

SUPPLEMENTAL OFFERING CIRCULAR



AIA GROUP LIMITED

(incorporated in Hong Kong with limited liability)

Stock Code: 1299 (HKD Counter) and 81299 (RMB Counter)

US\$16,000,000,000

Global Medium Term Note and Securities Programme

This supplemental offering circular (the "**Supplemental Offering Circular**") is supplemental to, and should be read in conjunction with, the offering circular dated 13 March 2023 (the "**Original Offering Circular**", and together with this Supplemental Offering Circular, the "**Offering Circular**") and all other documents that are deemed to be incorporated by reference therein in relation to the Global Medium Term Note and Securities Programme (the "**Programme**") established by AIA Group Limited (the "**Issuer**"). Save to the extent defined in this Supplemental Offering Circular, terms defined or otherwise attributed meanings in the Original Offering Circular have the same meaning when used in this Supplemental Offering Circular. References in the Original Offering Circular and this Supplemental Offering Circular to "this Offering Circular" or "the Offering Circular" mean the Original Offering Circular as supplemented by this Supplemental Offering Circular. To the extent that the Original Offering Circular is inconsistent with this Supplemental Offering Circular, the terms of this Supplemental Offering Circular shall prevail.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**" or "**HKSE**") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("**Professional Investors**") only during the 12-month period after the date of the Original Offering Circular on the Hong Kong Stock Exchange. This Supplemental Offering Circular is for distribution to Professional Investors only.

Notice to Hong Kong investors: the Issuer confirms that each Tranche of Instruments to be issued under the Programme is intended for purchase by Professional Investors only, and the Programme has been, and the Instruments, to the extent such Instruments are to be listed on the Hong Kong Stock Exchange, will be, listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Instruments are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The HKSE has not reviewed the contents of this Supplemental Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this Supplemental Offering Circular. Listing of the Programme or the Instruments on the HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Instruments, the Issuer or the Group or quality of disclosure in the Supplemental Offering Circular. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Supplemental Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Supplemental Offering Circular.

Investors should be aware that the Instruments may include complex features such as variable interest rates or interest rates linked to an index or formula – such associated risks are set out more fully on page 51 of the Original Offering Circular. Securities may also be subordinated and/or perpetual, and the Issuer may elect or be required to defer or cancel Distribution payments under the Securities – see "Risks Relating to the Securities" beginning on page 51 of the Original Offering Circular. There are various other risks relating to the Instruments, the Issuer and the Group, as well as the business and jurisdictions in which they operate, of which investors should be aware before making an investment in the Instruments. See "Risk Factors" beginning on page 32 of the Original Offering Circular.

Arrangers

Citigroup HSBC

Dealers

ANZ BNP PARIBAS BofA Securities Citigroup Crédit Agricole CIB DBS Bank Ltd. Deutsche Ban
Goldman Sachs HSBC Morgan Stanley MUFG Standard Chartered Bank Wells Fargo Securities

The date of this Supplemental Offering Circular is 25 August 2023.

DISCLAIMERS

This Supplemental Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

EXCHANGE RATE INFORMATION

Our principal overseas operations during the reporting period were located within the Asia region. Items included in the financial statements of each of our Group's entities are measured in the currency of the primary economic environment in which that entity operates, which is their functional currency. Unless otherwise stated, our consolidated financial statements are presented in millions of U.S. dollars, which is our functional currency, and our and the Group's presentation currency. The functional currency of each entity within the Group is converted into U.S. dollars utilising period-end exchange rates for assets and liabilities and corresponding period weighted average exchange rates for the consolidated statement of income accounts.

The following table shows, for the periods indicated, the exchange rate at the end of each period between functional currencies of certain markets within the Group and the U.S. dollar. The table sets forth the noon buying rate for U.S. dollars in New York City for cable transfers payable in these functional currencies as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated.

U.S. dollar Period-End Exchange Rates⁽¹⁾

| | August 2023 (through 15 August 2023) | July 2023 | Six months ended 30 June 2023 | Year ended 31 December 2022 | Six months ended 30 June 2022 |
|----------------------|--|--------------|-------------------------------------|--------------------------------------|-------------------------------------|
| Mainland China | 7.28 | 7.14 | 7.25 | 6.90 | 6.70 |
| Hong Kong | 7.82 | 7.80 | 7.84 | 7.80 | 7.85 |
| Thailand | 35.38 | 34.10 | 35.30 | 34.59 | 35.32 |
| Singapore | 1.35 | 1.33 | 1.35 | 1.34 | 1.39 |
| Malaysia | 4.63 | 4.51 | 4.67 | 4.40 | 4.41 |

Source: H.10 statistical release of the Federal Reserve Board.

(1) Exchange rates are expressed in units of local currency per US\$1.00

No representation is made that amounts presented in a particular currency in this Supplemental Offering Circular could have been converted into such currency at any particular rate or at all.

SIGNIFICANT / MATERIAL CHANGE

Since 30 June 2023, there has been no material adverse change in the financial position or prospects nor any significant change in the financial or trading position of the Issuer and the Group.

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RECENT DEVELOPMENTS

APPOINTMENT OF NEW DIRECTORS AND OTHER UPDATES TO THE BOARD OF DIRECTORS

Ms. Mari Elka Pangestu and Mr. Ong Chong Tee joined our Board of Directors as Independent Non-executive Directors and members of the Nomination Committee with effect from 1 July 2023.

Ms. Mari Elka Pangestu

Aged 66, Ms. Pangestu currently serves as a Professor of International Economics at the University of Indonesia, adjunct senior research scholar at the Columbia University and Professor of the University of Prasetiya Mulya. She is also a member of the Advisory Board of Indonesia Bureau of Economic Research, Co-chair of Indonesian National Committee for Pacific Economic Cooperation, member of the Board of Trustees of United in Diversity, Indonesia and the Centre for Strategic and International Studies Foundation, and Distinguished Fellow of Asia Global Institute, University of Hong Kong.

Ms. Pangestu was appointed as the Managing Director, Development Policy and Partnerships for the World Bank in March 2020 and retired from the position in March 2023. She was also a Minister of Trade of the Republic of Indonesia from 2004 to 2011 and Minister of Tourism and Creative Economy of the Republic of Indonesia from 2011 to 2014. She served as Chair of the Board of Trustees of International Food Policy Research Institute, Washington DC from 2017 to 2020; a member of the Global Future Council on Trade and Investment, World Economic Forum from 2016 to 2018; and a board member of the International Chamber of Commerce, Paris from 2015 to 2020. She was also a commissioner for the Low Carbon Development Initiative of Indonesia and Co-chair of the expert group for the High Level Panel for a Sustainable Ocean Economy.

In addition, Ms. Pangestu was previously an Independent President Commissioner of PT Mitra Adiperkasa Tbk from 2018 to 2020, the President Commissioner (Independent) of PT Bank BTPN Tbk from 2016 to 2020 and an Independent Commissioner of PT Astra International Tbk from 2015 to 2017, all of which are listed on the Indonesia Stock Exchange.

Ms. Pangestu has received the Mahaputra Award, the Highest Order for Public Service awarded by the President of Republic Indonesia, in 2013. She was also awarded the Distinguished Fellow Award 2018 by Eisenhower Fellowships and the Economic and Social Science Prize at the Asia Cosmopolitan Awards NARA Forum in 2023. Ms. Pangestu received her Bachelor of Economics (Honors) degree and Master of Economics degree from the Australian National University in 1979 and 1981, respectively. She also obtained a Ph.D degree from the Department of Economics of the University of California, Davis in 1986.

Mr. Ong Chong Tee

Aged 61, Mr. Ong currently serves as the Chairman of the Accounting and Corporate Regulatory Authority in Singapore. He has 35 years of experience with the Monetary Authority of Singapore (MAS), in the areas of reserve management, monetary policy, investment management, financial development and financial supervision. He last served as the Deputy Managing Director of Financial Supervision from 2013 to 2021, overseeing the banking and insurance, capital markets, and policy, risk and surveillance groups. Mr. Ong also served on the boards of Central Provident Fund Board from 2000 to 2009, Singapore Land Authority from 2005 to 2009, Urban Redevelopment Authority from 2006 to 2012 and Housing & Development Board from 2012 to 2018.

Mr. Ong is also a member of the risk committee of GIC Private Limited, an independent non-executive director of United Overseas Bank Limited (listed on the Singapore Exchange), and an independent director of Arab Regional Payments Clearing and Settlement Organization. He is also a member of the Board of Trustees of the National University of Singapore.

Mr. Ong graduated with a Bachelor of Engineering (Honors) from the National University of Singapore. He was also awarded the Public Administration Medal (Gold) (Bar) in 2021 by the President of Singapore.

Retirement of Ms. Swee-Lian Teo

Ms. Swee-Lian Teo will retire from her position as an Independent Non-executive Director with effect from 1 September 2023. Upon her retirement, Ms. Teo will also cease to be the Chairman of the Risk Committee and a member of the Nomination Committee of our Board of Directors. Mr. Chow Chung-Kong has been appointed as the Chairman of the Risk Committee of our Board of Directors with effect from 1 September 2023.

MANAGEMENT CHANGES

Appointment of Dr. Kelvin Loh

Dr. Kelvin Loh has been appointed as the Group Chief Healthcare Officer with effect from 1 May 2023. He is also a member of our Group Executive Committee.

Aged 49, Dr. Loh is responsible for the execution of our Integrated Health Strategy as well as our health-related businesses. Dr. Loh joined the Group in May 2023, bringing more than 25 years of experience backed by a strong track record of delivery in various leadership roles across public and private healthcare sectors.

Prior to joining us, Dr. Loh was Managing Director and CEO of IHH Healthcare Berhad, a leading global integrated healthcare provider operating more than eighty hospitals across ten markets. Before that, he was Group CEO of the Columbia Asia Group, a private healthcare provider with operations across Asian markets including Malaysia, Indonesia, and Vietnam.

Dr. Loh began his career as a physician in Singapore. He holds a Master of Business Administration as well as a Bachelor of Medicine and Bachelor of Surgery (MBBS) from the National University of Singapore.

APPROVAL TO LAUNCH OPERATIONS IN HENAN

In April 2023, AIA China received approval from the China Banking and Insurance Regulatory Commission to commence operations in Henan province.

ADOPTION OF IFRS 9 AND IFRS 17

The Group adopted the new accounting standards of IFRS 9 and IFRS 17 from 1 January 2023. The Group's consolidated special purpose financial information for the year ended 31 December 2022 was restated under IFRS 9 and IFRS 17 and has been included on page F-157 of this Supplemental Offering Circular, and for the six-month period ended 30 June 2022 is included in the interim condensed financial statements for the six-month period ended 30 June 2023 on page F-1 of this Supplemental Offering Circular. The consolidated special purpose financial information does not constitute the Group's statutory consolidated financial statements for the financial periods. The consolidated special purpose financial information for the full year 2022 has been audited by PricewaterhouseCoopers in accordance with the Hong Kong Standards on Auditing 805 (Revised), Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, issued by the Hong Kong Institute of Certified Public Accountants.

IFRS 9 and IFRS 17 are new accounting standards that do not impact the underlying economics of the Group's business, with no material changes to VONB, embedded value, solvency, capital and cash generation. VONB, embedded value and free surplus remain the key measures of shareholder value creation.

Key changes as a result of the adoption of the new accounting standards include the following:

- All key IFRS metrics for the year ended 31 December 2022 improved under IFRS 9 and IFRS 17, compared with the results previously reported under the old accounting standards of International Accounting Standards (IAS) 39 and IFRS 4;
- OPAT for 2022 increased by 1% to US\$6.4 billion compared to US\$6.4 billion in the previously audited financial information for the year ended 31 December 2022;

- Net profit for the year ended 31 December 2022 increased by US\$3.0 billion to US\$3.3 billion when compared to the previously audited financial information for the year ended 31 December 2022. This was mainly as a result of the elimination of short-term fluctuations on equities and real estate and non-operating movements on derivative financial instruments for the participating funds and other participating business with distinct portfolios;
- Shareholders' allocated equity and shareholders' equity as at 31 December 2022 increased to US\$47.2 billion and US\$44.7 billion, respectively, from US\$44.8 billion and US\$38.1 billion, respectively, in the previously reported audited financial information as of 31 December 2022;
- The contractual service margin ("CSM") was US\$50.2 billion (net of reinsurance) as at 31 December 2022, representing the discounted value of expected future profits. New business CSM (net of reinsurance) of US\$6.0 billion was added during 2022; and
- The leverage ratio as at 31 December 2022 was 11.4% with the inclusion of the CSM (net of reinsurance and taxes) in the calculation under IFRS 17, as compared with 22.5% in the previously reported audited financial information as of 31 December 2022.

The supplementary embedded value information for the six-month period ended 30 June 2023 included on page F-132 of this Supplemental Offering Circular has been prepared based on the new accounting standards IFRS 9 and IFRS 17. The comparative supplementary embedded value information for the year ended 31 December 2022 and for the six-month period ended 30 June 2022 has not been restated.

AMENDED AND RESTATED RISK FACTOR

The risk factor "Changes in accounting standards may adversely affect the Group's financial condition and impact its results of operations" on pages 44 and 45 of the Original Offering Circular shall be amended and restated in its entirety as follows:

Changes in accounting standards may adversely affect the Group's financial condition and impact its results of operations.

The consolidated financial statements of the Group are prepared in accordance with all applicable HKFRS and IFRS. IFRS is substantially consistent with HKFRS and the accounting policy selections that AIA has made in preparing these consolidated financial statements are such that the Group is able to comply with both HKFRS and IFRS. From time to time the Group is required to adopt new or revised accounting standards as accounting standard setters issue new guidance intended to interpret or revise accounting pronouncements and expand or amend disclosure requirements

In particular, two key accounting standard changes have been adopted with effect from 1 January 2023—IFRS 17, *Insurance Contracts* and IFRS 9, *Financial Instruments*.

IFRS 17 includes fundamental changes to current accounting in both insurance contract measurement and profit recognition. The revised 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. In addition, IFRS 17 requires extensive disclosures including certain more granular information and a new presentation format for the statement of comprehensive income.

IFRS 9 addresses several aspects of accounting for financial instruments, including the classification, recognition and measurement of financial assets and financial liabilities.

The Group is well advanced in the multi-year Group-wide project toward implementing both standards with effect from 1 January 2023. This includes significant enhancements to technology, actuarial and finance systems and processes across the Group. However, it is noted that IFRS 17 and IFRS 9 are complex accounting standards that require considerable judgement and interpretation in their implementation. As such, the required quantitative disclosures are subject to significant estimation uncertainty and the associated inherent risk is therefore considered significant. Given the complexity of the adoption and the significance of the information disclosed, alongside the multinational nature of the Group's operations, the ongoing risks of implementation across the Group's businesses remains

significant. It is also to be noted that the implementation of these standards has had a material impact on the presentation of the Group's financial statements.

Finally, it is possible that accounting standards could change further in future, which could have a material adverse effect on AIA's financial condition and/or impact the reporting of its results of operations.

See "*Recent Developments—Adoption of IFRS 9 and IFRS 17*" and note 2 to our 2023 interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular for further information.

TOTAL CAPITALISATION

The following table sets out the consolidated Total Capitalisation (as defined below) of the Group as derived from our unaudited interim condensed consolidated financial statements (the “**2023 interim condensed consolidated financial statements**”). The table should be read in conjunction with the 2023 interim condensed consolidated financial statements and the notes thereto included elsewhere in this Supplemental Offering Circular.

| | As of 30 June 2023 (Unaudited) <hr/> (in US\$ millions) |
|---|--|
| Medium term notes and securities ⁽¹⁾ | 11,310 |
| Total Borrowings | 11,310 |
| Equity | |
| Share capital | 14,175 |
| Employee share-based trusts..... | (368) |
| Other reserves..... | (11,814) |
| Retained earnings | 45,111 |
| Fair value reserve..... | (1,310) |
| Foreign currency translation reserve | (3,424) |
| Insurance finance reserve..... | (1,970) |
| Property revaluation reserve..... | 1,337 |
| Others..... | 54 |
| Non-controlling interests..... | 485 |
| Total Equity | 42,276 |
| Total Capitalisation ⁽²⁾ | 53,586 |

(1) Represents our outstanding medium term notes and securities placed to the market as of 30 June 2023.

(2) Total Capitalisation is the sum of Total Borrowings plus Total Equity.

There has been no material change in our Total Capitalisation since 30 June 2023.

SELECTED INTERIM CONSOLIDATED FINANCIAL AND OTHER DATA

The tables set forth below show certain selected historical consolidated financial information and other data of the Group. The financial information as at and for the six months ended 30 June 2023 and 2022 set forth below has been derived from our 2023 interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular. The information on VONB for the six months ended 30 June 2023 and 2022 and the information on EV Equity as at 30 June 2023 and 31 December 2022 set forth below has been derived from the “*Supplementary Embedded Value Information*” included elsewhere in this Supplemental Offering Circular. The selected historical consolidated financial and other data should be read in conjunction with “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” set forth in the Original Offering Circular and the 2023 interim condensed consolidated financial statements and the information in the “*Supplementary Embedded Value Information*” included elsewhere in this Supplemental Offering Circular.

The Group adopted IFRS 9 and IFRS 17 from 1 January 2023. The comparative financial information set forth below have been restated under IFRS 9 and IFRS 17.

CONSOLIDATED INCOME STATEMENT

| (in US\$ millions) | Six months ended 30 June (Unaudited) | Six months ended 30 June (Unaudited and restated) |
|---|--|--|
| | 2023 | 2022 |
| Insurance revenue | 8,352 | 8,242 |
| Insurance service expenses | (5,344) | (5,003) |
| Net expenses from reinsurance contracts held | (202) | (341) |
| Insurance service result | 2,806 | 2,898 |
| Interest revenue on | | |
| Financial assets not measured at fair value through profit or loss | 2,023 | 1,904 |
| Financial assets measured at fair value through profit or loss | 1,829 | 1,667 |
| Other investment return | 3,608 | (31,479) |
| Net impairment loss on financial assets | (47) | (128) |
| Investment return | 7,413 | (28,036) |
| Net finance (expenses)/income from insurance contracts | (6,313) | 26,569 |
| Net finance income reinsurance contracts held | 55 | 6 |
| Movement in investment contract liabilities | (370) | 1,202 |
| Movement in third-party interests in consolidated investment funds | (29) | 29 |
| Net investment result | 756 | (230) |
| Fee income | 65 | 74 |
| Other operating revenue | 138 | 120 |
| Other expenses | (815) | (770) |
| Other finance costs | (227) | (180) |
| Profit before share of losses from associates and joint ventures | 2,723 | 1,912 |
| Share of losses from associates and joint ventures | (102) | (115) |
| Profit before tax | 2,621 | 1,797 |
| Tax expense | (366) | (249) |
| Net profit | 2,255 | 1,548 |
| Less: amounts attributable to non-controlling interests | 5 | 5 |
| Net profit attributable shareholders of the Issuer | 2,250 | 1,543 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (in US\$ millions) | As at 30 June 2023 (Unaudited) | As at 31 December 2022 (Restated) |
|---|---|--|
| Assets | | |
| Intangible assets | 3,478 | 3,277 |
| Investment in subsidiaries | - | - |
| Investments in associates and joint ventures | 1,960 | 2,056 |
| Property, plant and equipment | 4,027 | 2,844 |
| Investment property | 4,480 | 4,600 |
| Insurance contract assets | 1,784 | 2,037 |
| Reinsurance contract assets | 5,777 | 5,763 |
| Financial investments: | | |
| At amortised cost | | |
| Debt securities | 1,980 | 1,787 |
| Loans and deposits | 4,261 | 4,566 |
| At fair value through other comprehensive income | | |
| Debt securities | 85,167 | 86,060 |
| At fair value through profit or loss | | |
| Debt securities | 83,823 | 77,496 |
| Loans and deposits | 265 | 279 |
| Equity shares | 21,883 | 23,378 |
| Interests in investment funds and exchangeable loan notes | 41,266 | 38,577 |
| Derivative financial instruments | 566 | 568 |
| Total financial investments | 239,211 | 232,711 |
| Deferred tax assets | 212 | 229 |
| Current tax recoverable | 188 | 117 |
| Other assets | 4,112 | 4,524 |
| Cash and cash equivalents..... | 6,666 | 8,020 |
| Assets in disposal group held for sale | 4,018 | 4,293 |
| Total assets | 275,913 | 270,471 |
| Liabilities | | |
| Insurance contract liabilities..... | 191,872 | 181,851 |
| Reinsurance contract liabilities | 223 | 384 |
| Investment contract liabilities..... | 9,082 | 9,092 |
| Borrowings..... | 11,310 | 11,206 |
| Obligations under repurchase agreements..... | 2,000 | 1,748 |
| Derivative financial instruments | 7,623 | 8,638 |
| Provisions | 155 | 153 |
| Deferred tax liabilities | 2,948 | 3,409 |
| Current tax liabilities | 383 | 467 |
| Other liabilities | 4,215 | 4,264 |
| Liabilities in disposal group held for sale | 3,826 | 4,111 |
| Total liabilities | 233,637 | 225,323 |

| | | |
|--|----------------|----------------|
| Equity | | |
| Share capital..... | 14,175 | 14,171 |
| Employee share-based trusts..... | (368) | (290) |
| Other reserves..... | (11,814) | (11,812) |
| Retained earnings | 45,111 | 46,499 |
| Fair value reserve | (1,310) | (3,737) |
| Foreign currency translation reserve | (3,424) | (2,735) |
| Insurance finance reserve | (1,970) | 1,238 |
| Property revaluation reserve | 1,337 | 1,279 |
| Others | 54 | 59 |
| Amounts reflected in other comprehensive income | (5,313) | (3,896) |
| Total equity attributable to shareholders of the Issuer | 41,791 | 44,672 |
| Non-controlling interests..... | 485 | 476 |
| Total equity | 42,276 | 45,148 |
| Total liabilities and equity | 275,913 | 270,471 |

OTHER DATA

We measure the scale and profitability of our business using various key performance indicators, including VONB, ANP, TWPI, OPAT and EV Equity. For a discussion of these metrics, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview – Key Performance Indicators” in the Original Offering Circular.

| | For the six months ended 30 June | |
|---|---|-----------------------------------|
| (in US\$ millions, except ratios) | 2023 | 2022 |
| VONB ⁽¹⁾ | 2,029 | 1,536 |
| ANP ⁽¹⁾ | 3,984 | 2,778 |
| TWPI ⁽¹⁾ | 19,300 | 18,568 |
| OPAT ⁽¹⁾⁽²⁾ | 3,272 | 3,352 |
| | As at 30 June 2023 | As at 31 December 2022 |
| EV Equity ⁽¹⁾ | 70,621 | 71,202 |
| Group LCSM Coverage Ratio ⁽³⁾ | 260% | 283% |
| Leverage Ratio ⁽⁴⁾ | 11.9% | 11.4% |

- (1) Definitions of VONB, ANP, TWPI, OPAT and EV Equity are provided in the Glossary beginning on page A-1 of the Original Offering Circular.

VONB and ANP include the results from our 49% shareholding in Tata AIA Life. VONB and ANP do not include any contribution from our 24.99% shareholding in China Post Life.

For clarity, TWPI does not include any contribution from Tata AIA Life and China Post Life.

Both the IFRS results of Tata AIA Life and China Post Life are accounted for using the equity method.

- (2) The comparative information has been adjusted to conform to the current period presentation and reflects the adoption of IFRS 9 and IFRS 17. Please refer to note 31 to the 2023 interim condensed consolidated financial statements for additional information. For a reconciliation of OPAT to net profit, see note 5 to our 2023 interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular. OPAT is calculated before non-operating investment returns and other items, net of tax.
- (3) The Group’s available capital and group prescribed capital requirement (“GPCR”) is calculated based on the Local Capital Summation Method (“LCSM”). The Group LCSM Coverage Ratio is referred to as the “eligible group capital resources coverage ratio” in the Group-Wide Supervision (“GWS”) framework and is calculated as the ratio of the eligible group capital resources to the GPCR on the prescribed capital requirement (“PCR”) basis.
- (4) The Leverage Ratio is calculated by dividing Total Borrowings by Total Capitalisation and contractual service margin (CSM) net of reinsurance and net of taxes.

INTERIM RESULTS

INTERIM FINANCIAL REVIEW FOR THE SIX MONTHS ENDED 30 JUNE 2023

The management discussion and analysis below covers the financial results for the six month period from 1 January 2023 to 30 June 2023 for the current period and for the six month period from 1 January 2022 to 30 June 2022 for the prior period. All figures included in this Supplemental Offering Circular are presented in actual reporting currency (U.S. dollar) and based on actual exchange rates unless otherwise stated.

The Group adopted IFRS 9 and IFRS 17 from 1 January 2023. The comparative financial information set forth below have been restated under IFRS 9 and IFRS 17, where applicable.

