 2010 (as amended), under which the Company may award restricted share units to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries.
second half	The six months from 1 July to 31 December.
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.

SO Scheme	Share Option Scheme, adopted by the Company on 28 September 2010 (as amended), under which the Company may award share options to employees, directors (excluding independent non-executive directors) or officers of the Company or any of its subsidiaries.
solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
solvency ratio	The ratio of the total available capital to the regulatory minimum capital applicable to the insurer pursuant to relevant regulations.
Sovereign	AIA Sovereign Limited (formerly ASB Group (Life) Limited) and its subsidiaries, including Sovereign Assurance Company Limited, a licensed insurer in New Zealand.
takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Tata AIA	Tata AIA Life Insurance Company Limited.
total weighted premium income or TWPI	TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded. As such it provides an indication of AIA's longer-term business volumes as it smoothes the peaks and troughs in single premiums.
unit-linked investments	Financial investments held to back unit-linked contracts.
unit-linked products	Unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges.
universal life	A type of insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account balance which are credited with interest at a rate either set by the insurer or reflecting returns on a pool of matching assets. The customer may vary the death benefit and the contract may permit the policyholder to withdraw the account balance, typically subject to a surrender charge.

value of business acquired or VOBA	VOBA in respect of a portfolio of long-term insurance and investment contracts acquired is recognised as an asset, calculated using discounted cash flow techniques, reflecting all future cash flows expected to be realised from the portfolio. VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the additional value of the business acquired. The carrying value of VOBA is reviewed annually for impairment and any impairment is charged to the consolidated income statement.
value of in-force business or VIF	VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. VIF for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VIF by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
value of new business or VONB	VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding the required capital in excess of regulatory reserves to support this business. VONB for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
VONB margin	VONB excluding pension business, expressed as a percentage of ANP. VONB margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB margin by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
working capital	Working capital comprises debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. These liquid assets are available to invest in building the Group's business operations.