New Business Performance

VONB, ANP AND VONB MARGIN BY SEGMENT

| US\$ millions, unless otherwise stated | Six months ended 30 June 2023 | | | Six months ended 30 June 2022 | | | VONB Change |
|---|----------------------------------|----------------|--------------|----------------------------------|----------------|--------------|----------------|
| | VONB | VONB Margin | ANP | VONB | VONB Margin | ANP | % |
| Mainland China | 601 | 50.3% | 1,195 | 563 | 67.4% | 835 | 7% |
| Hong Kong | 681 | 56.9% | 1,165 | 323 | 69.3% | 443 | 111% |
| Thailand | 327 | 91.5% | 357 | 260 | 83.8% | 311 | 26% |
| Singapore | 173 | 65.0% | 267 | 161 | 65.9% | 244 | 7% |
| Malaysia | 170 | 64.8% | 261 | 161 | 67.2% | 239 | 6% |
| Other Markets | 212 | 28.6% | 739 | 207 | 29.1% | 706 | 2% |
| Subtotal | 2,164 | 53.8% | 3,984 | 1,675 | 59.6% | 2,778 | 29% |
| Adjustment to reflect consolidated reserving and capital requirements | (20) | n/m | n/m | (25) | n/m | n/m | n/m |
| After-tax value of unallocated Group Office expenses | (100) | n/m | n/m | (99) | n/m | n/m | n/m |
| Total before non-controlling interests | 2,044 | 50.8% | 3,984 | 1,551 | 55.2% | 2,778 | 32% |
| Non-controlling interests | (15) | n/m | n/m | (15) | n/m | n/m | n/m |
| Total | 2,029 | 50.8% | 3,984 | 1,536 | 55.2% | 2,778 | 32% |

The Group reported 32% VONB growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, primarily driven by new business growth across all our reportable segments.

ANP of US\$3,984 million for the six months ended 30 June 2023 was 43% higher compared to the six months ended 30 June 2022. VONB margin for the six months ended 30 June 2023 reduced by 4.4 percentage points to 50.8% compared to the six months ended 30 June 2022, mainly driven by the growth in sales of long-term savings products to Mainland Chinese visitors in Hong Kong and an increased proportion of bancassurance sales and long-term savings products within Mainland China.

AIA China reported 7% VONB growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by the growth in both agency and bancassurance channels. ANP increased by 43% for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by strong customer demand for our long-term savings products across our distribution channels, while this product mix shift and the increased bancassurance sales contributed to the lower VONB margin of 50.3% for the six months ended 30 June 2023 compared to the six months ended 30 June 2022.

VONB from AIA Hong Kong increased 111% for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, supported by the growth from our domestic customer segment and the return of Mainland Chinese visitors to Hong Kong following the resumption of cross-border travel in February 2023. Increased demand for our participating products, including an enhanced version of our flagship savings product, drove a 163% increase in ANP to US\$1,165 million and VONB margin reduced to 56.9% for the six months ended 30 June 2023 compared to the six months ended 30 June 2022.

AIA Thailand's VONB for the six months ended 30 June 2023 increased by 26% from the six months ended 30 June 2022, driven by the growth from both our agency and partnership distribution channels. VONB growth from our agency business was underpinned by growth in the number of active agents as well as their productivity. We continued to focus on quality recruitment and the number of new recruits for the six months ended 30 June 2023 increased compared to the six months ended 30 June 2022. Our strategic partnership with Bangkok Bank Public Company Limited reported strong VONB growth, driven by growth in productivity of our insurance sellers. ANP increased by 15% and VONB margin increased by 7.7 percentage points to 91.5% for the six months ended 30 June 2023 compared to the six months ended 30 June 2022.

VONB from AIA Singapore increased by 7% and ANP increased by 9% for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, supported by the growth in partnership distribution channel. VONB margin remained stable at 65% for the six months ended 30 June 2023 compared to the six months ended 30 June 2022. Our strategic partnership with Citibank, N.A. ("Citibank") reported strong growth in VONB, driven by performance of both our onshore and offshore business.

AIA Malaysia reported 6% VONB growth and 9% ANP growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by the growth in agency sales. We have enhanced our digital tools so that agents can tailor customer offers to meet their unique needs, in order to deepen the wallet share of existing customers. VONB margin for the six months ended 30 June 2023 reduced by 2.4 percentage points to 64.8% compared to the six months ended 30 June 2022, driven by the change in product mix.

VONB for the Other Markets segment for the six months ended 30 June 2023 increased by 2% compared to the six months ended 30 June 2022. A majority of our markets in this segment reported VONB growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, offset by a decline in Vietnam as negative consumer sentiment has impacted insurance sales momentum for the industry, in particular through bancassurance. ANP for the Other Markets segment for the six months ended 30 June 2023 increased by 5% driven by growth in the agency channel, while VONB margin remained stable at 28.6% for the six months ended 30 June 2023 compared to 29.1% for the six months ended 30 June 2022.

EV Equity

EV Equity was US\$70,621 million as at 30 June 2023 compared to US\$71,202 million as at 31 December 2022. Before the payment of the shareholder dividend of US\$1,672 million and the additional return of capital to shareholders from the share buy-back programme of US\$1,966 million during the six months ended 30 June 2023, EV Equity as at 30 June 2023 increased by 4% compared to 31 December 2022.

| US\$ millions, unless otherwise stated | As at 30 June 2023 | As at 31 December 2022 |
|---|-----------------------|---------------------------|
| EV | 68,033 | 68,865 |
| Goodwill and other intangible assets ⁽¹⁾ | 2,588 | 2,337 |
| EV Equity | 70,621 | 71,202 |

Note:

(1) Goodwill and other intangible assets are consistent with the figures in the 2023 interim condensed consolidated financial statements and are shown net of tax, amounts attributable to participating funds and non-controlling interests.

EV EQUITY MOVEMENT

EV operating profit increased by US\$470 million to US\$4,423 million for the six months ended 30 June 2023 compared to the six months ended 30 June 2022. On a per share basis, EV operating profit per share for the six months ended 30 June 2023 increased by 16% compared to the six months ended 30 June 2022, driven by a higher VONB of US\$2,029 million and an expected return on EV of US\$2,609 million. The expected return on EV for the six months ended 30 June 2023 increased by US\$380 million compared to the six months ended 30 June 2022, primarily due to the effect of higher government bond yields and risk discount rates at the end of 2022.

Overall operating experience variances for the six months ended 30 June 2023 added US\$167 million to EV Equity. Claims variances were positive for the six months ended 30 June 2023, although medical claims increased compared with the levels experienced during the pandemic.

As we continue to reprice our health insurance portfolios, for prudence, we have also included a claims provision within operating assumption changes of negative US\$183 million for the six months ended 30 June 2023, as policy repricing takes effect over time.

EV non-operating items for the six months ended 30 June 2023 were US\$35 million. Investment return variances were negative at US\$653 million for the six months ended 30 June 2023, largely due to equity market movements, and were mostly offset by positive other non-operating variances of US\$618 million for the six months ended 30 June 2023, driven mainly from the adoption of the new Korean Insurance Capital Standard (“K-ICS”).

The effects of foreign exchange rate movements for the six months ended 30 June 2023 reduced the EV Equity by US\$1,261 million, as the U.S. dollar, our reporting currency, strengthened relative to local market currencies in the six months ended 30 June 2023.

Long-term economic assumptions remained unchanged from those reported at the year ended 31 December 2022.

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

| US\$ millions, unless otherwise stated | Six months ended 30 June 2023 | | |
|---|---|----------------|---------------|
| | ANW, goodwill and other intangible assets | VIF | EV Equity |
| Opening EV Equity | 36,088 | 35,114 | 71,202 |
| Value of new business | (55) | 2,084 | 2,029 |
| Expected return on EV | 2,667 | (58) | 2,609 |
| Operating experience variances | 186 | (19) | 167 |
| Operating assumption changes | (170) | (13) | (183) |
| Finance costs | (199) | - | (199) |
| EV operating profit | 2,429 | 1,994 | 4,423 |
| EV Equity before non-operating items | 38,517 | 37,108 | 75,625 |
| Investment return variances | (56) | (597) | (653) |
| Other non-operating variances | 1,205 | (587) | 618 |
| EV non-operating items | 1,149 | (1,184) | (35) |
| Total EV profit | 3,578 | 810 | 4,388 |
| Other capital movements | (70) | - | (70) |
| Effect of changes in exchange rates | (667) | (594) | (1,261) |
| EV Equity before dividend and share buy-back | 38,929 | 35,330 | 74,259 |
| Dividends | (1,672) | - | (1,672) |
| Share buy-back | (1,966) | - | (1,966) |
| Closing EV Equity | 35,291 | 35,330 | 70,621 |

| US\$ millions, unless otherwise stated | Six months ended 30 June 2022 | | |
|---|---|----------------|----------------|
| | ANW, goodwill and other intangible assets | VIF | EV Equity |
| Opening EV Equity | 35,316 | 39,685 | 75,001 |
| HKRBC early adoption | 8,407 | (6,028) | 2,379 |
| Release of resilience margins | 2,168 | (1,283) | 885 |
| HKRBC early adoption and release of resilience margins | 10,575 | (7,311) | 3,264 |
| Value of new business | (144) | 1,680 | 1,536 |
| Expected return on EV | 2,338 | (109) | 2,229 |
| Operating experience variances | 388 | (4) | 384 |
| Operating assumption changes | (2) | (23) | (25) |
| Finance costs | (171) | - | (171) |
| EV operating profit | 2,409 | 1,544 | 3,953 |
| EV Equity before non-operating items | 48,300 | 33,918 | 82,218 |
| Investment return variances | (4,436) | (357) | (4,793) |
| Other non-operating variances | (1,260) | 1,402 | 142 |
| EV non-operating items | (5,696) | 1,045 | (4,651) |
| Total EV profit | 7,288 | (4,722) | 2,566 |
| Other capital movements | (55) | - | (55) |
| Effect of changes in exchange rates | (1,041) | (1,153) | (2,194) |
| EV Equity before dividend and share buy-back | 41,508 | 33,810 | 75,318 |
| Dividend | (1,650) | - | (1,650) |
| Share buy-back | (1,342) | - | (1,342) |
| Closing EV Equity | 38,516 | 33,810 | 72,326 |

IFRS Profit

OPAT decreased to US\$3,272 million for the six months ended 30 June 2023, from US\$3,352 million for the six months ended 30 June 2022, due to a 3% decrease to the insurance service result. On a per share basis, OPAT per share increased by 1% to US\$28.19 for the six months ended 30 June 2023, from US\$27.87 for the six months ended 30 June 2022. Operating margin for the six months ended 30 June 2023 remained strong at 17.0% and reflects our high-quality sources of earnings.

The insurance service result for the six months ended 30 June 2023 was 3% lower than the six months ended 30 June 2022. Operating variances of US\$69 million decreased as medical claims increased for the six months ended 30 June 2023, compared with the levels experienced during the pandemic. Risk adjustment release and other of US\$119 million for the six months ended 30 June 2023, which includes the profits from our corporate solutions business, which was also adversely affected by the rebound in medical claims. This was partly offset by the CSM release of US\$2,618 million for the six months ended 30 June 2023, which increased by 1% compared to the six months ended 30 June 2022, due to the growth in the balance of CSM before release and a slight increase in the CSM release rate.

The net investment result after expenses increased by US\$126 million for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by the higher equity asset balances and long-term investment return assumptions.

Other fees, revenue and expenses was negative US\$639 million for the six months ended 30 June 2023. Finance costs increased by 28% to US\$226 million for the six months ended 30 June 2023 compared to the six months ended 30 June 2022 mainly due to the increased interest costs on repos used for liquidity management, and the increased outstanding balance on our Global Medium-term Note ("GMTN") and Securities Programme.

Tax increased to US\$616 million for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, primarily driven by increased investment return-related taxes which were not incurred in the six months ended 30 June 2022.

We apply a consistent approach to IFRS 9 and IFRS 17 principles across our operations and have made minor refinements to our models for the reported results of the six months ended 30 June 2023. Collectively these refinements are immaterial and, had we restated OPAT for the six months ended 30 June 2022, the Group's reported OPAT growth would have been 1% higher for the six months ended 30 June 2023 compared to the six months ended 30 June 2022.

OPAT⁽¹⁾ COMPOSITION

| US\$ millions, unless otherwise stated | Six months ended | Six months ended | % |
|---|------------------|------------------|-------------|
| | 30 June 2023 | 30 June 2022 | |
| CSM release | 2,618 | 2,590 | 1% |
| Operating variances | 69 | 160 | (57)% |
| Risk adjustment release and other | 119 | 148 | (20)% |
| Insurance service result | 2,806 | 2,898 | (3)% |
| Net investment result | 1,818 | 1,700 | 7% |
| Investment management expenses | (97) | (105) | (8)% |
| Net investment result after expenses | 1,721 | 1,595 | 8% |
| Net other fees and revenue ⁽²⁾ | 25 | (70) | n/m |
| Non-attributable expenses under IFRS 17 | (438) | (411) | 7% |
| Finance costs | (226) | (176) | 28% |
| Other fees, revenue and expenses | (639) | (657) | (3)% |
| Tax | (616) | (484) | 27% |
| Total OPAT | 3,272 | 3,352 | (2)% |

Notes:

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

(2) After adjusting for non-insurance expenses.

CSM MOVEMENT, NET OF REINSURANCE

| US\$ millions, unless otherwise stated | Six months ended | Six months ended |
|--|------------------|------------------|
| | 30 June 2023 | 30 June 2022 |
| Opening CSM | 50,225 | 52,946 |
| New business CSM | 3,393 | 3,083 |
| Expected return on in-force | 1,240 | 1,128 |
| CSM before variances and others, exchange rates and release | 54,858 | 57,157 |
| Variances and others | (1,443) | (2,542) |
| Exchange rates | (1,050) | (1,635) |
| Closing CSM before release | 52,365 | 52,980 |
| CSM release | (2,618) | (2,590) |
| Closing CSM | 49,747 | 50,390 |
| CSM release rate⁽¹⁾⁽²⁾ | 9.7% | 9.5% |

Notes:

(1) Calculated after variances and others and exchange rates.

(2) On an annualised basis.

The CSM represents the discounted value of expected future earnings on our in-force business without any allowance for future new business. The CSM at 30 June 2023 grew 19% on an annualised basis to US\$54,858 million compared to 31 December 2022 before variances and others, exchange rates and the CSM release into OPAT. The growth in CSM was driven by the addition of new business CSM of US\$3,393 million and the expected return on in-force business of US\$1,240 million for the six months ended 30 June 2023. New business CSM at 30 June 2023 grew by 10% compared to 30 June 2022 driven by growth in sales across all our reportable segments.

CSM variances and others were negative US\$1,443 million for the six months ended 30 June 2023 and were less negative compared to the six months ended 30 June 2022, driven mainly by capital market movements, including the effect of lower illiquidity premiums in our IFRS 17 discount curves and equity market performance relative to our long-term assumptions.

Foreign exchange rate movements for the six months ended 30 June 2023 reduced the CSM by US\$1,050 million as the U.S. dollar, our reporting currency, strengthened relative to local market currencies in the six months ended 30 June 2023.

The closing CSM balance was US\$49,747 million at 30 June 2023, reflecting the release of CSM of US\$2,618 million for the six months ended 30 June 2023 into OPAT. The annualised CSM release rate for the six months ended 30 June 2023 increased by 0.2% from the six months ended 30 June 2022, driven by the addition of Hong Kong new business with a higher CSM release rate compared with our in-force business and a successful campaign in Mainland China to upgrade policyholder coverage for in-force protection business.

IFRS OPERATING NET INVESTMENT RESULT

| US\$ millions, unless otherwise stated | Participating and unit-linked | Non-participating and surplus assets and others | Total |
|--|-------------------------------|---|-------------------------------|
| | Six months ended 30 June 2023 | Six months ended 30 June 2023 | Six months ended 30 June 2023 |
| Investment return | 5,406 | 2,818 | 8,224 |
| Insurance finance expenses and others | (5,016) ⁽³⁾ | (1,000) ⁽⁴⁾ | (6,016) |
| Movement in investment contract liabilities | (361) | - | (361) |
| Movement in third party interests in consolidated investment funds | (29) | - | (29) |
| Net investment result | - | 1,818 | 1,818 |

| US\$ millions, unless otherwise stated | Six months ended 30 June 2023 | Six months ended 30 June 2022 | % |
|--|-------------------------------|-------------------------------|-----------|
| Interest revenue on financial assets | 2,156 | 2,107 | 2% |
| Expected long-term investment return for equities and real estate | 662 | 566 | 17% |
| Investment return on non-participating and surplus assets ⁽⁵⁾ | 2,818 | 2,673 | 5% |
| Non-participating insurance finance expenses and others ⁽⁴⁾ | (1,000) | (973) | 3% |
| Net investment result | 1,818 | 1,700 | 7% |
| Investment management expenses | (97) | (105) | (8)% |
| Net investment result after expenses | 1,721 | 1,595 | 8% |

The net investment result included in OPAT relates to non-participating business⁽¹⁾ and surplus assets. For participating⁽²⁾ and unit linked business, investment returns are offset by corresponding movements in contract liabilities.

The investment return on non-participating⁽¹⁾ and surplus assets increased by 5% to US\$2,818 million for the six months ended 30 June 2023 compared with the six months ended 30 June 2022, driven by higher equity asset balances and long-term investment return assumptions.

Non-participating insurance finance expenses and others⁽³⁾ of US\$1,000 million remained broadly stable in the six months ended 30 June 2023, compared with the US\$973 million reported for the six months ended 30 June 2022.

The net investment result after expenses increased by 8% to US\$1,721 million for the six months ended 30 June 2023 compared with the six months ended 30 June 2022.

Notes:

- (1) Non-participating business includes all insurance liabilities under the general measurement model (GMM) model, covering traditional protection, unit-linked with significant protection benefits, universal life and other participating business without distinct portfolios.
- (2) Participating funds and other participating business with distinct portfolios under the variable fee approach (VFA).
- (3) Primarily represents the insurance contract liability offset of participating and unit-linked investment return.
- (4) Primarily represents the interest accreted on non-participating business liabilities.
- (5) Non-participating and surplus assets are shown as "Other policyholder and shareholder investments" under "– IFRS Balance Sheet – Policyholder and Shareholder Investments" below and in our 2023 interim condensed consolidated financial statements included elsewhere in this Supplemental Offering Circular.

OPAT⁽¹⁾ BY SEGMENT

| US\$ millions, unless otherwise stated | Six months ended 30 June 2023 | Six months ended 30 June 2022 | % |
|--|-------------------------------------|-------------------------------------|-------------|
| Mainland China | 833 | 840 | (1)% |
| Hong Kong | 1,066 | 1,134 | (6)% |
| Thailand | 496 | 498 | - |
| Singapore | 344 | 337 | 2% |
| Malaysia | 170 | 188 | (10)% |
| Other Markets | 346 | 374 | (7)% |
| Group Corporate Centre | 17 | (19) | n/m |
| Total | 3,272 | 3,352 | (2)% |

Note:

- (1) The comparative information has been adjusted to conform to the current period presentation and reflects the adoption of IFRS 9 and IFRS 17. Please refer to note 31 to the 2023 interim condensed consolidated financial statements for additional information.

Mainland China's OPAT of US\$833 million for the six months ended 30 June 2023 decreased by 1% compared to the six months ended 30 June 2022. This was driven by foreign exchange movement of local market currency against the U.S. dollar, which was largely offset by growth in our in-force portfolio and higher operating investment returns.

Hong Kong reported OPAT of US\$1,066 million for the six months ended 30 June 2023, a 6% decrease compared to the six months ended 30 June 2022, as higher new business growth was offset by increased medical claims and the impact of lower illiquidity premiums in our IFRS 17 discount curves.

Thailand's OPAT for the six months ended 30 June 2023 remained stable compared to the six months ended 30 June 2022. Excluding the impact of a model refinement, OPAT grew by 5%, driven by favourable claims experience in our medical portfolio compared to the six months ended 30 June 2022.

Singapore's OPAT increased 2% to US\$344 million for the six months ended 30 June 2023, compared to the six months ended 30 June 2022, driven by growth in our in-force portfolio which was partially offset by less positive claims variance.

Malaysia's OPAT for the six months ended 30 June 2023 declined by 10% to US\$170 million compared to the six months ended 30 June 2022, as profitable growth in our in-force portfolio was offset by higher medical claims.

OPAT from Other Markets of US\$346 million for the six months ended 30 June 2023 declined by 7% compared to the six months ended 30 June 2022.

TWPI BY SEGMENT

| US\$ millions, unless otherwise stated | Six months ended | Six months ended | % |
|--|------------------|------------------|-----------|
| | 30 June 2023 | 30 June 2022 | |
| Mainland China | 4,992 | 4,509 | 11% |
| Hong Kong | 5,594 | 5,404 | 4% |
| Thailand | 2,051 | 1,989 | 3% |
| Singapore | 1,981 | 1,800 | 10% |
| Malaysia | 1,284 | 1,248 | 3% |
| Other Markets | 3,398 | 3,618 | (6)% |
| Total | 19,300 | 18,568 | 4% |

TWPI increased by 4% to US\$19,300 million for the six months ended 30 June 2023 compared to the six months ended 30 June 2022. All five of our largest operating segments delivered positive TWPI growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022. In Hong Kong, TWPI for the six months ended 30 June 2023 grew by 4% compared to the six months ended 30 June 2022, driven by ANP growth that was partly offset by a cohort of long-term participating policies reaching the end of their premium payment terms that continue to remain in-force and generate OPAT.

OPERATING EXPENSES

| US\$ millions, unless otherwise stated | Six months ended | Six months ended | % |
|--|------------------|------------------|----|
| | 30 June 2023 | 30 June 2022 | |
| Operating expenses | 1,617 | 1,564 | 3% |

Operating expenses increased by 3% to US\$1,617 million for the six months ended 30 June 2023 compared to the six months ended 30 June 2022. Expense ratio remained stable at 8.4% for the six months ended 30 June 2023. The expense growth for the six months ended 30 June 2023 was lower than expected as the timing of expenses is expected to be more weighted towards the second half of 2023.

IFRS NON-OPERATING MOVEMENT AND NET PROFIT⁽¹⁾⁽²⁾

Net profit increased by 46% to US\$2,250 million for the six months ended 30 June 2023 compared to the six months ended 30 June 2022. While investment markets remained volatile for the six months ended 30 June 2023, the impact on net profit is lower under IFRS 9 and IFRS 17 than under IAS 39 and IFRS 4, for which mark to market movements are not fully offset by the corresponding change in the value of the liabilities.

IFRS net profit includes mark-to-market movements from equity and real estate investments backing our non-participating business and shareholder surplus. Short-term investment and discount rate variances were reported at negative US\$715 million for the six months ended 30 June 2023, reflecting the short-term movements in these asset classes compared with our long-term investment return assumptions.

Other non-operating investment return and other items decreased to negative US\$197 million, as the overall effect of interest rate movements for the six months ended 30 June 2023 was much lower compared to the six months ended 30 June 2022.

| US\$ millions, unless otherwise stated | Six months ended 30 June 2023 | Six months ended 30 June 2022 | % |
|--|--|--|------------|
| OPAT | 3,272 | 3,352 | (2)% |
| Short-term investment return and discount rate variances, net of tax ⁽³⁾ | (715) | (867) | n/m |
| Reclassification of revaluation gains for property held for own use, net of tax ⁽³⁾ | (66) | (33) | n/m |
| Corporate transaction related costs, net of tax | (12) | (28) | n/m |
| Implementation costs for new accounting standards, net of tax | (32) | (29) | n/m |
| Other non-operating investment return and other items, net of tax | (197) | (852) | n/m |
| Net profit | 2,250 | 1,543 | 46% |

Notes:

- (1) Attributable to shareholders of the Company only, excluding non-controlling interests.
- (2) The comparative information has been adjusted to conform to the current period presentation and reflects the adoption of IFRS 9 and IFRS 17. Please refer to note 31 to the 2023 interim condensed consolidated financial statements for additional information.
- (3) Short-term investment return variances include the revaluation gains for property held for own use. This amount is then reclassified from net profit to other comprehensive income to conform to IFRS measurement and presentation.

Segmental Information

Our reporting segments are categorised as follows: (i) each Key Segment, consisting of Mainland China, Hong Kong (which includes Macau), Thailand, Singapore (which includes Brunei) and Malaysia; (ii) combined results for our Other Markets, consisting of the combined results of Australia, Cambodia, India, Indonesia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka, Taiwan (China) and Vietnam; and (iii) our Group Corporate Centre reporting segment.

The following summarises the results of operations of each of our geographical market segments.

Mainland China

| | Six months ended 30 June | |
|----------------------------------|---|-------------|
| | 2023 | 2022 |
| | (in US\$ millions, except VONB margin) | |
| VONB ⁽¹⁾ | 601 | 563 |
| VONB margin ⁽²⁾ | 50.3% | 67.4% |
| ANP | 1,195 | 835 |
| TWPI | 4,992 | 4,509 |
| OPAT ⁽³⁾ | 833 | 840 |

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

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

(3) The comparative information has been adjusted to conform to the current period presentation and reflects the adoption of IFRS 9 and IFRS 17.

Six Months Ended 30 June 2023 Compared with Six Months Ended 30 June 2022

AIA China delivered VONB growth of 7% for the six months ended 30 June 2023, driven by the growth in both agency and bancassurance channels.

We have continued to broaden our product range to meet the growing needs of our customers across protection and long-term savings. In the six months ended 30 June 2023, we successfully launched Cancer Shield, which offers end-to-end cancer prevention management services, and two tax-deductible private pension products, which contributed to VONB growth compared to the six months

ended 30 June 2022. Traditional protection products remain a core proposition for our customers, accounting for the majority of the number of new policies sold in the six months ended 30 June 2023, and we delivered VONB growth in the six months ended 30 June 2023 from our differentiated critical illness proposition compared to the six months ended 30 June 2022. The product mix shift and the increased bancassurance contribution to our overall sales contributed to the lower VONB margin of 50.3% for the six months ended 30 June 2023 compared to the six months ended 30 June 2022.

Increase in customer demand for our long-term savings products in the six months ended 30 June 2023 resulted in an increase of 43% in ANP compared to the six months ended 30 June 2022.

Mainland China OPAT of US\$833 million for the six months ended 30 June 2023 decreased by 1% compared to the six months ended 30 June 2022. This was driven by foreign exchange movement of local market currency against the U.S. dollar, which was largely offset by growth in our in-force portfolio and higher operating investment returns.

Our high-quality, professional agency force remains a clear competitive advantage for AIA China. Our enhanced recruitment platform is a key differentiator and supported the increase in the number of new recruits in the three months ended 30 June 2023 compared to the three months ended 31 March 2023.

In November 2022, we launched Navigator, a powerful data-driven agency platform that is integrated with our One Experience customer platform and enables our agents to efficiently and systematically nurture, acquire, engage and service customers. We have achieved 95% adoption for Navigator across our agency force, supporting growth in productivity in the six months ended 30 June 2023.

VONB of our bancassurance channel for the six months ended 30 June 2023 increased compared to the six months ended 30 June 2022, driven by our cooperation with Postal Savings Bank of China Co., Ltd. (“**PSBC**”) and our exclusive partnership with The Bank of East Asia, Limited (“**BEA**”). We continue to work with our strategic partners to improve customer experience and bring compelling propositions to meet the needs of their customers.

We believe that Mainland China offers tremendous growth potential for AIA, both within our existing footprint and in new geographies. We have continued to expand into new provinces with the launch of our operation in Zhengzhou, Henan in May 2023. By replicating our efficient and scalable model across these new operations, we delivered strong growth in the number of active agents in these geographies in the six months ended 30 June 2023 compared to the six months ended 30 June 2022.

China Post Life

In January 2022, we completed our 24.99% equity investment in China Post Life Insurance Co., Ltd. (“**China Post Life**”). VONB from China Post Life⁽¹⁾ for the six months ended 30 June 2023 increased compared to the six months ended 30 June 2022. For clarity, AIA China’s reported results do not include any contribution from China Post Life.

Notes:

(1) VONB is calculated by China Post Life based on the principles and methodology in the China Association of Actuaries EV assessment guidance (CAA basis), consistent with the industry practice in Mainland China.

Hong Kong

| | Six months ended 30 June | |
|----------------------------------|---|-------------|
| | 2023 | 2022 |
| | (in US\$ millions, except VONB margin) | |
| VONB ⁽¹⁾ | 681 | 323 |
| VONB margin ⁽²⁾ | 56.9% | 69.3% |
| ANP | 1,165 | 443 |
| TWPI | 5,594 | 5,404 |
| OPAT ⁽³⁾ | 1,066 | 1,134 |

-
- (1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.
 - (2) VONB margin excludes pension business which is consistent with the definition of ANP used within the calculation.
 - (3) The comparative information has been adjusted to conform to the current period presentation and reflects the adoption of IFRS 9 and IFRS 17.

Six Months Ended 30 June 2023 Compared with Six Months Ended 30 June 2022

AIA Hong Kong's VONB increased to US\$681 million for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, supported by growth from our domestic customer segment and the return of Mainland Chinese visitors to Hong Kong following the resumption of cross-border travel in February 2023. Increased demand for our participating products, including an enhanced version of our flagship savings product, contributed to a 163% increase in ANP to US\$1,165 million and a lower VONB margin of 56.9% for the six months ended 30 June 2023 compared to the six months ended 30 June 2022. We have continued to expand our comprehensive suite of customer propositions, including a first-in-market, customisable critical illness product, which has supported an increase in the number of protection policies sold in the three months ended 30 June 2023 compared to the three months ended 31 March 2023.

Hong Kong reported OPAT of US\$1,066 million for the six months ended 30 June 2023, a 6% decrease compared to the six months ended 30 June 2022, as higher new business growth was offset by increased medical claims and the impact of lower illiquidity premiums in our IFRS 17 discount curves.

Agency remains the main contributor to new business in Hong Kong and disciplined execution of our Premier Agency strategy drove an increase in the number of active agents as well as improvements in productivity, which is now above the 2019 pre-pandemic level. We continued to leverage digital tools to enhance our quality recruitment programme to attract diverse and high-calibre new agents. In the six months ended 30 June 2023, this has resulted in growth in the number of new recruits compared to the six months ended 30 June 2022.

VONB for our partnership distribution channel increased for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, with a growth in VONB from our intermediated channels, which benefited from the resumption of the Individual Visit Scheme in Hong Kong with Mainland China. Our long-term exclusive partnerships with BEA and Citibank both delivered VONB growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by improvements in activity and productivity.

Thailand

| | Six months ended 30 June | |
|----------------------------------|---|-------------|
| | 2023 | 2022 |
| | (in US\$ millions, except VONB margin) | |
| VONB ⁽¹⁾ | 327 | 260 |
| VONB margin ⁽²⁾ | 91.5% | 83.8% |
| ANP | 357 | 311 |
| TWPI | 2,051 | 1,989 |
| OPAT ⁽³⁾ | 496 | 498 |

-
- (1) VONB figures shown in the table are based on local statutory reserving and capital requirements and include pension business.
 - (2) VONB margin excludes pension business, which is consistent with the definition of ANP used within the calculation.
 - (3) The comparative information has been adjusted to conform to the current period presentation and reflects the adoption of IFRS 9 and IFRS 17.

Six Months Ended 30 June 2023 Compared with Six Months Ended 30 June 2022

AIA Thailand delivered 26% VONB growth in the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by growth in both our agency and partnership distribution channels. ANP grew by 15%, and VONB margin increased by 7.7 percentage points to 91.5% for the six months ended 30 June 2023 compared to the six months ended 30 June 2022.

VONB growth in the six months ended 30 June 2023 compared to the six months ended 30 June 2022 from our agency business was underpinned by growth in the number of active agents as well as their productivity. We continued to focus on quality recruitment and delivered growth in the number of new recruits in the six months ended 30 June 2023. Our strategic partnership with Bangkok Bank Public Company Limited also delivered strong VONB growth in the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by higher insurance sellers' productivity.

Thailand's OPAT for the six months ended 30 June 2023 has kept stable compared to the six months ended 30 June 2022. When excluding the model refinement impact, OPAT grew by 5% driven by favourable claims experience in our medical portfolio compared to the six months ended 30 June 2022.

Singapore

| | Six months ended 30 June | |
|----------------------------------|---|-------------|
| | 2023 | 2022 |
| | (in US\$ millions, except VONB margin) | |
| VONB ⁽¹⁾ | 173 | 161 |
| VONB margin ⁽²⁾ | 65.0% | 65.9% |
| ANP | 267 | 244 |
| TWPI | 1,981 | 1,800 |
| OPAT ⁽³⁾ | 344 | 337 |

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

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

(3) The comparative information has been adjusted to conform to the current period presentation and reflects the adoption of IFRS 9 and IFRS 17.

Six Months Ended 30 June 2023 Compared with Six Months Ended 30 June 2022

AIA Singapore delivered 7% VONB growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, supported by the growth in the partnership distribution channel. ANP increased by 9% and VONB margin stable at 65% for the six months ended 30 June 2023.

Our Premier Agency strategy delivered growth in new business volumes, as we continued to invest in digital tools to enhance performance management and drive improved agent productivity. Next-generation agency leaders are critical to our strategy and an increase in the number of leaders helped support growth in the number of new recruits in the six months ended 30 June 2023 compared to the six months ended 30 June 2022. Our strategic partnership with Citibank recorded strong growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by performance of both our onshore and offshore business.

Singapore OPAT increased 2% to US\$344 million for the six months ended 30 June 2023, compared to the six months ended 30 June 2022, driven by growth in our in-force portfolio which was partially offset by less positive claims variance.

Malaysia

| | Six months ended 30 June | |
|----------------------------------|---|-------|
| | 2023 | 2022 |
| | (in US\$ millions, except VONB margin) | |
| VONB ⁽¹⁾ | 170 | 161 |
| VONB margin ⁽²⁾ | 64.8% | 67.2% |
| ANP | 261 | 239 |
| TWPI | 1,284 | 1,248 |
| OPAT ⁽³⁾ | 170 | 188 |

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

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

(3) The comparative information has been adjusted to conform to the current period presentation and reflects the adoption of IFRS 9 and IFRS 17.

Six Months Ended 30 June 2023 Compared with Six Months Ended 30 June 2022

AIA Malaysia achieved VONB growth of 6% and ANP growth of 9% for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by growth in agency channel. VONB margin for the six months ended 30 June 2023 reduced by 2.4 percentage points to 64.8% compared to the six months ended 30 June 2022, driven by the change in product mix.

Agency delivered 9% VONB growth for the six months ended 30 June 2023, driven by increased activity and productivity. We have enhanced our digital tools so agents can tailor customer offers to meet their unique needs, thus deepening wallet share of existing customers. VONB from our bancassurance partnership with Public Bank Berhad continued to grow, as we collaborated to provide digital tools to our insurance specialists which enable them to more effectively reach target customer segments, which supported an improvement in their productivity.

Malaysia's OPAT for the six months ended 30 June 2023 declined by 10% to US\$170 million compared to the six months ended 30 June 2022, as profitable growth in our in-force portfolio was offset by higher medical claims.

Other Markets

| | Six months ended 30 June | |
|----------------------------------|---|-------|
| | 2023 | 2022 |
| | (in US\$ millions, except VONB margin) | |
| VONB ⁽¹⁾⁽⁴⁾ | 212 | 207 |
| VONB margin ⁽²⁾ | 28.6% | 29.1% |
| ANP ⁽⁴⁾ | 739 | 706 |
| TWPI ⁽³⁾ | 3,398 | 3,618 |
| OPAT ⁽⁴⁾⁽⁵⁾ | 346 | 374 |

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

(2) VONB margin excludes pension business, which is consistent with the definition of ANP used within the calculation.

(3) TWPI excludes the contribution from Tata AIA Life.

(4) ANP, VONB and OPAT include the contribution from Tata AIA Life.

(5) The comparative information has been adjusted to conform to the current period presentation and reflects the adoption of IFRS 9 and IFRS 17.

Six Months Ended 30 June 2023 Compared with Six Months Ended 30 June 2022

VONB for Other Markets segment increased by 2% to US\$212 million for the six months ended 30 June 2023 compared to the six months ended 30 June 2022. A majority of our markets in this segment reported positive VONB growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, offset by a decline in Vietnam as negative consumer sentiment has impacted

insurance sales momentum for the industry, in particular through bancassurance. ANP for the Other Markets segment for the six months ended 30 June 2023 increased by 5%, while VONB margin remained stable at 28.6% for the six months ended 30 June 2023 compared to the six months ended 30 June 2022.

OPAT from Other Markets of US\$346 million for the six months ended 30 June 2023 declined by 7% compared to the six months ended 30 June 2022.

Other Market Highlights

AIA Australia's VONB reported positive growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022. Our long-term bancassurance partnership with Commonwealth Bank of Australia delivered strong growth. VONB growth was also supported by the renewal of a number of group insurance schemes.

AIA Cambodia's ANP remained stable for the six months ended 30 June 2023 compared to the six months ended 30 June 2022 as we continued to execute our multi-channel distribution strategy. In agency, our focus on quality recruitment and training, enabled by digital applications, supported an increase in agency activity and productivity.

Tata AIA Life achieved strong VONB growth from both our agency and partnership distribution channels and maintained our industry-leading position in the pure retail protection market for the six months ended 30 June 2023 compared to the six months ended 30 June 2022. Agency VONB increased, supported by our differentiated Premier Agency model, and we continued to expand our geographical reach by developing digitally-enabled branches. Our partnerships with leading banks and brokers also delivered positive growth in the six months ended 30 June 2023 compared to the six months ended 30 June 2022, supported by enhanced digital tools to drive productivity management.

AIA Indonesia delivered VONB growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, as we continued to focus on increasing sales of protection products. We have continued to work closely with our strategic bank partners to enhance training to insurance sellers.

AIA Myanmar delivered ANP growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022 as we continued to expand our footprint, driven by increase in the number of active agents and increased our bank branch coverage.

AIA New Zealand delivered positive VONB growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022. We have continued to strengthen relationships with our partners to drive VONB growth in the IFA channel. Our strategic partnership with ASB Bank Limited contributed to VONB growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022.

AIA Philippines achieved VONB and ANP growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022. In agency, we continued to focus on quality recruitment and drove the increase in the number of new recruits and active new agents. Our partnership with Bank of Philippines Island ("**BPI**") contributed to VONB growth in the six months ended 30 June 2023 compared to the six months ended 30 June 2022.

AIA Korea reported negative VONB for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by lower VONB from our direct marketing channel. This was partly offset by VONB growth in our bancassurance channel.

AIA Sri Lanka reported ANP growth in both our agency and partnership channels in the six months ended 30 June 2023 compared to the six months ended 30 June 2022. We have continued to focus on supporting our agency to deliver higher productivity, as well as to increase the number of new recruits.

AIA Taiwan reported a decline in VONB for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by foreign exchange movement of the local market currency against the U.S. dollar, partly offset by strong growth in our bancassurance and direct marketing channels.

AIA Vietnam reported a decrease in VONB as negative consumer sentiment has impacted insurance sales momentum for the industry, in particular through bancassurance, and an associated increase in acquisition expense overruns resulted in a reduction of VONB margin. In agency, the number of new recruits reduced as we continued to transform our agency and focus on improving the quality of our agency force.

HOLDING COMPANY FINANCIAL RESOURCES

At 30 June 2023, holding company financial resources were US\$8,703 million compared with US\$10,668 million at 31 December 2022. The decrease of US\$1,965 million resulted primarily from the payment of the shareholder dividends of US\$1,672 million and the additional return of capital to shareholders of US\$1,966 million through the share buy-back programme.

Net capital flows to the holding company of US\$1,660 million included US\$1,703 million of capital flows from subsidiaries offset by US\$43 million of corporate activity including acquisitions in the six months ended 30 June 2023.

Net proceeds from the issuance and redemption of medium-term notes and securities totalled US\$94 million for the six months ended 30 June 2023.

Investment income and mark-to-market movements increased holding company financial resources by US\$116 million for the six months ended 30 June 2023.

The movements in holding company financial resources are summarised as follows:

| US\$ millions, unless otherwise stated | Six months ended 30 June 2023 | Six months ended 30 June 2022 |
|---|--|--|
| Opening holding company financial resources | 10,668 | 13,136 |
| Capital flows from subsidiaries | 1,703 | 1,478 |
| Corporate activity including acquisitions | (43) | - |
| Net capital flows to holding company | 1,660 | 1,478 |
| Increase in borrowings ⁽¹⁾ | 94 | 824 |
| Interest payments on borrowings ⁽¹⁾ | (197) | (169) |
| Investment income, mark-to-market movements in debt securities and others | 116 | (927) |
| Closing holding company financial resources before dividend and share buy-back | 12,341 | 14,342 |
| Dividend paid | (1,672) | (1,650) |
| Share buy-back | (1,966) | (1,342) |
| Closing holding company financial resources | 8,703 | 11,350 |

Assets recoverable and liabilities repayable within 12 months as follows:

| US\$ millions, unless otherwise stated | As at 30 June 2023 | As at 30 June 2022 |
|---|-------------------------------|-------------------------------|
| Loans to/amounts due from subsidiaries ⁽²⁾ | 53 | 99 |
| Medium-term notes and securities ⁽³⁾ | (927) | (665) |
| Net other assets and other liabilities | (139) | (37) |

Notes:

- (1) Borrowings principally include medium-term notes and securities; other intercompany loans; and amounts outstanding, if any, from the Company's US\$2,290 million unsecured committed credit facilities.
- (2) As at 30 June 2023, loans to/amounts due from subsidiaries was US\$882 million (31 December 2022: US\$886 million). US\$53 million was recoverable within the 12 months after 30 June 2023 (30 June 2022: US\$99 million).
- (3) As at 30 June 2023, medium-term notes and securities placed to the market was US\$11,310 million (31 December 2022: US\$11,206 million). US\$927 million was repayable within the 12 months after 30 June 2023 (30 June 2022: US\$665 million). Details of the medium-term notes and securities placed to the market are included in note 18 to the 2023 interim condensed consolidated financial statements.

IFRS Balance Sheet

CONSOLIDATED STATEMENT OF FINANCIAL POSITION⁽¹⁾

| US\$ millions, unless otherwise stated | As at 30 June 2023 | As at 31 December 2022 | Change % |
|--|-----------------------|------------------------------|-------------|
| Assets | | | |
| Financial investments | 242,405 | 235,954 | 3% |
| Investment property | 4,480 | 4,600 | (3)% |
| Cash and cash equivalents | 7,391 | 8,969 | (18)% |
| Insurance and reinsurance contract assets | 7,561 | 7,800 | (3)% |
| Other assets | 14,076 | 13,148 | 7% |
| Total assets | 275,913 | 270,471 | 2% |
| Liabilities | | | |
| Insurance and reinsurance contract liabilities | 193,139 | 183,305 | 5% |
| Investment contract liabilities | 11,737 | 11,986 | (2)% |
| Borrowings | 11,310 | 11,206 | 1% |
| Other liabilities | 17,451 | 18,826 | (7)% |
| Less total liabilities | 233,637 | 225,323 | 4% |
| Equity | | | |
| Total equity | 42,276 | 45,148 | (6)% |
| Less non-controlling interests | 485 | 476 | 2% |
| Shareholders' equity | 41,791 | 44,672 | (6)% |

MOVEMENT IN SHAREHOLDERS' EQUITY

| US\$ millions, unless otherwise stated | Six months ended 30 June 2023 | Year ended 31 December 2022 | Six months ended 30 June 2022 |
|---|-------------------------------------|-----------------------------------|-------------------------------------|
| Opening shareholders' equity | 44,672 | 56,023 | 56,023 |
| Net profit | 2,250 | 3,331 | 1,543 |
| Fair value gains/(losses) on assets | 2,427 | (10,378) | (9,932) |
| Net finance (expenses)/income from insurance contracts and reinsurance contracts held | (3,208) | 3,133 | 3,586 |
| Dividends | (1,672) | (2,259) | (1,650) |
| Share buy-back | (1,966) | (3,570) | (1,342) |
| Foreign currency translation adjustments | (689) | (1,667) | (1,561) |
| Purchase of shares held by employee share-based trusts | (105) | (103) | (94) |
| Revaluation gains on property held for own use | 58 | 62 | 2 |
| Other capital movements | 24 | 100 | 32 |
| Total movement in shareholders' equity | (2,881) | (11,351) | (9,416) |
| Closing shareholders' equity | 41,791 | 44,672 | 46,607 |

Notes:

- (1) The comparative information has been adjusted to conform to the current period presentation and reflects the adoption of IFRS 9 and IFRS 17. Please refer to note 31 to the 2023 interim condensed consolidated financial statements for additional information. Amounts are given before the reclassification for disposal group held for sale as described in note 30 to the 2023 interim condensed consolidated financial statements.

COMPREHENSIVE EQUITY

| US\$ millions, unless otherwise stated | As at 30 June 2023 | As at 31 December 2022 |
|--|-----------------------|---------------------------|
| Shareholders' equity | 41,791 | 44,672 |
| Net CSM ⁽¹⁾ | 41,434 | 41,743 |
| Comprehensive equity | 83,225 | 86,415 |

Note:

(1) After allowing for reinsurance, taxes and net of non-controlling interest.

TOTAL INVESTMENTS⁽¹⁾

| US\$ millions, unless otherwise stated | As at 30 June 2023 | Percentage of total | As at 31 December 2022 | Percentage of total |
|---|--------------------------|------------------------|------------------------------|------------------------|
| Total policyholder and shareholder | 223,466 | 87% | 218,295 | 87% |
| Total unit-linked contracts and consolidated investment funds | 34,329 | 13% | 33,506 | 13% |
| Total investments | 257,795 | 100% | 251,801 | 100% |

UNIT-LINKED CONTRACTS AND CONSOLIDATED INVESTMENT FUNDS⁽¹⁾

| US\$ millions, unless otherwise stated | As at 30 June 2023 | Percentage of total | As at 31 December 2022 | Percentage of total |
|--|--------------------------|------------------------|------------------------------|------------------------|
| Unit-linked contracts and consolidated investment funds | | | | |
| Debt securities | 7,132 | 21% | 6,869 | 21% |
| Loans and deposits | 317 | 1% | 345 | 1% |
| Equity investments ⁽²⁾ | 25,468 | 74% | 24,741 | 74% |
| Cash and cash equivalents | 1,378 | 4% | 1,505 | 4% |
| Derivative financial instruments | 34 | - | 46 | - |
| Total unit-linked contracts and consolidated investment funds | 34,329 | 100% | 33,506 | 100% |

Notes:

(1) In preparing the 2023 interim condensed consolidated financial statements, the Group enhanced the presentation to further split and allocate the underlying assets held by consolidated investment funds to the respective fund segments of the asset-backing liabilities, except for the consolidated investment funds consist of third-party unit holders' interests in the consolidated investment funds. Please refer to notes 15 and 18 to the 2023 interim condensed consolidated financial statements for additional information.

(2) Includes equity shares, interests in investment funds and exchangeable loan notes.

POLICYHOLDER AND SHAREHOLDER INVESTMENTS⁽¹⁾

| US\$ millions, unless otherwise stated | As at 30 June 2023 | Percentage of total | As at 31 December 2022 | Percentage of total |
|--|--------------------------|------------------------|------------------------------|------------------------|
| Participating funds and other participating business with distinct portfolios⁽³⁾ | | | | |
| Government bonds | 20,480 | 9% | 15,514 | 7% |
| Government agency bonds | 6,971 | 3% | 6,971 | 3% |
| Corporate bonds and structured securities | 47,896 | 22% | 46,534 | 22% |
| Loans and deposits | 707 | - | 885 | - |
| Subtotal – Fixed income | 76,054 | 34% | 69,904 | 32% |

| | | | | |
|---|----------------|-------------|----------------|-------------|
| Equity investments ⁽²⁾ | 27,625 | 12% | 27,548 | 13% |
| Investment property and property held for own use | 3,616 | 2% | 3,206 | 1% |
| Cash and cash equivalents | 1,009 | 1% | 2,166 | 1% |
| Derivative financial instruments | 199 | - | 249 | - |
| Subtotal participating funds and other participating business with distinct portfolios | 108,503 | 49% | 103,073 | 47% |
| Other policyholder and shareholder | | | | |
| Government bonds | 50,707 | 23% | 51,354 | 24% |
| Government agency bonds | 7,464 | 3% | 7,602 | 3% |
| Corporate bonds and structured securities | 31,157 | 14% | 31,367 | 14% |
| Loans and deposits | 3,502 | 2% | 3,615 | 2% |
| Subtotal – Fixed income investments | 92,830 | 42% | 93,938 | 43% |
| Equity investments ⁽²⁾ | 12,363 | 5% | 11,979 | 6% |
| Investment property and property held for own use | 4,383 | 2% | 3,672 | 2% |
| Cash and cash equivalents | 5,004 | 2% | 5,298 | 2% |
| Derivative financial instruments | 383 | - | 335 | - |
| Subtotal other policyholder and shareholder | 114,963 | 51% | 115,222 | 53% |
| Total policyholder and shareholder | 223,466 | 100% | 218,295 | 100% |

Notes:

- (1) In preparing the 2023 interim condensed consolidated financial statements, the Group enhanced the presentation to further split and allocate the underlying assets held by consolidated investment funds to the respective fund segments of the asset-backing liabilities, except for the consolidated investment funds consist of third-party unit holders' interests in the consolidated investment funds. Please refer to notes 15 and 18 to the 2023 interim condensed consolidated financial statements for additional information.
- (2) Includes equity shares, interests in investment funds and exchangeable loan notes.
- (3) 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, representing Hong Kong participating business, are supported by segregated investment assets and explicit provisions for future surplus distribution, although the division of surplus between policyholders and shareholders is not defined in regulation.

ASSETS

Total assets increased by US\$5,442 million to US\$275,913 million at 30 June 2023, compared with US\$270,471 million at 31 December 2022, driven mainly by positive net investment cash inflows and fair value movements on debt securities for the six months ended 30 June 2023.

Financial investments held in respect of policyholders and shareholders increased to US\$223,466 million at 30 June 2023 compared with US\$218,295 million at 31 December 2022.

Fixed income investments, including debt securities, loans and term deposits held in respect of policyholders and shareholders, totalled US\$168,884 million at 30 June 2023 compared with US\$163,842 million at 31 December 2022.

Government bonds and government agency bonds increased to US\$85,622 million at 30 June 2023, compared with US\$81,441 million at 31 December 2022 and represented 51% of fixed income investments at 30 June 2023, compared with 50% at 31 December 2022.

Corporate bonds and structured securities increased to US\$79,053 million at 30 June 2023 from US\$77,901 million at 31 December 2022, accounting for 47% of fixed income investments at 30 June 2023, compared with 48% at 31 December 2022.

The average credit rating of the fixed income portfolio including government bonds remained stable at A, compared with the position as at 31 December 2022. The average credit rating of the fixed income portfolio excluding domestic government bonds⁽¹⁾ improved to A at 30 June 2023 from A- at 31 December 2022. The corporate bond portfolio is diversified with over 2,000 issuers and an average holding size of US\$37 million.

At 30 June 2023, 3% of the total bond portfolio was rated below investment grade or not rated, representing approximately US\$4.2 billion in value. Approximately US\$326 million of bonds, representing 0.2% of our total bond portfolio, were downgraded to below investment grade and there was no material increase in expected credit loss provisions in the six months ended 30 June 2023, reflecting AIA's overall high-quality investment portfolio.

Equity investments held in respect of policyholders and shareholders totalled US\$39,988 million at 30 June 2023, compared with US\$39,527 million at 31 December 2022.

Cash and cash equivalents held in respect of policyholders and shareholders decreased by US\$1,451 million to US\$6,013 million at 30 June 2023 compared with US\$7,464 million at 31 December 2022.

Note:

(1) Domestic government bonds refer to bonds issued in local or foreign currencies by the government of the country where respective business unit operates.

LIABILITIES

Total liabilities increased to US\$233,637 million at 30 June 2023 from US\$225,323 million at 31 December 2022.

Insurance and reinsurance contract liabilities increased to US\$193,139 million at 30 June 2023 compared with US\$183,305 million at 31 December 2022, driven mainly by net cash inflows, lower illiquidity premiums in our IFRS 17 discount curves, and a drop in government bond yields in Mainland China.

Borrowings increased to US\$11,310 million at 30 June 2023 compared to the six months ended 30 June 2022, due to the net proceeds from the issuance and redemption of medium-term notes and securities totalled US\$94 million.

The leverage ratio, which is defined as total borrowings expressed as a percentage of the sum of Total Capitalisation and CSM net of reinsurance and net of taxes, was 11.9% at 30 June 2023, compared with 11.4% at 31 December 2022. The increase was largely due to a reduction in total equity after capital returns to shareholders from shareholder dividends and the share buy-back.

Details of commitments and contingencies are included in note 28 of the 2023 interim consolidated financial statements.

EQUITY

Shareholders' equity decreased to US\$41,791 million at 30 June 2023 from US\$44,672 million at 31 December 2022, primarily due to the payment of the shareholder dividend and the share buy-back programme. Excluding the payment of the shareholder dividend of US\$1,672 million and US\$1,966 million additional return of capital through the share buy-back programme, shareholders' equity was US\$45,429 million at 30 June 2023.

Shareholders' equity reflected the fair value gains on assets from the unrealised market movements on debt securities and the net finance expenses from insurance contracts and reinsurance contracts held due to liability discount rate changes in our non-participating business⁽¹⁾ and surplus assets. In the six months ended 30 June 2023, fair value gains on debt securities of US\$2,427 million were offset by net finance expenses from insurance contracts and reinsurance contracts held of US\$3,208 million.

Note:

(1) Excluding unit-linked with significant protection benefits

Capital

GROUP LCSM SOLVENCY POSITION

The Group-Wide Supervision (“GWS”) Capital Rules set out the capital requirements and overall solvency position for the Group under the GWS framework. These requirements are based on a “summation approach” and are referred to as the Local Capital Summation Method (“LCSM”). Under the LCSM, the eligible group capital resources and group capital requirements are calculated as the sum of the eligible capital resources and capital requirements of each entity within the Group according to the respective local regulatory requirements, subject to any variation considered necessary by the Hong Kong Insurance Authority (“HKIA”).

The Group LCSM surplus is defined as the excess of the eligible group capital resources over the group prescribed capital requirement (“GPCR”) and the Group LCSM Coverage Ratio is calculated as the ratio of the eligible group capital resources to the GPCR. The GPCR is the sum of the prescribed capital requirement of each entity within the Group, and represents the level below which the HKIA may intervene on grounds of capital adequacy. The Tier 1 group capital coverage ratio is calculated as the ratio of the Tier 1 group capital to the group minimum capital requirement (“GMCR”). The GMCR is the sum of the minimum capital requirements of each entity within the Group.

The Group LCSM Coverage Ratio decreased to 260% as at 30 June 2023 from 283% as at 31 December 2022. As at 30 June 2023, the Group LCSM Coverage Ratio was 282% before the effect of the share buy-back and other non-operating items, including the reduction in eligible group capital resources from internal capital movements, regulatory changes in South Korea and New Zealand and the refinancing of eligible debt with senior debt.

Eligible group capital resources decreased to US\$68,501 million at 30 June 2023 from US\$70,698 million at 31 December 2022, driven mainly by the effect of the share buy-back, a reduction in eligible group capital resources from internal capital movements and the refinancing of eligible debt with senior debt. GPCR increased to US\$26,320 million at 30 June 2023 from US\$24,989 million at 31 December 2022, reflecting the effects of regulatory changes in South Korea and New Zealand. As a result, the Group LCSM surplus decreased to US\$42,181 million at 30 June 2023 from US\$45,709 million at 31 December 2022.

Tier 1 group capital decreased to US\$44,038 million at 30 June 2023 from US\$45,508 million at 31 December 2022, driven mainly by the effect of the share buy-back and the reduction in Tier 1 group capital from internal capital movements. The GMCR increased to US\$13,619 million at 30 June 2023 from US\$12,810 million at 31 December 2022, reflecting the effects of regulatory changes in South Korea and New Zealand.

The table shows a summary of the Group LCSM solvency position as at 30 June 2023.

| US\$ millions, unless otherwise stated | As at 30 June 2023 | As at 31 December 2022 |
|--|-------------------------------|-----------------------------------|
| Group LCSM Coverage Ratio ⁽¹⁾ | 260% | 283% |
| Tier 1 group capital coverage ratio ⁽²⁾ | 323% | 355% |
| Eligible group capital resources | 68,501 | 70,698 |
| Tier 1 group capital | 44,038 | 45,508 |
| Tier 2 group capital | 24,463 | 25,190 |
| Group prescribed capital requirement (GPCR) | 26,320 | 24,989 |
| Group minimum capital requirement (GMCR) | 13,619 | 12,810 |
| Group LCSM surplus | 42,181 | 45,709 |

Notes:

- (1) The Group LCSM Coverage Ratio is called the “eligible group capital resources coverage ratio” in the GWS framework and is defined as the ratio of the eligible group capital resources to the GPCR.
- (2) The Tier 1 group capital coverage ratio is defined in the GWS framework as the ratio of Tier 1 group capital to the GMCR.

At 30 June 2023, the eligible group capital resources includes the following items, which are included within Tier 2 group capital:

- (i) US\$3,739 million⁽¹⁾ of subordinated securities. Subordinated securities with a fixed maturity receive full capital credit up to the date that is 5 years prior to the date of maturity, with the capital credit then reducing at the rate of 20% per annum until maturity. Perpetual subordinated securities receive full capital credit unless they are redeemed; and
- (ii) US\$5,153 million⁽¹⁾ of senior notes issued before designation that have been approved by the HKIA as capital. Prior to maturity, the approved senior notes receive full capital credit until 14 May 2031, after which the capital credit reduces at the rate of 20% per annum until 14 May 2036.

Note:

- (1) The amounts represent the carrying value of medium-term notes and securities contributing to eligible group capital resources.

LOCAL SOLVENCY REQUIREMENTS

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 entities operate. The local operating units were in compliance with the capital requirements of their respective entity and local regulators in each of our geographical markets at 30 June 2023.

The changes in local solvency requirements are summarised as follows:

Hong Kong

The Insurance (Amendment) Bill 2023 ("**Amendment Bill**") was passed by the Legislative Council on 6 July 2023 and provides the legal framework to implement a Risk-based Capital ("**RBC**") regime for the Hong Kong insurance industry. The RBC regime is expected to be implemented in 2024. In April 2022, the HKIA approved the early adoption of HKRBC for AIA International, our principal operating entity in Hong Kong, with an effective date of 1 January 2022. The Group's other operating entities in Hong Kong, including AIA Co. and AIA Everest remain subject to the current Hong Kong Insurance Ordinance ("**HKIO**") basis and will be subject to the revised legislation when it takes effect.

South Korea

The new Korean Insurance Capital Standard ("**K-ICS**") has taken effect for AIA Korea from 1 January 2023. Similar to other modern risk-based capital regimes for insurers, this new capital regime is based on an economic balance sheet approach, with a current market-based assessment of assets and liabilities, including a risk margin within the assessment of liabilities, and a risk-based assessment of capital requirements. The effects of these changes have been reflected in the Group's EV and LCSM results with effect from 1 January 2023.

New Zealand

In October 2022, the Reserve Bank of New Zealand ("**RBNZ**") released its final interim solvency standards (ISS), which came into force on 1 January 2023. The effects of the changes in the new solvency standard have been reflected in the Group's EV and LCSM results with effect from 1 January 2023 where applicable.

Global Medium-term Note and Securities Programme

Under our Programme, on 4 April 2023, the Company issued listed US dollar-denominated fixed rate medium-term notes that are listed on the Hong Kong Stock Exchange. The offering comprised US\$600 million of 10-year notes at an annual rate of 4.95%.

At 30 June 2023, the aggregate carrying amount of the debt issued to the market under the Programme was US\$11,310 million compared with US\$11,206 million at 31 December 2022.

Credit Ratings

At 30 June 2023, AIA Co. had unchanged 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 S&P Global Ratings.

At 30 June 2023, the Company had unchanged issuer credit ratings of A1 (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 S&P Global Ratings.

REGULATORY AND INTERNATIONAL DEVELOPMENTS

GROUP-WIDE SUPERVISION

The Company was designated a “designated insurance holding company” under the HKIA’s group-wide supervision (“**GWS**”) framework on 14 May 2021. The GWS framework was developed to align with international standards and practices to supervise Hong Kong-domiciled Internationally Active Insurance Groups (“**IAIGs**”) and is reflective of the requirements of ComFrame, the Common Framework for the Supervision of IAIGs and the Insurance Core Principles (“**ICPs**”) set out by the International Association of Insurance Supervisors (“**IAIS**”). Under the GWS framework, the HKIA has established group capital adequacy requirements, requirements for a group internal economic capital assessment (“**GIECA**”), a group own risk and solvency assessment (“**ORSA**”), a group recovery plan and a group-wide risk and governance framework and controls. The HKIA also has direct regulatory powers over the Company including powers to approve a shareholder controller, a chief executive, a director and a key person in control function to hold a specified position, and powers to intervene, inspect and investigate.

INSURANCE CAPITAL STANDARD

In 2020 the IAIS began the first of two phases in the development and implementation of the Insurance Capital Standard (“**ICS**”). Under the first phase, a “Reference ICS” is being assessed during a five-year monitoring period for reporting privately to group-wide supervisors. It is proposed that the second phase, beginning in 2025, will include implementation of the ICS as a group prescribed capital requirement by group supervisors, taking into account specific market circumstances. The IAIS is also collecting data on the “aggregation method” (“**AM**”), an alternative proposed by US regulators, that would define group solvency by referencing the local regimes to which a group is subject.

AIA continues to participate in the annual IAIS data collection exercise for ICS and will continue to monitor further developments in the ICS.

BEPS 2.0

AIA continues to closely monitor developments in respect of the tax policy work led by the Organisation for Economic Co-operation and Development (“**OECD**”) on the “Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy”, a phase of the OECD/G20 Base Erosion and Profit Shifting (“**BEPS**”) Project that is commonly referred to as “BEPS 2.0”, and constructively engages with relevant governments and the OECD on their work.

In 2021, the OECD/G20 Inclusive Framework on BEPS (“**Inclusive Framework**”) published draft model rules to give effect to the Global Anti-Base Erosion Rules (“**GloBE**”) component of Pillar Two of BEPS 2.0, which imposes a global minimum effective tax rate on large multinational enterprises in respect of each jurisdiction in which they operate. The Inclusive Framework originally agreed that participating jurisdictions should enact these rules into law in 2022, with the majority of the rules to be effective from 2023.

However, on 22 February 2023, it was announced in the Hong Kong Budget that Hong Kong will defer the application of the GloBE rules, and also the introduction of a domestic minimum top-up tax, to start from 2025 onwards. This announcement follows similar deferrals in other jurisdictions (e.g., the European Union, the United Kingdom, Canada, South Korea and Switzerland, which have deferred until 2024, and Singapore, which has also deferred until 2025). Based on currently available information, the GloBE rules are likely to adversely affect AIA’s effective tax rate. The GloBE rules will apply in certain jurisdictions in which AIA operates from 2024, but are not expected to adversely affect AIA’s effective tax rate until 2025.

INTERIM BUSINESS REVIEW FOR THE SIX MONTHS ENDED 30 JUNE 2023

The information below covers the financial results for the six month period from 1 January 2023 to 30 June 2023 for the current period and for the six month period from 1 January 2022 to 30 June 2022 for the prior period.

Distribution

AGENCY

| | Six months ended 30 June | |
|-------------------|---|-------|
| | 2023 | 2022 |
| | (in US\$ millions, except VONB margin) | |
| VONB | 1,613 | 1,317 |
| VONB margin | 62.8% | 70.5% |
| ANP | 2,567 | 1,869 |

Our unparalleled, proprietary Premier Agency is a core competitive advantage. Our professional agency sits at the heart of our relationship with our customers and meets the diverse and rapidly growing needs of millions of customers across Asia through personalised advice and our comprehensive suite of propositions. We hold market-leading positions across the region and have been named the number one Million Dollar Round Table (MDRT) multinational in the world for the ninth consecutive year.

The consistent execution of our Premier Agency strategy has enabled us to deliver strong VONB growth of 22% and ANP growth of 37% to US\$2,567 million for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, as new business momentum continued to improve with the relaxation of pandemic related restrictions. While protection sales for the Group grew for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, strong demand for long-term savings products in Mainland China and Hong Kong resulted in a reduced VONB margin of 62.8% for the six months ended 30 June 2023. Overall, agency distribution accounted for 75% of the Group's total VONB in the six months ended 30 June 2023.

We provide our quality new recruits with best-in-class, digitally-enabled training that is designed to fast track their development and support them in achieving a full-time professional and productive career with us. Quality recruitment remains a key strategic priority. In Hong Kong, the deployment of an AI-supported digital interview tool supported an increase in the number of new recruits.

We continue to support our agency force with new and enhanced digital tools that cover agency recruitment and onboarding, activity management and new leads generation. This has enabled us to deliver growth in agency productivity and an increase in the total number of active agents in the six months ended 30 June 2023 compared to the six months ended 30 June 2022.

Our differentiated long-term strategy is the foundation of our professional and productive agency force. In July 2023, AIA China, AIA Hong Kong and AIA Thailand retained their positions as the companies with the highest number of MDRT members globally. Driven by our results, we have delivered growth in the number of agents reaching MDRT qualification in the six months ended 30 June 2023 compared to the six months ended 30 June 2022. Our continued leadership in MDRT demonstrates the effectiveness of our Premier Agency strategy.

PARTNERSHIPS

| | Six months ended 30 June | |
|-------------------|---|-------|
| | 2023 | 2022 |
| | (in US\$ millions, except VONB margin) | |
| VONB | 532 | 340 |
| VONB margin | 37.6% | 37.5% |
| ANP | 1,414 | 907 |

Our extensive network of market-leading strategic distribution partners extends our market reach and provides us with the opportunity to engage and meet the protection, health, and long-term savings needs of hundreds of millions of potential customers across Asia. Our partnership distribution business contributes a growing source of AIA's new business and generated 25% of the Group's total VONB for the six months ended 30 June 2023.

VONB for our partnership channel grew by 56% to US\$532 million in the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by the strong performance from both our bancassurance and intermediated channels, which was slightly offset by a small decline in our direct marketing channel.

BANCASSURANCE, INTERMEDIATED CHANNELS AND DIRECT MARKETING

Our bancassurance channel delivered 34% VONB growth for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, driven by growth in most of our markets, partly offset by a decline in Vietnam as negative consumer sentiment has impacted the industry. Our long-term strategic partnerships with leading banks are a key competitive advantage for AIA. We have continued to work with our bank partners to provide structured training to upskill insurance specialists and we are further strengthening our digital capability to provide customers with a seamless omnichannel experience. This has driven an increase in productivity of insurance sellers at our strategic partners in Hong Kong, Thailand, Malaysia, India and Indonesia.

Our digitally-led bancassurance strategy provides us with broader access to previously untapped customers. For example, our strategic partnership with Bank of the Philippine Islands (BPI) delivered VONB growth in the six months ended 30 June 2023 compared to the six months ended 30 June 2022 as we continued to roll out social media and digital marketing tools to engage with our customers.

VONB from our intermediated channels, including IFAs and brokers, increased for the six months ended 30 June 2023 compared to the six months ended 30 June 2022, supported by the return of Mainland Chinese visitors to Hong Kong. Our businesses in India and New Zealand also reported VONB growth in these channels for the six months ended 30 June 2023 compared to the six months ended 30 June 2022.

DIGITAL PLATFORMS

Our next-generation partnerships with technology companies continue to be a powerful engine for customer acquisition, enabling us to access new customer segments at scale. In the six months ended 30 June 2023, we have continued to focus on developing innovative scenario-based propositions. These have supported an increase in the number of customers purchasing simple AIA products online.

**INDEX TO THE INTERIM FINANCIAL STATEMENTS AND SUPPLEMENTARY EMBEDDED
VALUE INFORMATION**

**(1) INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE ISSUER FOR
THE SIX-MONTH PERIOD ENDED 30 JUNE 2023**

| | |
|---|------|
| Independent Review Report ⁽¹⁾ | F-2 |
| Interim Consolidated Income Statement..... | F-3 |
| Interim Consolidated Statement of Comprehensive Income | F-4 |
| Interim Consolidated Statement of Financial Position | F-5 |
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**(2) INTERIM SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2023**

| | |
|--|-------|
| Independent Review Report on the Supplementary Embedded Value Information ⁽¹⁾ | F-132 |
| Supplementary Embedded Value Information | F-133 |

(1) References to page numbers in the independent review report on the interim consolidated financial statements and the independent review report on the interim supplementary embedded value information refer to the original page numbers in the 2023 interim results announcement of the Issuer which may be found at <http://www.aia.com>, and cross-references to page numbers included in the independent review reports are to such original page numbering. Neither the 2023 interim results announcement nor any other information on the Issuer's website has been incorporated by reference into the Offering Circular.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED
(incorporated in Hong Kong with limited liability)



羅兵咸永道

Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 55 to 183, which comprise the interim consolidated statement of financial position of AIA Group Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2023 and the interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six-month period then ended, and notes, comprising material accounting policy information and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34 and IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of the Group are not prepared, in all material respects, in accordance with HKAS 34 and IAS 34.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
24 August 2023

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

INTERIM CONSOLIDATED INCOME STATEMENT

| US\$m | Notes | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|---|-------|--|--|
| Insurance revenue | 8,19 | 8,352 | 8,242 |
| Insurance service expenses | 10,19 | (5,344) | (5,003) |
| Net expenses from reinsurance contracts held | 19 | (202) | (341) |
| Insurance service result | | 2,806 | 2,898 |
| Interest revenue on | 9 | | |
| Financial assets not measured at fair value through profit or loss | | 2,023 | 1,904 |
| Financial assets measured at fair value through profit or loss | | 1,829 | 1,667 |
| Other investment return | 9 | 3,608 | (31,479) |
| Net impairment loss on financial assets | 9 | (47) | (128) |
| Investment return | 9 | 7,413 | (28,036) |
| Net finance (expenses)/income from insurance contracts | 9 | (6,313) | 26,569 |
| Net finance income from reinsurance contracts held | 9 | 55 | 6 |
| Movement in investment contract liabilities | 9 | (370) | 1,202 |
| Movement in third-party interests in consolidated investment funds | 9 | (29) | 29 |
| Net investment result | 9 | 756 | (230) |
| Fee income | | 65 | 74 |
| Other operating revenue | | 138 | 120 |
| Other expenses | 10 | (815) | (770) |
| Other finance costs | 10 | (227) | (180) |
| Profit before share of losses from associates and joint ventures | | 2,723 | 1,912 |
| Share of losses from associates and joint ventures | | (102) | (115) |
| Profit before tax | | 2,621 | 1,797 |
| Tax expense | 11 | (366) | (249) |
| Net profit | | 2,255 | 1,548 |
| <i>Net profit attributable to:</i> | | | |
| Shareholders of AIA Group Limited | | 2,250 | 1,543 |
| Non-controlling interests | | 5 | 5 |
| Earnings per share (US\$) | | | |
| Basic | 12 | 0.19 | 0.13 |
| Diluted | 12 | 0.19 | 0.13 |

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|---|--|--|
| Net profit | 2,255 | 1,548 |
| Other comprehensive income/(expense) | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Fair value gains/(losses) on financial assets at fair value through other comprehensive income (net of tax of: six months ended 30 June 2023: US\$(427)m; six months ended 30 June 2022: US\$1,709m) | 1,960 | (10,069) |
| Fair value losses on financial assets at fair value through other comprehensive income reclassified to profit or loss on disposal (net of tax of: six months ended 30 June 2023: US\$13m; six months ended 30 June 2022: US\$(19)m) | 137 | 82 |
| Foreign currency translation adjustments | (698) | (1,477) |
| Cash flow hedges | (7) | (1) |
| Net finance (expenses)/income from insurance contracts (net of tax of: six months ended 30 June 2023: US\$985m; six months ended 30 June 2022: US\$(1,052)m) | (2,995) | 3,702 |
| Net finance income/(expenses) from reinsurance contracts held (net of tax of: six months ended 30 June 2023: US\$(71)m; six months ended 30 June 2022: US\$(55)m) | 133 | (108) |
| Share of other comprehensive expense from associates and joint ventures | (8) | (66) |
| Subtotal | <u>(1,478)</u> | <u>(7,937)</u> |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Revaluation gains on property held for own use (net of tax of: six months ended 30 June 2023: US\$(16)m; six months ended 30 June 2022: US\$3m) | 58 | – |
| Effect of remeasurement of net liability of defined benefit schemes (net of tax of: six months ended 30 June 2023: nil; six months ended 30 June 2022: nil) | 2 | 1 |
| Subtotal | <u>60</u> | <u>1</u> |
| Total other comprehensive expense | <u>(1,418)</u> | <u>(7,936)</u> |
| Total comprehensive income/(expense) | <u>837</u> | <u>(6,388)</u> |
| <i>Total comprehensive income/(expense) attributable to:</i> | | |
| Shareholders of AIA Group Limited | 833 | (6,362) |
| Non-controlling interests | 4 | (26) |

Note:

(1) Where applicable, amounts are presented net of tax.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| US\$m | Notes | As at 30 June 2023 (Unaudited) | As at 31 December 2022 (Restated) | As at 1 January 2022 (Restated) |
|---|------------|---|--|--|
| Assets | | | | |
| Intangible assets | 14 | 3,478 | 3,277 | 2,914 |
| Investments in associates and joint ventures | | 1,960 | 2,056 | 831 |
| Property, plant and equipment | | 4,027 | 2,844 | 2,744 |
| Investment property | | 4,480 | 4,600 | 4,716 |
| Insurance contract assets | 19 | 1,784 | 2,037 | 3,681 |
| Reinsurance contract assets | 19 | 5,777 | 5,763 | 6,436 |
| Financial investments: | 15, 17, 30 | | | |
| At amortised cost | | | | |
| Debt securities | | 1,980 | 1,787 | 1,476 |
| Loans and deposits | | 4,261 | 4,566 | 5,434 |
| At fair value through other comprehensive income | | | | |
| Debt securities | | 85,167 | 86,060 | 103,580 |
| At fair value through profit or loss | | | | |
| Debt securities | | 83,823 | 77,496 | 94,916 |
| Loans and deposits | | 265 | 279 | 297 |
| Equity shares | | 21,883 | 23,378 | 30,817 |
| Interests in investment funds and exchangeable loan notes | | 41,266 | 38,577 | 40,243 |
| Derivative financial instruments | 16, 30 | 566 | 568 | 1,468 |
| | | <u>239,211</u> | <u>232,711</u> | <u>278,231</u> |
| Deferred tax assets | | 212 | 229 | 104 |
| Current tax recoverable | | 188 | 117 | 120 |
| Other assets | 30 | 4,112 | 4,524 | 6,486 |
| Cash and cash equivalents | 18, 30 | 6,666 | 8,020 | 4,989 |
| Assets in disposal group held for sale | 30 | 4,018 | 4,293 | – |
| Total assets | | <u><u>275,913</u></u> | <u><u>270,471</u></u> | <u><u>311,252</u></u> |
| Liabilities | | | | |
| Insurance contract liabilities | 19, 30 | 191,872 | 181,851 | 217,773 |
| Reinsurance contract liabilities | 19, 30 | 223 | 384 | 709 |
| Investment contract liabilities | 20, 30 | 9,082 | 9,092 | 13,896 |
| Borrowings | 21 | 11,310 | 11,206 | 9,588 |
| Obligations under repurchase agreements | 22 | 2,000 | 1,748 | 1,588 |
| Derivative financial instruments | 16, 30 | 7,623 | 8,638 | 1,392 |
| Provisions | | 155 | 153 | 186 |
| Deferred tax liabilities | 30 | 2,948 | 3,409 | 4,103 |
| Current tax liabilities | 30 | 383 | 467 | 389 |
| Other liabilities | 30 | 4,215 | 4,264 | 5,121 |
| Liabilities in disposal group held for sale | 30 | 3,826 | 4,111 | – |
| Total liabilities | | <u><u>233,637</u></u> | <u><u>225,323</u></u> | <u><u>254,745</u></u> |

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

| US\$m | Note | As at 30 June 2023 (Unaudited) | As at 31 December 2022 (Restated) | As at 1 January 2022 (Restated) |
|--|------|---|--|--|
| Equity | | | | |
| Share capital | 23 | 14,175 | 14,171 | 14,160 |
| Employee share-based trusts | | (368) | (290) | (225) |
| Other reserves | | (11,814) | (11,812) | (11,841) |
| Retained earnings | | 45,111 | 46,499 | 48,997 |
| Other comprehensive income | | (5,313) | (3,896) | 4,932 |
| <i>Total equity attributable to:</i> | | | | |
| Shareholders of AIA Group Limited | | 41,791 | 44,672 | 56,023 |
| Non-controlling interests | | 485 | 476 | 484 |
| Total equity | | 42,276 | 45,148 | 56,507 |
| Total liabilities and equity | | 275,913 | 270,471 | 311,252 |

Approved and authorised for issue by the Board of Directors on 24 August 2023.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| US\$m | Note | Other comprehensive income | | | | | | | | | | Total equity |
|---|------|----------------------------|-----------------------------|-----------------|-------------------|--------------------|--------------------------------------|---------------------------|------------------------------|-----------|---------------------------|---------------|
| | | Share capital | Employee share-based trusts | Other reserves | Retained earnings | Fair value reserve | Foreign currency translation reserve | Insurance finance reserve | Property revaluation reserve | Others | Non-controlling interests | |
| Balance at 1 January 2023 – Restated | | 14,171 | (290) | (11,812) | 46,499 | (3,737) | (2,735) | 1,238 | 1,279 | 59 | 476 | 45,148 |
| Net profit | | - | - | - | 2,250 | - | - | - | - | - | 5 | 2,255 |
| Fair value gains on financial assets at fair value through other comprehensive income | | - | - | - | - | 1,955 | - | - | - | - | 5 | 1,960 |
| Fair value losses on financial assets at fair value through other comprehensive income reclassified to profit or loss on disposal | | - | - | - | - | 137 | - | - | - | - | - | 137 |
| Foreign currency translation adjustments | | - | - | - | - | - | (696) | - | - | - | (2) | (698) |
| Cash flow hedges | | - | - | - | - | - | - | - | - | (7) | - | (7) |
| Net finance expenses from insurance contracts | | - | - | - | - | - | - | (2,991) | - | - | (4) | (2,995) |
| Net finance income from reinsurance contracts held | | - | - | - | - | - | - | 133 | - | - | - | 133 |
| Share of other comprehensive income/(expense) from associates and joint ventures | | - | - | - | - | 335 | 7 | (350) | - | - | - | (8) |
| Revaluation gains on property held for own use | | - | - | - | - | - | - | - | 58 | - | - | 58 |
| Effect of remeasurement of net liability of defined benefit schemes | | - | - | - | - | - | - | - | - | 2 | - | 2 |
| Total comprehensive income/ (expense) for the period | | - | - | - | 2,250 | 2,427 | (689) | (3,208) | 58 | (5) | 4 | 837 |
| Dividends | 13 | - | - | - | (1,672) | - | - | - | - | - | (2) | (1,674) |
| Share buy-back | | - | - | - | (1,966) | - | - | - | - | - | - | (1,966) |
| Shares issued under share option scheme and agency share purchase plan | | 4 | - | - | - | - | - | - | - | - | - | 4 |
| Increase in non-controlling interests | | - | - | (6) | - | - | - | - | - | - | 7 | 1 |
| Share-based compensation | | - | - | 31 | - | - | - | - | - | - | - | 31 |
| Purchase of shares held by employee share-based trusts | | - | (105) | - | - | - | - | - | - | - | - | (105) |
| Transfer of vested shares from employee share-based trusts | | - | 27 | (27) | - | - | - | - | - | - | - | - |
| Balance at 30 June 2023 – Unaudited | | 14,175 | (368) | (11,814) | 45,111 | (1,310) | (3,424) | (1,970) | 1,337 | 54 | 485 | 42,276 |

Note:

(1) Where applicable, amounts are presented net of tax.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

| US\$m | Notes | Share capital | Employee share-based trusts | Other reserves | Retained earnings | Other comprehensive income | | | | | Non-controlling interests | Total equity |
|---|-------|---------------|-----------------------------|----------------|-------------------|----------------------------|--------------------------------------|---------------------------|------------------------------|--------|---------------------------|--------------|
| | | | | | | Fair value reserve | Foreign currency translation reserve | Insurance finance reserve | Property revaluation reserve | Others | | |
| Balance at 1 January 2022, as previously reported | | 14,160 | (225) | (11,841) | 49,984 | 8,407 | (1,068) | - | 1,069 | (19) | 467 | 60,934 |
| Impact of initial adoption of IFRS 9 and IFRS 17 | 31 | - | - | - | (1,208) | (1,766) | - | (1,895) | 369 | 56 | 17 | (4,427) |
| Retrospective adjustments for amendment to IAS 16 | 31 | - | - | - | 221 | - | - | - | (221) | - | - | - |
| Balance at 1 January 2022 – Restated | | 14,160 | (225) | (11,841) | 48,997 | 6,641 | (1,068) | (1,895) | 1,217 | 37 | 484 | 56,507 |
| Net profit | | - | - | - | 1,543 | - | - | - | - | - | 5 | 1,548 |
| Fair value losses on financial assets at fair value through other comprehensive income | | - | - | - | - | (10,050) | - | - | - | - | (19) | (10,069) |
| Fair value losses on financial assets at fair value through other comprehensive income reclassified to profit or loss on disposal | | - | - | - | - | 82 | - | - | - | - | - | 82 |
| Foreign currency translation adjustments | | - | - | - | - | - | (1,457) | - | - | - | (20) | (1,477) |
| Cash flow hedges | | - | - | - | - | - | - | - | - | (1) | - | (1) |
| Net finance income from insurance contracts | | - | - | - | - | - | - | 3,694 | - | - | 8 | 3,702 |
| Net finance expenses from reinsurance contracts held | | - | - | - | - | - | - | (108) | - | - | - | (108) |
| Share of other comprehensive income/(expense) from associates and joint ventures | | - | - | - | - | 36 | (104) | - | 2 | - | - | (66) |
| Effect of remeasurement of net liability of defined benefit schemes | | - | - | - | - | - | - | - | - | 1 | - | 1 |
| Total comprehensive income/(expense) for the period | | - | - | - | 1,543 | (9,932) | (1,561) | 3,586 | 2 | - | (26) | (6,388) |
| Dividends | 13 | - | - | - | (1,650) | - | - | - | - | - | (15) | (1,665) |
| Share buy-back | | - | - | - | (1,342) | - | - | - | - | - | - | (1,342) |
| Shares issued under share option scheme and agency share purchase plan | | 3 | - | - | - | - | - | - | - | - | - | 3 |
| Increase in non-controlling interests | | - | - | (7) | - | - | - | - | - | - | 7 | - |
| Acquisition of non-controlling interests | | - | - | - | - | - | - | - | - | - | (4) | (4) |
| Share-based compensation | | - | - | 36 | - | - | - | - | - | - | - | 36 |
| Purchase of shares held by employee share-based trusts | | - | (94) | - | - | - | - | - | - | - | - | (94) |
| Transfer of vested shares from employee share-based trusts | | - | 29 | (29) | - | - | - | - | - | - | - | - |
| Balance at 30 June 2022 – Unaudited and restated | | 14,163 | (290) | (11,841) | 47,548 | (3,291) | (2,629) | 1,691 | 1,219 | 37 | 446 | 47,053 |

Note:

(1) Where applicable, amounts are presented net of tax.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

| US\$m | Notes | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|--|-------|--|--|
| Cash flows from operating activities | | | |
| Profit before tax | | 2,621 | 1,797 |
| Adjustments for: | | | |
| Financial investments | | (8,625) | 26,524 |
| Insurance contracts | | 9,630 | (21,995) |
| Reinsurance contracts held | | (109) | (7) |
| Investment contracts | | (60) | (1,279) |
| Obligations under repurchase agreements | 22 | 318 | 620 |
| Other non-cash operating items, including investment income and the effect of exchange rate changes on certain operating items | | (3,980) | (4,352) |
| Operating cash items: | | | |
| Interest received | | 3,654 | 3,656 |
| Dividends received | | 753 | 566 |
| Interest paid | | (53) | (16) |
| Tax paid | | (364) | (376) |
| Net cash provided by operating activities | | 3,785 | 5,138 |
| Cash flows from investing activities | | | |
| Payments for intangible assets | 14 | (115) | (396) |
| Distribution or dividend from an associate | | 1 | 1 |
| Payments for increase in interest of joint ventures | | (11) | (4) |
| Proceeds from sales of investment property and property, plant and equipment | | – | 3 |
| Payments for investment property and property, plant and equipment | | (924) | (72) |
| Acquisition of subsidiaries, net of cash acquired | | (250) | – |
| Net cash used in investing activities | | (1,299) | (468) |
| Cash flows from financing activities | | | |
| Issuances of medium-term notes and securities | 21 | 594 | 824 |
| Redemption of medium-term notes | 21 | (500) | – |
| Proceeds from other borrowings | 21 | – | 225 |
| Repayment of other borrowings | 21 | – | (225) |
| Capital contributions from non-controlling interests | | 1 | – |
| Payments for lease liabilities ⁽¹⁾ | | (76) | (85) |
| Interest paid on medium-term notes and securities | | (186) | (160) |
| Dividends paid during the period | | (1,674) | (1,665) |
| Share buy-back | | (1,966) | (1,342) |
| Purchase of shares held by employee share-based trusts | | (105) | (94) |
| Shares issued under share option scheme and agency share purchase plan | | 4 | 3 |
| Net cash used in financing activities | | (3,908) | (2,519) |
| Net (decrease)/increase in cash and cash equivalents | | (1,422) | 2,151 |
| Cash and cash equivalents at beginning of the financial period | | 8,766 | 4,695 |
| Effect of exchange rate changes on cash and cash equivalents | | (95) | (184) |
| Cash and cash equivalents at end of the financial period | | 7,249 | 6,662 |

Note:

(1) The total cash outflow for leases for the six months ended 30 June 2023 was US\$78m (six months ended 30 June 2022: US\$88m).

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

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

| US\$m | Notes | As at 30 June 2023 (Unaudited) | As at 30 June 2022 (Unaudited) |
|---|--------|--------------------------------------|--------------------------------------|
| Cash and cash equivalents in the interim consolidated statement of financial position | 18, 30 | 7,391 | 6,878 |
| Bank overdrafts | | <u>(142)</u> | <u>(216)</u> |
| Cash and cash equivalents in the interim consolidated statement of cash flows | | <u>7,249</u> | <u>6,662</u> |

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 codes “1299” for HKD counter and “81299” for RMB counter with American Depositary Receipts (Level 1) traded on the over-the-counter market under the 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. 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. Material accounting policy information

2.1 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (HKAS) 34, Interim Financial Reporting and International Accounting Standard (IAS) 34, Interim Financial Reporting. International Financial Reporting Standards (IFRS) is substantially consistent with Hong Kong Financial Reporting Standards (HKFRS) and the accounting policy selections that the Group has made in preparing these interim condensed consolidated financial statements are such that the Group is able to comply with both HKFRS and IFRS. References to IFRS, IAS and Interpretations developed by the IFRS Interpretations Committee (IFRS IC) in these interim condensed consolidated financial statements should be read as referring to the equivalent HKFRS, 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 interim condensed consolidated financial statements. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2022.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss. The accounting policies adopted are consistent with those of the previous financial year, except as described as follows.

2. Material accounting policy information (continued)

2.1 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

(a) The following standards and amendment are effective for the financial year ending 31 December 2023:

- IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities.
- IFRS 17, Insurance Contracts, replaces IFRS 4, Insurance Contracts.
- Amendment to IAS 16, Property, Plant and Equipment, consequential to the adoption of IFRS 17.

Accounting policies and additional information on the qualitative and quantitative effects of the adoption of the new and revised accounting standards on the Group's interim condensed consolidated financial statements are provided in notes 2.3 to 2.5 and 31.

(b) The following relevant new amendments to standards have been adopted for the first time for the financial year ending 31 December 2023 and have no material impact to the Group:

- Amendments to IAS 8, Definition of Accounting Estimates;
- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction; and
- Amendments to IAS 12, International Tax Reform – Pillar Two Model Rules.

(c) The following relevant new amendments to standards have been issued but are not effective for the financial year ending 31 December 2023 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 amendments 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:

- Amendments to IAS 7 and IFRS 7, Supplier Finance Arrangements (2024).

2. Material accounting policy information (continued)

2.1 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

The preparation of an interim condensed consolidated financial statements in conformity with IAS 34 requires management to make judgement on estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses. Actual results may differ from these estimates. The interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The interim condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRS and IFRS.

The interim condensed consolidated financial statements are unaudited, but have been reviewed by PricewaterhouseCoopers in accordance with the Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers' independent review report to the Company's Board of Directors is included on page 54. The interim condensed consolidated financial statements have also been reviewed by the Company's Audit Committee.

The financial statements relating to the financial year ended 31 December 2022 that are included in the interim condensed consolidated financial statements as comparative information does not constitute the Group's statutory financial statements for that financial period but is derived from those financial statements and adjusted for the changes in accounting policy. The Group has delivered its statutory financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 March 2023. Their report did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

Items included in the interim condensed 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 interim condensed consolidated financial statements are presented in millions of US dollar (US\$m) unless otherwise stated, which is the Company's functional currency, and the presentation currency of the Company and the Group.

2. Material accounting policy information (continued)

2.2 OPERATING PROFIT

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

- Short-term investment and discount rate variances
 - Variances between expected and actual investment returns across relevant asset classes and the corresponding impact on the measurement of relevant insurance contract liabilities;
 - Variances between expected and actual discount rates impacting the measurement of fulfilment cash flows of relevant insurance and reinsurance contract assets and liabilities;
 - Other investment returns; and
- Other significant items that management considers to be non-operating income and expenses.

The impacts of non-operating items arising from investment assets as well as direct insurance contracts issued and reinsurance contracts held by the Group entities are presented under net investment result in the segment information note. 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. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD

Consistent accounting policies for the measurement and recognition of insurance, reinsurance and investment contracts have been adopted throughout the Group. The Group has elected an accounting policy where the estimates made in previous interim financial statements are not changed when applying IFRS 17 in subsequent interim periods or in the annual reporting period.

2.3.1 Insurance contracts, investment contracts with DPF and reinsurance contracts held classification

The Group classifies its contracts written as either insurance contracts or investment contracts, depending on the level of insurance risk. Contracts under which the Group transfers significant insurance risk are classified as insurance contracts, while those contracts which have the legal form of insurance contracts but do not transfer significant insurance risk are classified as financial liabilities and are referred to as investment contracts. Some insurance and investment contracts, referred to as traditional participating life business, have 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 and has a possibility of incurring a loss on a present value basis, the contract is considered as transferring significant insurance risk and is accounted for as an insurance contract. Contracts held by the Group under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance contracts held. Insurance contracts and reinsurance contracts held can also expose the Group to financial risk. For investment contracts that do not contain DPF, IFRS 9, Financial Instruments, and, if the contract includes an investment management element, IFRS 15, Revenue from Contracts with Customers, are applied. Once a contract has been classified as an insurance, reinsurance 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. Policyholders may be entitled to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are expected to be a significant portion of the total contractual benefits;
- the timing or amount of which are contractually at the discretion of the Group; and
- that are contractually based on:
 - the returns on 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 Group; or
 - the profit or loss of the Group, fund or other entity that issues the contract.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.1 Insurance contracts, investment contracts with DPF and reinsurance contracts held classification (continued)

In some jurisdictions traditional participating life 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. 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 assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The allocation of benefit from the assets held in such other participating business with distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time. The current policyholder participation ratio applied for recognition and measurement of the insurance contract liabilities for locations with participating funds and other participating business with distinct portfolios is set out below.

| Country | Current policyholder participation |
|--|---|
| Participating funds | |
| Mainland China | 70% |
| Singapore | 90% |
| Brunei | 80% |
| Malaysia | 90% |
| Australia | 80% |
| New Zealand | 80% |
| Vietnam | 70% – 80% |
| Other participating business with distinct portfolios | |
| Hong Kong | 70% – 90% |

In some jurisdictions participating business is not written in a distinct fund and the Group refers to this as other participating business without distinct portfolios.

Contracts with direct participation features are contracts for which, at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of underlying items.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.1 Insurance contracts, investment contracts with DPF and reinsurance contracts held 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 contracts | Investment contracts |
| Traditional participating life | <p>Participating funds and other participating business with distinct portfolios</p> <p>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</p> <p>For participating funds, local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends</p> <p>For other participating business with distinct portfolios, the allocation of benefit from the assets held in such distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time</p> | <p>Participating products where there is a distinct portfolio meet the definition of an insurance contract with direct participation features and is measured under an approach commonly referred to as the Variable Fee Approach (VFA) measurement model. The VFA modifies the general measurement model in IFRS 17 to reflect the nature of the income to the insurer is a variable fee</p> | <p>Investment contracts with DPF are accounted for in the same way as insurance contracts under IFRS 17</p> |
| | <p>Other participating business without distinct portfolios</p> <p>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</p> | <p>The general measurement model is applied to these insurance contracts</p> | <p>Investment contracts with DPF are accounted for in the same way as insurance contracts under IFRS 17</p> |
| Non-participating life, annuities and other protection products | <p>Benefits payable are not at the discretion of the insurer</p> | <p>The general measurement model is applied to these insurance contracts except for some insurance contracts where the permitted premium allocation approach (PAA) simplification (see note 2.3.7) is applied</p> | <p>Investment contract liabilities are measured at amortised cost</p> |
| Universal life | <p>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</p> | <p>The general measurement model is applied to these insurance contracts</p> | <p>Not applicable as such contracts generally contain significant insurance risk</p> |
| Unit-linked | <p>These may be primarily savings products or may combine savings with an element of protection</p> | <p>Unit-linked products that meet the definition of an insurance contract with direct participation features are measured under the VFA measurement model, otherwise they follow the IFRS 17 general measurement model</p> | <p>Investment contract liabilities under IFRS 9 are measured at fair value (determined with reference to the accumulation value)</p> |

The basis of accounting for insurance contracts and reinsurance contracts held is discussed in notes 2.3.2 to 2.3.11 below.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.2 Separating components from insurance contracts and reinsurance contracts held

At inception, the Group separates the following components from an insurance contract or a reinsurance contract held and accounts for them as if they were stand-alone financial instruments:

- derivatives embedded in the contract whose economic characteristics and risks are not closely related to those of the host contract, and whose terms would not meet the definition of an insurance contract or a reinsurance contract held as a stand-alone instrument; and
- distinct investment components – i.e. investment components that are not highly inter-related with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction.

After separating any financial instrument components, the Group separates any promises to transfer distinct goods or services other than insurance coverage and investment services and accounts for them as separate contracts with customers (i.e. not as insurance contracts). A good or service is distinct if the policyholder can benefit from it either on its own or with other resources that are readily available to the policyholder. A good or service is not distinct and is accounted for together with the insurance component if the cash flows and risks associated with the good or service are highly inter-related with the cash flows and risks associated with the insurance component, and the Group provides a significant service of integrating the good or service with the insurance component.

2.3.3 Level of aggregation and recognition of group of insurance contracts and reinsurance contracts held

Insurance contracts

Insurance contracts are aggregated into groups for measurement purposes. Groups of contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into semi-annual cohorts and each semi-annual cohort into three groups based on the profitability of contracts:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the portfolio.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.3 Level of aggregation and recognition of group of insurance contracts and reinsurance contracts held (continued)

Insurance contracts (continued)

An insurance contract issued by the Group is recognised from the earliest of:

- the beginning of its coverage period (i.e. the period during which the Group provides services in respect of any premiums within the boundary of the contract);
- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- when facts and circumstances indicate that the contract is onerous.

An insurance contract acquired in a transfer of contracts or a business combination is recognised on the date of acquisition.

When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

Reinsurance contracts held

Reinsurance contracts held by the Group cover underlying insurance contracts.

A group of reinsurance contracts held is recognised on the following dates:

- Reinsurance contracts held that provide proportionate coverage: Generally later of the beginning of the coverage period of the group of reinsurance contracts held, or the date on which any underlying insurance contract is initially recognised.
- Other reinsurance contracts held: The beginning of the coverage period of the group of reinsurance contracts held. However, if the Group recognises an onerous group of underlying insurance contracts on an earlier date and the related reinsurance contract held was entered into on or before that earlier date, then the group of reinsurance contracts held is recognised on that earlier date.
- Reinsurance contracts acquired: The date of acquisition.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.4 Fulfilment cash flows and contract boundaries

Fulfilment cash flows

Fulfilment cash flows comprise:

- estimates of future cash flows;
- an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows; and
- a risk adjustment for non-financial risk.

Further details of the related methodology and assumptions in respect of estimation of fulfilment cash flows are provided in note 19.

Contract boundaries

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group, determined as follows.

Insurance contracts

Cash flows are within the boundary of a contract if they arise from substantive rights and obligations that exist during the reporting period under which the Group can compel the policyholder to pay premiums or has a substantive obligation to provide insurance contract services.

A substantive obligation to provide insurance contract services ends when:

- the Group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Group has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio; and the pricing of the premiums for coverage up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.4 Fulfilment cash flows and contract boundaries (continued)

Contract boundaries (continued)

Reinsurance contracts held

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Group's substantive rights and obligations and, therefore, may change over time.

2.3.5 Insurance acquisition cash flows

Insurance acquisition cash flows are allocated to groups of contracts using a systematic and rational allocation method and considering, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort. At each reporting date, the Group revises the amounts allocated to groups to reflect any changes in assumptions that determine the inputs to the allocation method used. Amounts allocated to a group are not revised once all contracts have been added to the group.

Insurance acquisition cash flows arising before the recognition of the related groups of contracts are recognised as an asset. Such an asset is recognised for each group of contracts to which the insurance acquisition cash flows are allocated. The asset is derecognised, fully or partially, when the insurance acquisition cash flows are included in the measurement of the related groups of contracts.

When the Group acquires insurance contracts in a transfer of contracts or a business combination, at the date of acquisition it recognises an asset for insurance acquisition cash flows at the fair value for the rights to obtain:

- renewals of contracts recognised at the date of acquisition; and
- other future contracts after the date of acquisition without paying again insurance acquisition cash flows that the acquiree has already paid.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.5 Insurance acquisition cash flows (continued)

Recoverability assessment

At each reporting date, if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired, then the Group:

- recognises an impairment loss in profit or loss so that the carrying amount of the asset does not exceed the expected net cash inflow of the related group; and
- if the asset relates to future renewals, recognises an impairment loss in profit or loss to the extent that it expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals and this excess has not already been recognised as an impairment loss.

The Group recognises any reversal of impairment losses in profit or loss when the impairment conditions no longer exist or have improved.

2.3.6 Measurement – insurance contracts not measured under the PAA

2.3.6.1 Initial measurement

On initial recognition, the Group measures a group of contracts as the total of: (a) the fulfilment cash flows, which comprise estimates of future cash flows, an adjustment to reflect time value of money and associated financial risks, and a risk adjustment for non-financial risk; and (b) the contractual service margin (CSM).

The measurement of the fulfilment cash flows of a group of contracts does not reflect the Group's non-performance risk.

The risk adjustment for non-financial risk for a group of contracts, determined separately from the other estimates, is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

The CSM of a group of contracts represents the unearned profit that the Group will recognise as it provides services under those contracts. On initial recognition of a group of contracts, if the total of the fulfilment cash flows, any cash flows arising at that date and any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group (including assets for insurance acquisition cash flows) is a net inflow, then the group is not onerous. In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition.

If the total is a net outflow, then the group is onerous. In this case, the net outflow is recognised as a loss in profit or loss. A loss component is created to depict the amount of the net cash outflows, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous groups and are excluded from insurance revenue. In the case of a business combination, the net outflow is recognised as an adjustment to goodwill or a gain on a bargain purchase for contracts acquired.

For groups of contracts acquired in a transfer of contracts or a business combination, the consideration received for the contracts is included in the fulfilment cash flows as a proxy for the premiums received at the date of acquisition. In a business combination, the consideration received is the fair value of the contracts at that date.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.6 Measurement – insurance contracts not measured under the PAA (continued)

2.3.6.2 Subsequent measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage (LRC) and the liability for incurred claims (LIC). The LRC comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date. The LIC includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

The fulfilment cash flows of groups of contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognised as follows.

- Changes relating to future services are adjusted against the CSM (or recognised in the insurance service result in profit or loss if the group is onerous);
- Changes relating to current or past services are recognised in the insurance service result in profit or loss; and
- Effects of the time value of money, financial risk and changes therein on estimated future cash flows are recognised as insurance finance income or expenses for insurance contracts without direct participation features or adjusted against CSM for insurance contracts with direct participation features.

The CSM of each group of contracts is calculated at each reporting date as follows.

Insurance contracts without direct participation features

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted mainly for:

- the CSM of any new contracts that are added to the group in the period;
- interest accreted on the carrying amount of the CSM during the period, measured at the discount rates determined on initial recognition that are applied to nominal cash flows that do not vary based on the returns on underlying items;
- changes in fulfilment cash flows that relate to future services, except to the extent that:
 - any increases in the fulfilment cash flows exceed the carrying amount of the CSM, in which case the excess is recognised in insurance service expenses and recognised as a loss component in LRC; or
 - any decreases in the fulfilment cash flows adjust the loss component in the LRC and the corresponding amount is recognised in insurance service expenses. If the loss component is reduced to zero, the excess reinstates the CSM;

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.6 Measurement – insurance contracts not measured under the PAA (continued)

2.3.6.2 Subsequent measurement (continued)

Insurance contracts without direct participation features (continued)

- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue for service provided in the period.

Changes in fulfilment cash flows that relate to future services mainly comprise:

- experience adjustments arising from premiums received in the period that relate to future services and related cash flows, measured at the discount rates determined on initial recognition;
- changes in estimates of the present value of future cash flows in the LRC, measured at the discount rates determined on initial recognition, except for those that relate to the effects of the time value of money, financial risk and changes therein;
- differences between (a) any investment component expected to become payable in the period, determined as the payment expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable; and (b) the actual amount that becomes payable in the period;
- differences between (a) any loan to a policyholder expected to become repayable in the period, determined as the repayment expected at the start of the period plus any insurance finance income or expenses related to that expected repayment before it becomes repayable; and (b) the actual amount that becomes repayable in the period; and
- changes in the risk adjustment for non-financial risk that relate to future services.

To determine how to identify a change in discretionary cash flows, the basis is generally determined at inception of the contract. Changes in cash flows arising from the Group's discretion are regarded as relating to future services and accordingly adjust the CSM, these cash flows are determined based on the relevant contract terms, dividend and bonus philosophy.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.6 Measurement – insurance contracts not measured under the PAA (continued)

2.3.6.2 Subsequent measurement (continued)

Insurance contracts with direct participation features

Contracts with direct participation features are contracts under which the Group's obligation to the policyholder is the net of:

- the obligation to pay the policyholder an amount equal to the fair value of the underlying items; and
- a variable fee in exchange for future services provided by the contracts, being the amount of the Group's share of the fair value of the underlying items less fulfilment cash flows that do not vary based on the returns on underlying items. The Group provides investment services under these contracts by promising an investment return based on underlying items, in addition to insurance coverage.

When measuring a group of contracts with direct participation features, the Group adjusts the fulfilment cash flows for the changes in the obligation to pay policyholders an amount equal to the policyholder's share of the fair value of the underlying items. These changes do not relate to future services and are recognised in profit or loss.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted mainly for:

- the CSM of any new contracts that are added to the group in the period;
- the change in the amount of the Group's share of the fair value of the underlying items and changes in fulfilment cash flows that relate to future services, except to the extent that:
 - a decrease in the amount of the Group's share of the fair value of the underlying items, or an increase in the fulfilment cash flows that relate to future services, exceeds the carrying amount of the CSM. The excess is recognised in insurance service expenses and recognised as a loss component in LRC; or
 - an increase in the amount of the Group's share of the fair value of the underlying items, or a decrease in the fulfilment cash flows that relate to future service, which adjust the loss component in the LRC and the corresponding amount is recognised in insurance service expenses. If the loss component is reduced to zero, the excess reinstates the CSM.
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue for service provided in the period.

Changes in fulfilment cash flows not varying based on the return on underlying items that relate to future services include the changes relating to future services specified above for contracts without direct participation features (measured at current discount rates) and changes in the effect of the time value of money and financial risks that do not arise from underlying items – e.g. the effect of financial guarantees.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.7 Measurement – insurance contracts measured under the PAA

The Group generally uses the PAA to simplify the measurement of groups of contracts in the following circumstances:

- where the coverage period of each contract in the group of contracts is one year or less; or
- the Group reasonably expects that the resulting measurement of the LRC would not differ materially from the result of applying the accounting policies of contracts not measured under the PAA.

2.3.7.1 Initial measurement

On initial recognition of each group of contracts, the carrying amount of the LRC is measured as the premiums received on initial recognition minus any insurance acquisition cash flows allocated to the group at that date, and adjusted for amounts arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group. The Group has elected the accounting policy choice to defer insurance acquisition cash flows through the LRC.

2.3.7.2 Subsequent measurement

Subsequently, the carrying amount of the LRC is increased by (i) any premiums received; and (ii) any amortisation of the insurance acquisition cash flows, and decreased by (i) insurance acquisition cash flows paid; (ii) the amount recognised as insurance revenue for coverage provided; and (iii) any investment component paid or transferred to the LIC. On initial recognition of each group of contracts, the Group expects that the time gap between providing each part of the coverage and the related premium due date is not significant. Accordingly, the Group has chosen not to adjust the LRC to reflect the time value of money and the effect of financial risk.

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Group recognises a loss in profit or loss and increases the LRC to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage (including the risk adjustment for non-financial risk) exceed the carrying amount of the LRC as loss component. The fulfilment cash flows are adjusted for the time value of money and the effect of financial risk (using current estimates) if the LIC is also adjusted for the time value of money and the effect of financial risk. In subsequent periods, unless facts and circumstances indicate that the group of contracts is no longer onerous, the loss component is remeasured at each reporting date as the difference between the current estimates of the fulfilment cash flows that relate to remaining coverage (including the risk adjustment for non-financial risk) and the carrying amount of the LRC without loss component.

The Group recognises the LIC of a group of insurance contracts for the amount of the fulfilment cash flows relating to incurred claims. The fulfilment cash flows are discounted (at current rates) unless the cash flows are expected to be paid in one year or less from the date the claims are incurred.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.8 Reinsurance contracts held

For groups of reinsurance contracts held, the Group applies the same accounting policies as that applied to insurance contracts without direct participation features, with the following modifications.

The carrying amount of a group of reinsurance contracts held at each reporting date is the sum of the asset for remaining coverage and the asset for incurred claims. The asset for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be received under the contracts in future periods and (b) any remaining CSM at that date.

The Group measures the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the reinsurer. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognised in profit or loss.

The risk adjustment for non-financial risk is the amount of risk being transferred by the Group to the reinsurer.

On initial recognition, the CSM of a group of reinsurance contracts held represents a net cost or net gain on purchasing reinsurance. It is measured as the equal and opposite amount of the total of (a) the fulfilment cash flows, (b) the amount arising from assets or liabilities previously recognised for cash flows related to the group, before the group is recognised, (c) cash flows arising from the contracts in the group at that date and (d) any income recognised in profit or loss because of onerous underlying contracts recognised at that date. However, if any net cost on purchasing reinsurance coverage relates to insured events that occurred before the purchase of the reinsurance, then the Group recognises the cost immediately in profit or loss as an expense.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted for:

- the CSM of any new contracts that are added to the group in the period;
- interest accreted on the carrying amount of the CSM during the period, measured at the discount rates determined on initial recognition that are applied to nominal cash flows;
- income recognised in profit or loss in respect of a loss recognised for onerous underlying contracts. A loss-recovery component is established or adjusted in the asset for remaining coverage of reinsurance contracts held for the amount of income recognised;
- reversals of a loss-recovery component to the extent that they are not changes in the fulfilment cash flows of the group;

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.8 Reinsurance contracts held (continued)

- changes in fulfilment cash flows that relate to future services, measured at the discount rates determined on initial recognition, unless the changes result from changes in fulfilment cash flows of onerous underlying contracts, in which case they are recognised in profit or loss and create or adjust a loss-recovery component;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised in profit or loss for the services received in the period.

Reinsurance of onerous underlying insurance contracts

The Group adjusts the CSM of the group to which a reinsurance contract held belongs and as a result recognises income when it recognises a loss on initial recognition of onerous underlying contracts, if the reinsurance contract held is entered into before or at the same time as the onerous underlying contracts are recognised. The adjustment to the CSM is determined by multiplying:

- the amount of the loss that relates to the underlying contracts; and
- the percentage of claims on the underlying contracts that the Group expects to recover from the reinsurance contracts held.

For reinsurance contracts acquired in a transfer of contracts or a business combination covering onerous underlying contracts, the adjustment to the CSM is determined by multiplying:

- the amount of the loss that relates to the underlying contracts at the date of acquisition; and
- the percentage of claims on the underlying contracts that the Group expects at the date of acquisition to recover from the reinsurance contracts held.

For reinsurance contracts held which were acquired in a business combination, the adjustment to the CSM reduces goodwill or increases a gain on a bargain purchase.

If the reinsurance contract held covers only some of the insurance contracts included in an onerous group of contracts, then the Group uses a systematic and rational method to determine a portion of losses recognised on the onerous group of contracts containing the insurance contracts covered by the reinsurance contract held.

A loss-recovery component is established or adjusted in the asset for remaining coverage of reinsurance contracts held, which determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts held and are excluded from the allocation of reinsurance premiums paid.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.8 Reinsurance contracts held (continued)

Reinsurance contracts held measured under the PAA

The Group applies the same accounting principles to measure a group of insurance contracts or reinsurance contracts held under the PAA.

If a loss-recovery component is established for a group of reinsurance contracts held measured under the PAA, the Group adjusts the carrying amount of the asset.

2.3.9 Transition approaches

The Group adopts both the modified retrospective approach and the fair value approach when it is impracticable to use a full retrospective approach in determining transition amounts at the IFRS 17 transition date.

Contracts measured under the modified retrospective approach

The objective of this approach was to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. The Group applied each of the following modifications only to the extent that it did not have reasonable and supportable information to apply IFRS 17 retrospectively.

Contracts without direct participation features

For relevant groups of contracts without direct participation features,

- The future cash flows on initial recognition were estimated by adjusting the cash flows that were known to have occurred.
- The risk adjustment for non-financial risk on initial recognition was determined by adjusting the amount at 1 January 2022 for the expected release of risk before 1 January 2022. The expected release of risk was determined with reference to the release of risk for similar insurance contracts that the Group issued at 1 January 2022.
- When any of these modifications was used to determine the CSM (or the loss component) at initial recognition:
 - the amount of the CSM recognised in profit or loss before 1 January 2022 was determined by comparing the remaining coverage units at 1 January 2022 with the coverage units provided under the group of contracts before that date; and
 - the amount allocated to the loss component before 1 January 2022 determined using the proportion of the loss component relative to the total estimate of the present value of the future cash outflows and the risk adjustment for non-financial risk on initial recognition.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.9 Transition approaches (continued)

Contracts measured under the modified retrospective approach (continued)

Contracts with direct participation features

For relevant groups of contracts with direct participation features,

- The Group determined the CSM (or the loss component) at 1 January 2022 by calculating a proxy for the total CSM for all services to be provided under the group that equal to the fair value of the underlying items at 1 January 2022 minus the fulfilment cash flows at 1 January 2022, adjusted for:
 - amounts charged to policyholders (including charges deducted from the underlying items) before 1 January 2022;
 - amounts paid before 1 January 2022 that would not have varied based on the underlying items;
 - the change in the risk adjustment for non-financial risk caused by the release from risk before 1 January 2022, which was estimated based on an analysis of similar contracts that the Group issued at 1 January 2022; and
 - insurance acquisition cash flows arising before 1 January 2022 that were allocated to the group.
- If the calculation resulted in a CSM, then the Group measured the CSM at 1 January 2022 by deducting the CSM related to services provided before 1 January 2022. The CSM related to services provided before 1 January 2022 was determined by comparing the coverage units at 1 January 2022 with the coverage units provided under the group of contracts before that date.
- If the calculation resulted in a loss component, then the Group adjusted the loss component to zero and increased the LRC excluding the loss component by the same amount at 1 January 2022.
- The amount of insurance finance income or expenses accumulated in the insurance finance reserve at 1 January 2022 was determined to be equal to the cumulative amount recognised in the other comprehensive income on the underlying items as applicable.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.9 Transition approaches (continued)

Contracts measured under the modified retrospective approach (continued)

Reinsurance of onerous underlying contracts

For groups of reinsurance contracts held covering onerous underlying contracts that were entered into before or at the same time as the onerous underlying contracts, the Group established a loss-recovery component at 1 January 2022. For some groups of reinsurance contracts held measured under the modified retrospective approach, the Group determined the loss-recovery component by multiplying:

- the amount of the loss component that relates to the underlying contracts at 1 January 2022; and
- the percentage of claims on the underlying contracts that the Group expected to recover from the reinsurance contracts held.

For certain other groups of reinsurance contracts held, the Group did not identify a loss-recovery component because it did not have reasonable and supportable information to do so.

Insurance acquisition cash flows – Modified retrospective approach

Under the modified retrospective approach, the Group identified any insurance acquisition cash flows arising before 1 January 2022 that did not relate to contracts that had ceased to exist before that date. These cash flows were allocated, using the same systematic and rational method, to:

- groups of contracts recognised at 1 January 2022 (which adjusted the CSM of those groups); and
- groups of contracts expected to be recognised after 1 January 2022 (which were recognised as assets for insurance acquisition cash flows).

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.9 Transition approaches (continued)

Contracts measured under the fair value approach

For the groups of contracts that are measured under the fair value approach, the Group determined the CSM or loss component of the LRC at 1 January 2022 as the difference between the fair value of a group of contracts at that date and the fulfilment cash flows at that date.

The fair value of groups of contracts is primarily determined by using present value technique from the perspective of a market participant with considerations of the following:

- estimate of future cash flows that a market participant would expect to incur or receive in fulfilling the liabilities;
- time value of money, represented by the risk-free interest rate plus a spread based on the characteristic of the liabilities;
- premiums that a market participant would require for bearing uncertainty inherent in the cash flows in relation to non-financial risks and compensation that a market participant would require to assume the obligations;
- the non-performance risk relating to those liabilities; and
- other factors that a market participant would take into account in the circumstances.

To the extent possible, the Group maximised the use of relevant market data and information of market transactions in Asia. For the unobservable inputs, the Group used the best information available in the circumstances, which might include the Group's own data.

For all contracts measured under the fair value approach, the Group used reasonable and supportable information available at 1 January 2022 to determine:

- how to identify groups of contracts;
- whether a contract meets the definition of a contract with or without direct participation features, or investment contract with discretionary participation features; and
- how to identify discretionary cash flows for contracts without direct participation features.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.9 Transition approaches (continued)

Contracts measured under the fair value approach (continued)

For contracts acquired in a transfer of contracts or a business combination before 2022, the Group classified liabilities for settlement of claims as liabilities for incurred claims, even though the claims might have been incurred before the contracts were acquired.

For groups of contracts measured under the fair value approach,

- the discount rates on initial recognition were determined at 1 January 2022 instead of at the date of initial recognition.
- the amount of insurance finance income or expenses accumulated in the insurance finance reserve at 1 January 2022 was determined to be zero for contracts without direct participation features and to be equal to the cumulative amount recognised in the other comprehensive income on the underlying items for contracts with direct participation features as applicable.

For groups of reinsurance contracts held covering onerous underlying contracts, the Group established a loss-recovery component at 1 January 2022. The Group determined the loss-recovery component by multiplying:

- the amount of the loss component that relates to the underlying contracts at 1 January 2022; and
- the percentage of claims on the underlying contracts that the Group expected to recover from the reinsurance contracts held.

Insurance acquisition cash flows – Fair value approach

The Group measured an asset for insurance acquisition cash flows under the fair value approach at an amount equal to the insurance acquisition cash flows that it would incur at 1 January 2022 for the rights to obtain:

- recoveries of insurance acquisition cash flows from premiums of contracts issued before 1 January 2022 but not yet recognised at that date, and future contracts that are renewals of such contracts;
- future contracts that are renewals of contracts recognised at 1 January 2022; and
- other future contracts after 1 January 2022 without paying again insurance acquisition cash flows that the Group has already paid.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.10 Derecognition and contract modification

The Group derecognises a contract when it is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled.

The Group also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the Group treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

On the derecognition of a contract in a group of contracts not measured under the PAA:

- the fulfilment cash flows allocated to the group are adjusted to eliminate those that relate to the rights and obligations derecognised;
- the CSM of the group is adjusted for the change in the fulfilment cash flows that relate to future service, except where such changes are allocated to a loss component; and
- the number of coverage units for the expected remaining services is adjusted to reflect the coverage units derecognised from the group.

If a contract is derecognised because it is transferred to third party, then the CSM is also adjusted for the premium charged by the third party, unless the contract is onerous.

If a contract is derecognised because its terms are modified, then the CSM is also adjusted for the premium that would have been charged had the Group entered into a contract with the new contract's terms at the date of modification, less any additional premium charged for the modification. The new contract recognised is measured assuming that, at the date of modification, the issuer received the premium that it would have charged less any additional premium charged for the modification.

2.3.11 Presentation

Portfolios of insurance contracts and reinsurance contracts held in an asset position are presented separately from those in a liability position. Portfolios of insurance contracts issued are presented separately from portfolios of reinsurance contracts held. Any assets recognised for insurance acquisition cash flows arising before the recognition of the related group of insurance contracts are included in the carrying amount of the related portfolios of insurance contracts. Any assets or liabilities for cash flows arising before the recognition of the related group of reinsurance contracts held are included in the carrying amount of the related portfolios of reinsurance contracts held.

The Group disaggregates amounts recognised in the income statement and the statement of comprehensive income into (a) an insurance service result, comprising insurance revenue and insurance service expenses, and (b) insurance finance income or expenses.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.11 Presentation (continued)

Income and expenses from reinsurance contracts held are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance contracts held, other than insurance finance income or expenses, are presented on a net basis as “net expenses from reinsurance contracts held” in the insurance service result.

The Group does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

Insurance revenue and insurance service expenses exclude any investment components and are recognised as follows.

2.3.11.1 Insurance revenue – insurance contracts not measured under the PAA

The Group recognises insurance revenue as it satisfies its performance obligations – i.e. as it provides services under groups of contracts. For contracts not measured under the PAA, the insurance revenue relating to services provided for each period represents the total of the changes in the LRC that relate to services for which the Group expects to receive consideration, but excludes expected investment components and mainly comprises the following items:

- A release of the CSM, measured based on coverage units provided;
- Changes in the risk adjustment for non-financial risk relating to current services;
- Claims and other insurance service expenses incurred in the period, generally measured at the amounts expected at the beginning of the period; and
- Other amounts, including experience adjustments for premium receipts for current or past services and amounts related to incurred policyholder tax expenses.

For insurance acquisition cash flows recovery, the Group allocates a portion of premiums related to the recovery in a systematic way based on the passage of time over the expected coverage of a group of contracts. The allocated amount is recognised as insurance revenue with the same amount recognised as insurance service expenses.

2.3.11.2 Release of the CSM – insurance contracts not measured under the PAA

The amount of the CSM of a group of insurance contracts that is recognised as insurance revenue in each reporting period is determined by identifying the coverage units in the group, allocating the CSM remaining at the end of the reporting period (before any allocation) equally to each coverage unit provided in the current period and expected to be provided in future periods, and recognising in profit or loss the amount of the CSM allocated to coverage units provided in the current period. The number of coverage units is the quantity of services provided by the contracts in the group, determined considering for each contract the quantity of benefits provided and its expected coverage period.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.11 Presentation (continued)

2.3.11.3 Insurance revenue – insurance contracts measured under the PAA

For contracts measured under the PAA, the insurance revenue for each period is the amount of expected premium for providing services in the period. The Group allocates the expected premium to each period on the following bases:

- the passage of time; or
- the expected timing of incurred insurance service expenses, if the expected pattern of release of risk during the coverage period differs significantly from the passage of time.

2.3.11.4 Loss components – insurance contracts not measured under the PAA

For contracts not measured under the PAA, the Group establishes a loss component of the LRC for onerous groups of contracts. The loss component determines the amounts of fulfilment cash flows that are subsequently excluded from insurance revenue when they occur. When the fulfilment cash flows occur, they are allocated between the loss component and the LRC excluding the loss component on a systematic basis.

Changes in estimates of fulfilment cash flows relating to future services and changes in the Group's share of the fair value of underlying items are allocated solely to the loss component. If the loss component is reduced to zero, then any excess over the amount allocated to the loss component creates or reinstates the CSM for the group of contracts.

2.3.11.5 Insurance service expenses

Insurance service expenses arising from insurance contracts are recognised in profit or loss generally as they are incurred. They exclude repayments of investment components and mainly comprise the following items:

- Incurred claims and other insurance service expenses;
- Amortisation of insurance acquisition cash flows: for contracts not measured under the PAA, this is equal to the amount of insurance revenue recognised in the period that relates to recovering insurance acquisition cash flows. For contracts measured under the PAA, the Group amortises insurance acquisition cash flows on a straight-line basis over the coverage period of the group of contracts;
- Losses on onerous contracts and reversals of such losses; and
- Adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.11 Presentation (continued)

2.3.11.6 *Net expenses from reinsurance contracts held*

Net expenses from reinsurance contracts held mainly comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers.

The Group recognises an allocation of reinsurance premiums paid as reinsurance expenses within net expenses from reinsurance contracts held for the coverage or other services received by the Group under groups of reinsurance contracts held. For contracts not measured under the PAA, the allocation of reinsurance premiums paid relating to services received for each period represents the total of the changes in the asset for remaining coverage that relate to services for which the Group expects to pay consideration.

For contracts measured under the PAA, the allocation of reinsurance premiums paid for each period is the amount of expected premium payments for receiving services in the period.

For a group of reinsurance contracts held covering onerous underlying contracts, the Group establishes a loss-recovery component of the asset for remaining coverage to depict the recovery of losses recognised:

- on recognition of onerous underlying contracts, if the reinsurance contract held covering those contracts is entered into before or at the same time as those contracts are entered into; and
- for changes in fulfilment cash flows of the group of reinsurance contracts held relating to future services that result from changes in fulfilment cash flows of the onerous underlying contracts.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.11 Presentation (continued)

2.3.11.7 Insurance finance income or expenses

Insurance finance income or expenses comprise changes in the carrying amounts of groups of insurance contracts and reinsurance contracts held arising from the effects of the time value of money, financial risk and changes therein. This includes changes in the measurement of groups of contracts caused by changes in the value of underlying items (excluding additions and withdrawals).

For certain portfolios, the Group has chosen to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income. The amount included in profit or loss is determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts. The systematic allocation is determined as follows:

- Contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders: for insurance finance income or expenses arising from the estimates of future cash flows, using either a rate that allocates the remaining revised expected insurance finance income or expenses over the remaining duration of the group of contracts at a constant rate (i.e. the effective yield) or an allocation that is based on the amounts credited in the period and expected to be credited in future periods; and for insurance finance income or expenses arising from the CSM, the discount rates determined on initial recognition of the group of contracts. This selection of the rate applied is based on the characteristics of contracts.
- Contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to the policyholders: the discount rates determined on initial recognition of the group of contracts.

Amounts presented in other comprehensive income are accumulated in the insurance finance reserve. If the Group derecognises a contract without direct participation features as a result of a transfer to a third party or a contract modification, then any remaining amounts of accumulated other comprehensive income for the contract are reclassified to profit or loss.

The Group presents insurance finance income or expenses for all other contracts in profit or loss.

2. Material accounting policy information (continued)

2.4 FINANCIAL INSTRUMENTS

2.4.1 Classification and designation of financial instruments

On initial recognition, a financial asset is classified as measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition, unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified at the beginning of the reporting period during which the business model has changed.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt security is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity security that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. Material accounting policy information (continued)

2.4 FINANCIAL INSTRUMENTS (continued)

2.4.1 Classification and designation of financial instruments (continued)

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

Management designates financial assets and liabilities at fair value through profit or loss if this eliminates a measurement or recognition inconsistency or if the liabilities are actively managed on a fair value basis, including among others debt securities held in participating funds and other participating business with distinct portfolios.

Dividend income from equity instruments measured at fair value through profit or loss is recognised in other investment return in the consolidated income statement, generally when the security becomes ex-dividend. Interest revenue is recognised on an accrued basis. For all financial assets and liabilities measured at fair value through profit or loss, changes in fair value are recognised in profit or loss as part of net investment result.

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

Financial assets at fair value through other comprehensive income

These principally consist of the Group's debt securities (other than those backing participating funds, other participating business with distinct portfolios and unit-linked contracts). These financial assets are initially recognised at fair value plus attributable transaction costs and are subsequently measured at fair value. The difference between their cost and par value is amortised. Interest revenue is recognised in investment return in the consolidated income statement using the effective interest method.

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

Changes in the fair value of securities, except for impairment losses and relevant foreign exchange gains and losses, are recognised in other comprehensive income. Impairment losses and relevant foreign exchange gains and losses are recognised in the consolidated income statement.

2. Material accounting policy information (continued)

2.4 FINANCIAL INSTRUMENTS (continued)

2.4.1 Classification and designation of financial instruments (continued)

Realised gains and losses on financial assets

Realised gains and losses on financial assets measured at fair value through profit or loss excludes any interest revenue or dividend income.

Realised gains and losses on financial assets measured at fair value through other comprehensive income are determined as the difference between the sale proceeds and its original cost or amortised cost as appropriate. Amortised cost is determined by specific identification.

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, contract modification and offset

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 liabilities are generally derecognised when their contractual obligations expire or are discharged or cancelled. Notwithstanding, when, and only when, the Group repurchases its financial liability and includes it as underlying items of contracts with direct participation features or investment contracts with DPF, the Group may elect not to derecognise the financial liability. Instead, the Group may elect to continue to account for that instrument as a financial liability and to account for the repurchased instrument as if it were a financial asset and measure it at fair value through profit or loss. This election is irrevocable and is made on an instrument-by-instrument basis.

If the terms of a financial instrument are modified, then the Group evaluates whether the cash flows of the modified financial instrument are substantially different. If the cash flows are substantially different, in which case, a new financial instrument based on the modified terms is recognised at fair value. If a financial instrument measured at amortised cost is modified but not substantially, then it is not derecognised.

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.

2. Material accounting policy information (continued)

2.4 FINANCIAL INSTRUMENTS (continued)

2.4.1 Classification and designation of financial instruments (continued)

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 held for cash management purposes, which have maturities at acquisition of three months or less, or are convertible into known amounts of cash and subject to insignificant risk of changes in value. 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 that are not mandatorily measured at fair value through profit or loss are measured at amortised cost using the effective interest method.

Financial assets measured at amortised cost

Other than cash and cash equivalents, financial assets measured at amortised cost primarily include debt securities, loans and deposits, and receivables. These financial assets 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 revenue from debt securities measured at amortised cost is recognised in investment return in the consolidated income statement using the effective interest method.

2.4.2 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 fair value through other comprehensive income) 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 17.

2. Material accounting policy information (continued)

2.4 FINANCIAL INSTRUMENTS (continued)

2.4.3 Impairment of financial assets

The Group recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost and debt securities measured at fair value through other comprehensive income. Loss allowances are measured at an amount equal to lifetime ECL, except in the following cases, for which the amount recognised is 12-month ECL:

- financial assets that are determined to have low credit risk at reporting date; and
- financial assets (other than trade receivables or lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECL.

Lifetime ECL are the ECL that result from possible default events over the expected life of the financial instrument, whereas 12-month ECL are the portion of ECL that results from default events that are possible within the 12 months after the reporting date. In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

ECL are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive; and
- other financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

Loss allowances for ECL of financial assets measured at amortised cost are deducted from the gross carrying amount of the assets, and loss allowances for debt securities measured at fair value through other comprehensive income are recognised in other comprehensive income and do not reduce the carrying amount of the financial assets in the statement of financial position.

The gross carrying amount of financial assets is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

2. Material accounting policy information (continued)

2.4 FINANCIAL INSTRUMENTS (continued)

2.4.4 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. 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 other investment return.

Cash flow hedge

The Group has, in a limited number of cases, designated certain derivatives as hedges of interest rate risk associated with the cash flows of highly probable forecast transactions such as forecast purchases of debt securities. As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39. To the extent these hedges are effective, the change in fair value of the derivatives designated as hedging instruments is recognised in the cash flow hedge reserve in other comprehensive income within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss when the hedged item affects profit or loss. In respect of a forecast purchase of a debt security classified as fair value through other comprehensive income, the cash flows are expected to affect profit or loss when the coupons from the purchased bond are recognised, or on disposal of the security. The application of hedge accounting is discontinued when one of the following situations occurs: when a derivative designated as the hedging instrument expires or is sold, terminated or exercised prior to the occurrence of the forecast transaction, when the hedge is no longer highly effective or expected to be highly effective, or when the Group revokes the designation of the hedging relationship. In these situations, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. This amount is reclassified to profit or loss when the hedged item affects profit or loss. If the forecast transaction is no longer expected to occur, the entire amount is reclassified immediately to profit or loss.

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 that is not a financial asset within the scope of IFRS 9, 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 IFRS 9.

2. Material accounting policy information (continued)

2.5 PROPERTY, PLANT AND EQUIPMENT

Property held for own use, which is solely held as an underlying item of contracts with direct participation features, is measured initially at cost and subsequently at fair value, with any change therein recognised in profit or loss. Any gain or loss on disposal of property held for own use measured at fair value (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

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 insurance contracts (including investment contracts with DPF), fair value measurement and impairment of financial assets.

3.1 LEVEL OF AGGREGATION AND RECOGNITION OF GROUP OF INSURANCE CONTRACTS

For contracts issued to which the Group does not apply the premium allocation approach, the judgements exercised in determining whether contracts are onerous on initial recognition or those that have no significant possibility of becoming onerous subsequently are:

- based on the likelihood of changes in assumptions which, if they occurred, would result in the contracts becoming onerous; and
- using information about profitability estimation for the relevant group of products.

The accounting policy on level of aggregation and recognition of group of insurance contracts is described in note 2.3.3.

3.2 MEASUREMENT OF INSURANCE CONTRACTS NOT MEASURED UNDER THE PREMIUM ALLOCATION APPROACH

The asset or liability for groups of insurance contracts is measured as the total of fulfilment cash flows and CSM.

The fulfilment cash flows of insurance contracts (including investment contracts with DPF) represents the present value of estimated future cash outflows, less the present value of estimated future cash inflows and adjusted for a provision for the risk adjustment for non-financial risk. The assumptions used and the techniques for estimating fulfilment cash flows and risk adjustment for non-financial risk are based on actual experience by each geographical market and policy form. The Group exercises significant judgement in making appropriate assumptions and techniques.

3. Critical accounting estimates and judgements (continued)

3.2 MEASUREMENT OF INSURANCE CONTRACTS NOT MEASURED UNDER THE PREMIUM ALLOCATION APPROACH (continued)

CSM represents the unearned profits that the Group will recognise as it provides services under the insurance contracts in a group. The amounts of CSM recognised in profit or loss are determined by identifying the coverage units in the group, allocating the CSM at the end of period equally to each coverage unit provided in the current period and expected to be provided in the future. The number of coverage units in a group is the quantity of the services provided by the contracts in the group, determined by considering for each contract the quantity of the services provided under a contract and its expected coverage period. The Group exercises judgements in determining the quantity of the services provided under a contract which will affect the amounts recognised in the consolidated financial statements as insurance revenue from insurance contracts issued.

The judgements exercised in the valuation of insurance contracts (including investment contracts with DPF) affect the amounts recognised in the consolidated financial statements as assets or liabilities of insurance contracts and investment contracts with DPF. Further details of the related accounting policies in respect of insurance contracts are provided in note 2.3.

3.3 DETERMINATION OF COVERAGE UNIT

The CSM of a group of contracts is recognised as insurance revenue in each period based on the number of coverage units provided in the period, which is determined by considering for each contract the quantity of the services provided, its expected coverage period and time value of money.

The quantity of services provided by insurance contracts could include insurance coverage, investment-return service and investment-related service, as applicable. In assessing the services provided by insurance contracts, the terms and benefit features of the contracts are considered.

For contracts providing predominately insurance coverage, the quantity of services is determined for the contract as a whole based on the expected maximum benefits less investment component. For contracts providing multiple services, the quantity of services is determined based on the benefits provided to policyholder for each service with the relative weighting considered in the calculation through the use of factors. Relevant elements are considered in determining the quantity of service including among others, benefit payments and premiums. The Group applies judgement in these determinations.

Expected coverage period is derived based on the likelihood of an insured event occurring to the extent they affect the expected duration of contracts in the group. Determining the expected coverage period is judgemental since it involves making an expectation of when claims and lapse will occur.

3. Critical accounting estimates and judgements (continued)

3.4 TRANSITION TO IFRS 17

The Group applied IFRS 17 for annual reporting period beginning on 1 January 2023. The Group has determined that it was impracticable to apply the full retrospective approach for some groups of contracts because certain historical information was not available or was not available without undue cost or effort that would enable it to be used under this approach. Therefore, the Group applied the modified retrospective or fair value approaches for these groups of contracts. The Group exercises judgements in determining the transition approaches, applying the transition methods and measuring the transition impacts on the transition date, which will affect the amounts recognised in the consolidated financial statements on the transition date. Further details of the related accounting policies and information on the date of initial adoption are provided in notes 2.3.9 and 31.

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.

Further details of the fair value of financial assets and the sensitivity analysis to interest rates and equity prices are provided in notes 17 and 25.

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.

3. Critical accounting estimates and judgements (continued)

3.6 IMPAIRMENT OF FINANCIAL ASSETS

The Group recognises loss allowances for ECL on financial assets measured at amortised cost and debt securities measured at fair value through other comprehensive income. The measurement of ECL requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Details of the inputs, assumptions and estimation techniques used for estimating ECL are further explained in note 15.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk since initial recognition;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the methodology for incorporating forward-looking information into the measurement of ECL.

4. Exchange rates

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

| | US dollar exchange rates | | |
|----------------|---|-----------------------------------|---|
| | Six months ended 30 June 2023 (Unaudited) | Year ended 31 December 2022 | Six months ended 30 June 2022 (Unaudited) |
| Mainland China | 6.93 | 6.73 | 6.48 |
| Hong Kong | 7.84 | 7.83 | 7.83 |
| Thailand | 34.21 | 35.02 | 33.71 |
| Singapore | 1.34 | 1.38 | 1.36 |
| Malaysia | 4.46 | 4.40 | 4.27 |

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

| | US dollar exchange rates | | |
|----------------|---|------------------------------|---|
| | As at 30 June 2023 (Unaudited) | As at 31 December 2022 | As at 30 June 2022 (Unaudited) |
| Mainland China | 7.26 | 6.95 | 6.70 |
| Hong Kong | 7.84 | 7.80 | 7.85 |
| Thailand | 35.53 | 34.54 | 35.30 |
| Singapore | 1.36 | 1.34 | 1.39 |
| Malaysia | 4.67 | 4.41 | 4.41 |

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

5. Operating profit after tax

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

| US\$m | Note | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|--|------|---|---|
| Operating profit after tax | 7 | 3,279 | 3,363 |
| Non-operating items, net of related taxes: | | | |
| Short-term investment and discount rate variances ⁽¹⁾ | | (715) | (867) |
| Reclassification of revaluation gains for property held for own use ⁽¹⁾ | | (66) | (33) |
| Other significant non-operating income and expenses | | | |
| Corporate transaction related costs | | (12) | (28) |
| Implementation costs for new accounting standards | | (32) | (29) |
| Other non-operating investment return and other items | | (199) | (858) |
| Subtotal ⁽²⁾ | | <u>(1,024)</u> | <u>(1,815)</u> |
| Net profit | | <u>2,255</u> | <u>1,548</u> |
| <i>Operating profit after tax attributable to:</i> | | | |
| Shareholders of AIA Group Limited | | 3,272 | 3,352 |
| Non-controlling interests | | 7 | 11 |
| <i>Net profit attributable to:</i> | | | |
| Shareholders of AIA Group Limited | | 2,250 | 1,543 |
| Non-controlling interests | | 5 | 5 |

Notes:

- (1) Short-term investment and discount rate variances include revaluation gains for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.
- (2) The amount is net of tax of US\$250m (six months ended 30 June 2022: US\$235m). The gross amount before tax is US\$(1,274)m (six months ended 30 June 2022: US\$(2,050)m).

Operating profit after tax breakdown:

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|-------------------------------------|--|--|
| Insurance service result: | | |
| CSM recognised for service provided | 2,618 | 2,590 |
| Other insurance service result | 188 | 308 |
| Net investment result | 1,818 | 1,700 |
| Other net expenses | (729) | (751) |
| Operating profit before tax | 3,895 | 3,847 |
| Taxation | (616) | (484) |
| Operating profit after tax | <u>3,279</u> | <u>3,363</u> |

6. Total weighted premium income and annualised new premiums

For management decision-making and internal performance management purposes, the Group measures business volumes during the 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 7.

TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded.

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 insurance revenue and fee income recorded in the interim 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 | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited) |
|---|--|--|
| TWPI by geography | | |
| Mainland China | 4,992 | 4,509 |
| Hong Kong | 5,594 | 5,404 |
| Thailand | 2,051 | 1,989 |
| Singapore | 1,981 | 1,800 |
| Malaysia | 1,284 | 1,248 |
| Other Markets | 3,398 | 3,618 |
| Total | 19,300 | 18,568 |
| First year premiums by geography | | |
| Mainland China | 1,153 | 784 |
| Hong Kong | 1,086 | 324 |
| Thailand | 338 | 284 |
| Singapore | 190 | 166 |
| Malaysia | 191 | 190 |
| Other Markets | 364 | 444 |
| Total | 3,322 | 2,192 |

6. Total weighted premium income and annualised new premiums (continued)

| TWPI (continued) US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited) |
|--------------------------------------|--|--|
| Single premiums by geography | | |
| Mainland China | 109 | 156 |
| Hong Kong | 622 | 1,059 |
| Thailand | 63 | 135 |
| Singapore | 450 | 617 |
| Malaysia | 113 | 141 |
| Other Markets | 361 | 485 |
| Total | 1,718 | 2,593 |
| Renewal premiums by geography | | |
| Mainland China | 3,828 | 3,709 |
| Hong Kong | 4,446 | 4,974 |
| Thailand | 1,707 | 1,691 |
| Singapore | 1,746 | 1,572 |
| Malaysia | 1,082 | 1,044 |
| Other Markets | 2,997 | 3,127 |
| Total | 15,806 | 16,117 |
| ANP US\$m | | |
| | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited) |
| ANP by geography | | |
| Mainland China | 1,195 | 835 |
| Hong Kong | 1,165 | 443 |
| Thailand | 357 | 311 |
| Singapore | 267 | 244 |
| Malaysia | 261 | 239 |
| Other Markets | 739 | 706 |
| Total | 3,984 | 2,778 |

7. Segment information

The Group's operating segments, based on the reports received by the Group's chief operating decision-maker, considered to be the Executive Committee (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 Mainland China, Hong Kong (including Macau), Thailand, Singapore (including Brunei), Malaysia, Other Markets and Group Corporate Centre. Other Markets includes the Group's operations in Australia, Cambodia, India, Indonesia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka, Taiwan (China) and Vietnam. The activities of the Group Corporate Centre segment consist of the Group's corporate functions, shared services and eliminations of intra-group transactions.

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

- ANP;
- TWPI;
- insurance service result;
- net investment result;
- 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, insurance finance reserve and fair value reserve).

Business volumes in respect of the Group's five largest customers are less than 30 per cent of insurance revenue and net investment result in this note.

The Group recognises deferred tax liabilities in respect of unremitted earnings in jurisdictions where withholding tax charge would be incurred upon dividend distribution.

7. Segment information (continued)

| US\$m | Mainland | | Thailand | Singapore | Malaysia | Other Markets | Group Corporate Centre | Total |
|---|--------------|--------------|------------|--------------|------------|--------------------------|------------------------|------------------------|
| | China | Hong Kong | | | | | | |
| Six months ended 30 June 2023 – Unaudited | | | | | | | | |
| ANP | 1,195 | 1,165 | 357 | 267 | 261 | 739 | - | 3,984 |
| TWPI | 4,992 | 5,594 | 2,051 | 1,981 | 1,284 | 3,398 | - | 19,300 |
| Insurance revenue | 1,592 | 1,832 | 1,103 | 1,077 | 783 | 1,965 | - | 8,352 |
| Insurance service expenses | (603) | (1,095) | (647) | (788) | (611) | (1,600) | - | (5,344) |
| Net (expenses)/income from reinsurance contracts held | (1) | (60) | (20) | (41) | - | (82) | 2 | (202) |
| Insurance service result | 988 | 677 | 436 | 248 | 172 | 283 | 2 | 2,806 |
| Investment return | 930 | 3,421 | 535 | 1,598 | 437 | 922 | 381 | 8,224 |
| – Participating ⁽¹⁾ and unit-linked | 436 | 2,876 | 6 | 1,370 | 370 | 369 | (21) | 5,406 ⁽²⁾ |
| – Others | 494 | 545 | 529 | 228 | 67 | 553 | 402 | 2,818 |
| Net finance (expenses)/income from insurance contracts and reinsurance contracts held | (777) | (2,732) | (263) | (1,380) | (356) | (509) | 1 | (6,016) ⁽²⁾ |
| Movement in investment contract liabilities | (13) | (126) | (42) | (57) | - | (123) | - | (361) ⁽²⁾ |
| Movement in third-party interests in consolidated investment funds | - | (29) | - | - | - | - | - | (29) ⁽²⁾ |
| Net investment result | 140 | 534 | 230 | 161 | 81 | 290 | 382 | 1,818 |
| Fee income and other operating revenue | 3 | 124 | 11 | 12 | 9 | 51 | 2 | 212 |
| Other expenses | (86) | (161) | (68) | (56) | (27) | (158) | (171) | (727) |
| Other finance costs | (23) | (14) | - | (6) | (1) | (2) | (180) | (226) |
| Share of profit from associates and joint ventures | - | - | - | - | - | 11 | 1 | 12 |
| Operating profit before tax | 1,022 | 1,160 | 609 | 359 | 234 | 475 | 36 | 3,895 |
| Tax on operating profit before tax | (189) | (91) | (113) | (15) | (60) | (124) | (24) | (616) |
| Operating profit after tax | 833 | 1,069 | 496 | 344 | 174 | 351⁽³⁾ | 12 | 3,279 |
| <i>Operating profit after tax attributable to:</i> | | | | | | | | |
| Shareholders of AIA Group Limited | 833 | 1,066 | 496 | 344 | 170 | 346 | 17 | 3,272 |
| Non-controlling interests | - | 3 | - | - | 4 | 5 | (5) | 7 |

Key operating ratios:

| | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|---|-------|
| Expense ratio | 5.9% | 5.7% | 7.1% | 6.5% | 8.6% | 13.4% | - | 8.4% |
| Operating margin | 16.7% | 19.1% | 24.2% | 17.4% | 13.6% | 10.3% | - | 17.0% |
| Operating return on shareholders' allocated equity | 33.2% | 16.6% | 16.0% | 16.6% | 16.1% | 9.0% | - | 14.2% |

Operating profit before tax includes:

| | | | | | | | | |
|--------------------|-----|-----|-----|-----|-----|-----|-----|-------|
| Operating expenses | 295 | 321 | 146 | 129 | 111 | 454 | 161 | 1,617 |
| Finance costs | 25 | 15 | - | 7 | 1 | 2 | 180 | 230 |

Notes:

- (1) Participating refers to participating funds and other participating business with distinct portfolios.
- (2) Net finance (expenses)/income from insurance contracts and reinsurance contracts held includes changes in fair value of underlying items of contracts with direct participation features. Net finance (expenses)/income from insurance contracts and reinsurance contracts held, net of investment return relating to participating and unit-linked businesses, movement in investment contract liabilities and movement in third-party interests in consolidated investment funds amounted to US\$(1,000)m, primarily related to other insurance contracts without direct participation features.
- (3) Certain approximations have been made in the Operating profit after tax of the Other Markets segment which were immaterial.

7. Segment information (continued)

| US\$m | Mainland | | Thailand | Singapore | Malaysia | Other Markets | Group Corporate Centre | Total |
|---------------------------------|----------|-----------|----------|-----------|----------|------------------|------------------------------|---------|
| | China | Hong Kong | | | | | | |
| 30 June 2023 – Unaudited | | | | | | | | |
| Total assets | 41,293 | 99,662 | 25,494 | 40,939 | 13,716 | 38,248 | 16,561 | 275,913 |
| Total liabilities | 38,031 | 88,849 | 19,482 | 36,958 | 11,556 | 29,401 | 9,360 | 233,637 |
| Total equity | 3,262 | 10,813 | 6,012 | 3,981 | 2,160 | 8,847 | 7,201 | 42,276 |
| Shareholders' allocated equity | 5,090 | 12,537 | 6,188 | 3,920 | 2,070 | 7,752 | 7,514 | 45,071 |

Total assets include:

| | | | | | | | | |
|--|---|---|---|---|---|-----|-------|-------|
| Investments in associates and joint ventures | - | 1 | - | - | - | 800 | 1,159 | 1,960 |
|--|---|---|---|---|---|-----|-------|-------|

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

| US\$m | Segment information | Short-term investment and discount rate variances | Other non- operating items | Interim consolidated income statement | |
|--|------------------------|--|----------------------------------|--|--|
| Six months ended 30 June 2023 | | | | | |
| - Unaudited | | | | | |
| Insurance revenue | 8,352 | - | - | 8,352 | Insurance revenue |
| Insurance service expenses | (5,344) | - | - | (5,344) | Insurance service expenses |
| Net expenses from reinsurance contracts held | (202) | - | - | (202) | Net expenses from reinsurance contracts held |
| Insurance service result | 2,806 | - | - | 2,806 | Insurance service result |
| Investment return | 8,224 | (807) | (4) | 7,413 | Investment return |
| Net finance expenses from insurance contracts and reinsurance contracts held | (6,016) | (16) | (226) | (6,258) | Net finance expenses from insurance contracts and reinsurance contracts held |
| Movement in investment contract liabilities | (361) | (9) | - | (370) | Movement in investment contract liabilities |
| Movement in third-party interests in consolidated investment funds | (29) | - | - | (29) | Movement in third-party interests in consolidated investment funds |
| Net investment result | 1,818 | (832) | (230) | 756 | Net investment result |
| Fee income and other operating revenue | 212 | - | (9) | 203 | Fee income and other operating revenue |
| Other expenses | (727) | - | (88) | (815) | Other expenses |
| Other finance costs | (226) | - | (1) | (227) | Other finance costs |
| Share of profit from associates and joint ventures | 12 | - | (114) | (102) | Share of losses from associates and joint ventures |
| Operating profit before tax | 3,895 | (832) | (442) | 2,621 | Profit before tax |

7. Segment information (continued)

| US\$m | Mainland China | Hong Kong | Thailand | Singapore | Malaysia | Other Markets | Group Corporate Centre | Total |
|--|-------------------|--------------|------------|------------|-------------|------------------|------------------------------|-------------------------|
| Six months ended 30 June 2022 – Unaudited and restated | | | | | | | | |
| ANP | 835 | 443 | 311 | 244 | 239 | 706 | – | 2,778 |
| TWPI | 4,509 | 5,404 | 1,989 | 1,800 | 1,248 | 3,618 | – | 18,568 |
| Insurance revenue | 1,569 | 1,707 | 1,002 | 939 | 767 | 2,258 | – | 8,242 |
| Insurance service expenses | (543) | (911) | (593) | (652) | (510) | (1,794) | – | (5,003) |
| Net income/(expenses) from reinsurance contracts held | 7 | (42) | (21) | (49) | (14) | (226) | 4 | (341) |
| Insurance service result | 1,033 | 754 | 388 | 238 | 243 | 238 | 4 | 2,898 |
| Investment return | 401 | (23,383) | 352 | (3,284) | (306) | (521) | 427 | (26,314) |
| – Participating ⁽¹⁾ and unit-linked | (9) | (23,922) | (181) | (3,499) | (370) | (1,011) | 5 | (28,987) ⁽²⁾ |
| – Others | 410 | 539 | 533 | 215 | 64 | 490 | 422 | 2,673 |
| Net finance (expenses)/income from insurance contracts and reinsurance contracts held | (299) | 23,194 | (64) | 3,250 | 286 | 538 | (12) | 26,893 ⁽²⁾ |
| Movement in investment contract liabilities | (8) | 701 | (44) | 210 | – | 233 | – | 1,092 ⁽²⁾ |
| Movement in third-party interests in consolidated investment funds | – | 29 | – | – | – | – | – | 29 ⁽²⁾ |
| Net investment result | 94 | 541 | 244 | 176 | (20) | 250 | 415 | 1,700 |
| Fee income and other operating revenue | – | 120 | 10 | 14 | 7 | 49 | (4) | 196 |
| Other expenses | (90) | (138) | (30) | (68) | (34) | (154) | (142) | (656) |
| Other finance costs | (6) | (13) | – | (2) | (2) | (3) | (150) | (176) |
| Share of profit/(losses) from associates and joint ventures | – | – | – | – | – | 2 | (117) | (115) |
| Operating profit before tax | 1,031 | 1,264 | 612 | 358 | 194 | 382 | 6 | 3,847 |
| Tax on operating profit before tax | (191) | (126) | (114) | (21) | (3) | (4) | (25) | (484) |
| Operating profit/(loss) after tax | 840 | 1,138 | 498 | 337 | 191 | 378 | (19) | 3,363 |
| <i>Operating profit/(loss) after tax attributable to:</i> | | | | | | | | |
| Shareholders of AIA Group Limited | 840 | 1,134 | 498 | 337 | 188 | 374 | (19) | 3,352 |
| Non-controlling interests | – | 4 | – | – | 3 | 4 | – | 11 |

Key operating ratios:

| | | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|---|-------|
| Expense ratio | 5.9% | 4.9% | 6.6% | 6.7% | 8.7% | 15.0% | – | 8.4% |
| Operating margin | 18.6% | 21.1% | 25.0% | 18.7% | 15.3% | 10.4% | – | 18.1% |
| Operating return on shareholders' allocated equity ⁽³⁾ | 35.8% | 16.3% | 17.7% | 16.8% | 18.9% | 9.1% | – | 13.5% |

Operating profit before tax includes:

| | | | | | | | | |
|--------------------|-----|-----|-----|-----|-----|-----|-----|-------|
| Operating expenses | 267 | 266 | 132 | 120 | 109 | 541 | 129 | 1,564 |
| Finance costs | 8 | 15 | – | 2 | 1 | 3 | 151 | 180 |

Notes:

- (1) Participating refers to participating funds and other participating business with distinct portfolios.
- (2) Net finance (expenses)/income from insurance contracts and reinsurance contracts held includes changes in fair value of underlying items of contracts with direct participation features. Net finance (expenses)/income from insurance contracts and reinsurance contracts held, net of investment return relating to participating and unit-linked businesses, movement in investment contract liabilities and movement in third-party interests in consolidated investment funds amounted to US\$(973)m, primarily related to other insurance contracts without direct participation features.
- (3) The operating return on shareholders' allocated equity is measured as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a percentage of the simple average of the opening and closing shareholders' allocated equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interest, insurance finance reserve and fair value reserve). The calculation uses a refined approach for expected half-year capital movements. Under the previously used approach, the return was 13.1% for the six months ended 30 June 2022 (Mainland China: 32.9%, Hong Kong: 15.7%, Thailand: 16.9%, Singapore: 16.2%, Malaysia: 18.0% and Other Markets: 8.9%).

7. Segment information (continued)

| US\$m | | | | | | Group | | Total |
|---------------------------------------|-------------------|-----------|----------|-----------|----------|------------------|---------------------|---------|
| | Mainland China | Hong Kong | Thailand | Singapore | Malaysia | Other Markets | Corporate Centre | |
| 31 December 2022 – Restated | | | | | | | | |
| Total assets | 38,675 | 96,131 | 25,746 | 39,245 | 14,131 | 37,809 | 18,734 | 270,471 |
| Total liabilities | 34,498 | 84,877 | 19,446 | 34,969 | 11,887 | 29,321 | 10,325 | 225,323 |
| Total equity | 4,177 | 11,254 | 6,300 | 4,276 | 2,244 | 8,488 | 8,409 | 45,148 |
| Shareholders' allocated equity | 4,956 | 13,128 | 6,210 | 4,345 | 2,160 | 7,635 | 8,737 | 47,171 |

Total assets include:

| | | | | | | | | |
|--|---|---|---|---|---|-----|-------|-------|
| Investments in associates and joint ventures | - | 1 | - | - | - | 793 | 1,262 | 2,056 |
|--|---|---|---|---|---|-----|-------|-------|

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

| US\$m | Segment information | Short-term investment and discount rate variances | Other non- operating items | Interim consolidated income statement | |
|--|------------------------|--|----------------------------------|--|--|
| Six months ended 30 June 2022 – Unaudited and restated | | | | | |
| Insurance revenue | 8,242 | - | - | 8,242 | Insurance revenue |
| Insurance service expenses | (5,003) | - | - | (5,003) | Insurance service expenses |
| Net expenses from reinsurance contracts held | (341) | - | - | (341) | Net expenses from reinsurance contracts held |
| Insurance service result | 2,898 | - | - | 2,898 | Insurance service result |
| Investment return | (26,314) | (1,141) | (581) | (28,036) | Investment return |
| Net finance income from insurance contracts and reinsurance contracts held | 26,893 | 30 | (348) | 26,575 | Net finance income from insurance contracts and reinsurance contracts held |
| Movement in investment contract liabilities | 1,092 | 110 | - | 1,202 | Movement in investment contract liabilities |
| Movement in third-party interests in consolidated investment funds | 29 | - | - | 29 | Movement in third-party interests in consolidated investment funds |
| Net investment result | 1,700 | (1,001) | (929) | (230) | Net investment result |
| Fee income and other operating revenue | 196 | - | (2) | 194 | Fee income and other operating revenue |
| Other expenses | (656) | - | (114) | (770) | Other expenses |
| Other finance costs | (176) | - | (4) | (180) | Other finance costs |
| Share of losses from associates and joint ventures | (115) | - | - | (115) | Share of losses from associates and joint ventures |
| Operating profit before tax | 3,847 | (1,001) | (1,049) | 1,797 | Profit before tax |

8. Insurance revenue

| US\$m | Note | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|---|------|--|--|
| Contracts not measured under the PAA | | | |
| Amounts related to changes in liabilities for remaining coverage | | | |
| Contractual service margin recognised for services provided | 19 | 2,729 | 2,708 |
| Change in risk adjustment for non-financial risk for risk expired | | 110 | 163 |
| Expected incurred claims and other insurance service expenses | | 3,975 | 4,141 |
| Others | | 40 | 35 |
| Recovery of insurance acquisition cash flows | | 448 | 334 |
| | 19 | <u>7,302</u> | <u>7,381</u> |
| Contracts measured under the PAA | 19 | <u>1,050</u> | <u>861</u> |
| Total insurance revenue | | <u><u>8,352</u></u> | <u><u>8,242</u></u> |

9. Net investment result

A. Group's net investment result in interim consolidated income statement and other comprehensive income

| US\$m | Note | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|---|------|--|--|
| Investment return | | | |
| Interest revenue on financial assets | | 3,852 | 3,571 |
| Other investment return | | 3,608 | (31,479) |
| Net impairment loss on financial assets | | (47) | (128) |
| Amounts recognised in interim consolidated income statement | | <u>7,413</u> | <u>(28,036)</u> |
| Amounts recognised in other comprehensive income ⁽¹⁾ | | <u>2,585</u> | <u>(11,680)</u> |
| Total investment return⁽¹⁾ | | <u>9,998</u> | <u>(39,716)</u> |
| Net finance income/(expenses) from insurance contracts | | | |
| Changes in fair value of underlying items of contracts with direct participation features | | (4,903) | 28,048 |
| Interest accreted | | (1,349) | (1,287) |
| Effect of changes in interest rates and other financial assumptions | | (3,902) | 5,047 |
| Effect of measuring changes in estimates at current rates and adjusting the CSM at the rates on initial recognition | | (121) | (14) |
| Net foreign exchange losses | | (18) | (471) |
| Total net finance (expenses)/income from insurance contracts | 19 | <u>(10,293)</u> | <u>31,323</u> |
| Net finance income/(expenses) from reinsurance contracts held | | | |
| Interest accreted | | 45 | 9 |
| Effect of changes in interest rates and other financial assumptions | | 210 | (19) |
| Effect of measuring changes in estimates at current rates and adjusting the CSM at the rates on initial recognition | | 9 | (2) |
| Net foreign exchange losses | | (5) | (43) |
| Total net finance income/(expenses) from reinsurance contracts held | 19 | <u>259</u> | <u>(55)</u> |
| Movement in investment contract liabilities | | (370) | 1,202 |
| Movement in third-party interests in consolidated investment funds | | (29) | 29 |
| Net investment result⁽¹⁾ | | <u>(435)</u> | <u>(7,217)</u> |
| Net investment result is represented by: | | | |
| Amounts recognised in interim consolidated income statement | | 756 | (230) |
| Amounts recognised in other comprehensive income ⁽¹⁾ | | (1,191) | (6,987) |
| Total net investment result⁽¹⁾ | | <u>(435)</u> | <u>(7,217)</u> |

9. Net investment result (continued)

A. Group's net investment result in interim consolidated income statement and other comprehensive income (continued)

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|--|--|--|
| Net finance income/(expenses) from insurance contracts are represented by: | | |
| Amounts recognised in interim consolidated income statement | (6,313) | 26,569 |
| Amounts recognised in other comprehensive income | <u>(3,980)</u> | <u>4,754</u> |
| Total net finance (expenses)/income from insurance contracts | <u>(10,293)</u> | <u>31,323</u> |
| Net finance income/(expenses) from reinsurance contracts held are represented by: | | |
| Amounts recognised in interim consolidated income statement | 55 | 6 |
| Amounts recognised in other comprehensive income | <u>204</u> | <u>(61)</u> |
| Total net finance income/(expenses) from reinsurance contracts held | <u>259</u> | <u>(55)</u> |

Note:

(1) The Net investment result note is presented gross of tax, gross of non-controlling interests and excluding share of returns from associates and joint ventures. The equivalent amounts for the six months ended 30 June 2022 including amounts recognised in other comprehensive income related to tax, non-controlling interests and share of returns from associates and joint ventures were as follows:

- Investment return – Amounts recognised in other comprehensive income: US\$(9,930)m;
- Total investment return: US\$(37,966)m;
- Net investment result: US\$(5,467)m;
- Net investment result – Amounts recognised in other comprehensive income: US\$(5,237)m; and
- Total net investment result: US\$(5,467)m.

9. Net investment result (continued)

B. Interest revenue on financial assets and other investment return

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|---|--|--|
| Interest revenue on financial assets | | |
| Financial assets measured at amortised cost | 263 | 138 |
| Financial assets measured at fair value through other comprehensive income | 1,760 | 1,766 |
| Financial assets designated at fair value through profit or loss | 1,669 | 1,526 |
| Financial assets measured mandatorily at fair value through profit or loss | 160 | 141 |
| Total interest revenue on financial assets | 3,852 | 3,571 |
| Other investment return | | |
| Dividend income | 740 | 651 |
| Rental income ⁽¹⁾ | 77 | 84 |
| Net gains/(losses) of financial assets not at fair value through profit or loss | | |
| Net realised losses of debt securities measured at fair value through other comprehensive income | (125) | (100) |
| At fair value through profit or loss | | |
| Net gains/(losses) of financial assets designated at fair value through profit or loss | | |
| Net gains/(losses) of debt securities | 1,341 | (16,122) |
| Net losses of loans and deposits | (6) | (23) |
| Net gains/(losses) of financial instruments mandatorily at fair value through profit or loss | | |
| Net gains/(losses) of debt securities | 81 | (685) |
| Net gains/(losses) of equity shares, interests in investment funds and exchangeable loan notes | 938 | (8,875) |
| Net fair value movement on derivatives | 249 | (6,952) |
| Net gains/(losses) in respect of financial instruments at fair value through profit or loss | | |
| | 2,603 | (32,657) |
| Net fair value movement of investment property and property held for own use | (57) | 9 |
| Net foreign exchange gains | 310 | 526 |
| Other net realised gains | 60 | 8 |
| Net gains/(losses) | 2,791 | (32,214) |
| Total other investment return | 3,608 | (31,479) |

Note:

(1) Represents rental income from operating lease contracts in which the Group acts as a lessor.

9. Net investment result (continued)

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

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|------------------------|--|--|
| Foreign exchange gains | 58 | 68 |

On transition to IFRS 17, for certain groups of contracts that the Group applies the modified retrospective approach or the fair value approach, the cumulative insurance finance income or expenses recognised in other comprehensive income at 1 January 2022 was determined:

- to be zero; or
- retrospectively based on observable yield curve.

For those groups of contracts, the movement in the fair value reserve for the debt securities at fair value through other comprehensive income was as follows.

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|---|--|--|
| Balance at 1 January | (3,346) | 6,133 |
| Net change in fair value and others | 1,456 | (9,238) |
| Net amount reclassified to profit or loss | 320 | 314 |
| Balance at 30 June | (1,570) | (2,791) |

10. Expenses

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|--|--|--|
| Claims and benefits | 4,106 | 3,734 |
| Commission and other acquisition expenses incurred | 3,081 | 2,632 |
| Losses on onerous insurance contracts | 30 | 66 |
| Employee benefit expenses ⁽³⁾ | 1,046 | 988 |
| Depreciation ⁽³⁾ | 111 | 130 |
| Amortisation ⁽³⁾ | 66 | 53 |
| Investment management expenses and others | 258 | 262 |
| Depreciation on property held for own use | 16 | 10 |
| Finance costs | 232 | 183 |
| Other operating expenses ⁽³⁾ | 394 | 393 |
| Restructuring and other non-operating costs ⁽¹⁾ | 69 | 102 |
| | <u>9,409</u> | <u>8,553</u> |
| Amounts attributed to insurance acquisition cash flows | (3,622) | (3,041) |
| Amortisation of insurance acquisition cash flows | 602 | 444 |
| Insurance service and other expenses | <u>6,389</u> | <u>5,956</u> |

Insurance service and other expenses represented by:

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|---|--|--|
| Insurance service expenses | 5,344 | 5,003 |
| – Contracts not measured under the PAA | 4,394 | 4,259 |
| – Contracts measured under the PAA | 950 | 744 |
| Other incurred expenses directly attributable to reinsurance contracts held | 3 | 3 |
| Other expenses ⁽²⁾ | 815 | 770 |
| Other finance costs | 227 | 180 |
| Total | <u>6,389</u> | <u>5,956</u> |

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, implementation costs for new accounting standards and other items that are not expected to be recurring in nature.
- (2) Other expenses represent general expenses and investment management expenses that are not directly attributable to insurance contracts and reinsurance contracts held.
- (3) Operating expenses comprise employee benefit expenses, depreciation, amortisation and other operating expenses.

10. Expenses (continued)

Finance costs may be analysed as:

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited) |
|----------------------------------|--|--|
| Repurchase agreements | 27 | 5 |
| Medium-term notes and securities | 196 | 165 |
| Other loans | 3 | 6 |
| Lease liabilities | 6 | 7 |
| Total | 232 | 183 |

Employee benefit expenses consist of:

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited) |
|--|--|--|
| Wages and salaries | 867 | 814 |
| Share-based compensation | 27 | 31 |
| Pension costs – defined contribution plans | 68 | 64 |
| Pension costs – defined benefit plans | 5 | 6 |
| Other employee benefit expenses | 79 | 73 |
| Total | 1,046 | 988 |

11. Income tax

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|---|--|--|
| Tax charged in the interim consolidated income statement | | |
| Current income tax – Hong Kong Profits Tax | 75 | 83 |
| Current income tax – overseas | 183 | 499 |
| Deferred income tax on temporary differences | 108 | (333) |
| Total | 366 | 249 |

Income tax expense is recognised based on the management's best estimate of the weighted average annual income tax rate expected for the full financial year.

In 2022, changes in the corporate income tax rates have been enacted in Myanmar, Sri Lanka and South Korea. For Myanmar, the corporate income tax rate changed from 25 per cent to 22 per cent effective from 1 October 2021. For Sri Lanka, the corporate income tax rate changed from 24 per cent to 30 per cent effective from 1 October 2022. For South Korea, the corporate income tax rate has changed to 23.1 per cent effective from 1 January 2023.

11. Income tax (continued)

AIA continues to closely monitor developments in respect of the tax policy work led by the Organisation for Economic Co-operation and Development (OECD) on the “Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy”, a phase of the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project that is commonly referred to as “BEPS 2.0”, and constructively engages with relevant governments and the OECD on their work.

In 2021, the OECD/G20 Inclusive Framework on BEPS (Inclusive Framework) published draft model rules to give effect to the Global Anti-Base Erosion Rules (GloBE) component of Pillar Two of BEPS 2.0, which imposes a global minimum effective tax rate on large multinational enterprises in respect of each jurisdiction in which they operate. The Inclusive Framework originally agreed that participating jurisdictions should enact these rules into law in 2022, with the majority of the rules to be effective from 2023.

However, due to the deferral of the application of the GloBE rules and the related introduction of domestic minimum top-up taxes by relevant AIA jurisdictions, based on currently available information, the GloBE rules will apply in certain jurisdictions in which AIA operates from 2024 onwards, and will be more widely adopted in 2025.

As an exception to the requirements of IAS 12 Income Taxes, entities shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. AIA has applied this exception, and has not yet assessed the deferred tax impact of Pillar Two income taxes. AIA will continue to monitor the Pillar Two requirements and will assess the accounting implications accordingly.

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 outstanding during the period. The shares held by employee share-based trusts and shares that have been repurchased are not considered to be outstanding from the date of the purchase for the purposes of computing basic and diluted earnings per share.

| | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|---|--|--|
| Net profit attributable to shareholders of AIA Group Limited (US\$m) | 2,250 | 1,543 |
| Weighted average number of ordinary shares outstanding (million) | 11,605 | 12,028 ⁽¹⁾ |
| Basic earnings per share (US cents) | <u>19.39</u> | <u>12.83</u> |

Note:

- (1) For the six months ended 30 June 2022, the weighted average number of ordinary shares in issue was 12,043 million, as previously disclosed in the interim condensed consolidated financial statements in the Company's Interim Report 2022.

12. Earnings per share (continued)

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. The dilutive instruments are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 26.

| | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|--|--|--|
| Net profit attributable to shareholders of AIA Group Limited (US\$m) | 2,250 | 1,543 |
| Weighted average number of ordinary shares outstanding (million) | 11,605 | 12,028 ⁽¹⁾ |
| Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted under share-based compensation plans (million) | 10 | 13 |
| Weighted average number of ordinary shares for diluted earnings per share (million) | 11,615 | 12,041 |
| Diluted earnings per share (US cents) | 19.37 | 12.81 |

At 30 June 2023, 5,986,709 share options (30 June 2022: 4,359,249) were excluded from the diluted weighted average number of ordinary shares calculation as they have no effect to the diluted earnings per share.

Note:

- (1) For the six months ended 30 June 2022, the weighted average number of ordinary shares in issue was 12,043 million, as previously disclosed in the interim condensed consolidated financial statements in the Company's Interim Report 2022.

OPERATING PROFIT AFTER TAX PER SHARE

Operating profit after tax (see note 5) per share is calculated by dividing the operating profit after tax attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares outstanding during the period. The dilutive instruments are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 26.

| | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited and restated) |
|---|--|--|
| Basic operating profit after tax per share (US cents) | 28.19 | 27.87 |
| Diluted operating profit after tax per share (US cents) | 28.17 | 27.84 |

13. Dividends

Dividends to shareholders of the Company attributable to the interim period:

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited) |
|---|--|--|
| Interim dividend declared after the reporting date of 42.29 Hong Kong cents per share (six months ended 30 June 2022: 40.28 Hong Kong cents per share) ⁽¹⁾ | 623 | 615 |

Note:

(1) Based upon shares outstanding at 30 June 2023 and 30 June 2022 that are entitled to a dividend, other than those held by employee share-based trusts.

The above interim dividend was declared after the reporting date and has not been recognised as a liability at the reporting date.

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

| US\$m | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited) |
|---|--|--|
| Final dividend in respect of the previous financial period, approved and paid during the interim period of 113.40 Hong Kong cents per share (six months ended 30 June 2022: 108.00 Hong Kong cents per share) | 1,672 | 1,650 |

14. Intangible assets

| US\$m | Goodwill | Computer software | Distribution and other rights | Total |
|--|---------------------|----------------------|-------------------------------------|-----------------------|
| Cost | | | | |
| At 1 January 2023 | 1,956 | 1,222 | 1,144 | 4,322 |
| Additions | – | 121 | – | 121 |
| Acquisition of subsidiaries | 268 | – | – | 268 |
| Disposals | – | (34) | – | (34) |
| Foreign exchange movements | (55) | (28) | (5) | (88) |
| At 30 June 2023 – Unaudited | <u>2,169</u> | <u>1,281</u> | <u>1,139</u> | <u>4,589</u> |
| Accumulated amortisation and impairment | | | | |
| At 1 January 2023 | (180) | (652) | (213) | (1,045) |
| Amortisation charge for the period | – | (66) | (24) | (90) |
| Disposals | – | 4 | – | 4 |
| Impairment loss | – | – | – | – |
| Foreign exchange movements | 1 | 17 | 2 | 20 |
| At 30 June 2023 – Unaudited | <u>(179)</u> | <u>(697)</u> | <u>(235)</u> | <u>(1,111)</u> |
| Net book value | | | | |
| At 31 December 2022 | 1,776 | 570 | 931 | 3,277 |
| At 30 June 2023 – Unaudited | 1,990 | 584 | 904 | 3,478 |

The Group holds other intangible assets for its long-term use and, accordingly, the annual amortisation charge approximates to the amount expected to be recovered through consumption within 12 months after the end of the reporting period.

15. Financial investments

DEBT SECURITIES

Debt securities by type comprise the following:

| US\$m | Policyholder and shareholder | | | | Subtotal | Unit-linked FVTPL | Unit-linked ⁽²⁾ FVOCI | Consolidated investment funds ⁽¹⁾ | | Total | | |
|--|--|------------------------------------|---------------|--------------|----------------|----------------------|-------------------------------------|--|--------------|----------------|-------|-------|
| | Participating funds and other participating business with distinct portfolios FVTPL | Other policyholder and shareholder | | | | | | FVTPL | FVOCI | | FVTPL | FVOCI |
| | | FVTPL | FVOCI | AC | | | | | | | | |
| 30 June 2023 – Unaudited | | | | | | | | | | | | |
| Government bonds ⁽³⁾ | 20,480 | 1,546 | 48,835 | 326 | 71,187 | 2,116 | 99 | - | - | 73,402 | | |
| Government agency bonds ⁽⁴⁾ | 6,971 | 24 | 7,191 | 249 | 14,435 | 570 | 64 | 88 | 88 | 15,157 | | |
| Corporate bonds | 47,492 | 574 | 27,337 | 1,405 | 76,808 | 3,015 | 185 | 869 | 869 | 80,877 | | |
| Structured securities ⁽⁵⁾ | 404 | 343 | 1,498 | - | 2,245 | 126 | - | - | - | 2,371 | | |
| Total⁽⁶⁾ | 75,347 | 2,487 | 84,861 | 1,980 | 164,675 | 5,827 | 348 | 957 | 957 | 171,807 | | |
| 31 December 2022 – Restated | | | | | | | | | | | | |
| Government bonds ⁽³⁾ | 15,514 | 1,627 | 49,412 | 315 | 66,868 | 1,952 | 102 | - | - | 68,922 | | |
| Government agency bonds ⁽⁴⁾ | 6,971 | 24 | 7,367 | 211 | 14,573 | 618 | 64 | 198 | 198 | 15,453 | | |
| Corporate bonds | 46,161 | 720 | 27,600 | 1,261 | 75,742 | 2,654 | 171 | 1,007 | 1,007 | 79,574 | | |
| Structured securities ⁽⁵⁾ | 373 | 405 | 1,381 | - | 2,159 | 103 | - | - | - | 2,262 | | |
| Total⁽⁶⁾ | 69,019 | 2,776 | 85,760 | 1,787 | 159,342 | 5,327 | 337 | 1,205 | 1,205 | 166,211 | | |

Notes:

- (1) 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. Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds. In preparing the interim condensed consolidated financial statements, the Group enhanced the presentation to further split and allocate the underlying assets held by consolidated investment funds to the respective fund segments of the asset-backing liabilities. Where consolidated investment funds are held by third-party unit holders, these continue to be classified under consolidated investment funds.
- (2) Represents primarily the financial assets backing non-unit reserves of unit-linked contracts.
- (3) Government bonds include bonds issued in local or foreign currencies by either the government where the respective business unit operates or other governments.
- (4) 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.
- (5) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
- (6) Debt securities of US\$10,588m (31 December 2022: US\$9,885m) are restricted due to local regulatory requirements.

15. Financial investments (continued)

EQUITY SHARES, INTERESTS IN INVESTMENT FUNDS AND EXCHANGEABLE LOAN NOTES

Equity shares, interests in investment funds and exchangeable loan notes comprise the following:

| US\$m | Policyholder and shareholder | | Subtotal | Unit-linked | Consolidated investment funds ⁽¹⁾ | Total |
|---|---|------------------------------------|---------------|---------------|--|---------------|
| | Participating funds and other participating business with distinct portfolios | Other policyholder and shareholder | | | | |
| | FVTPL | FVTPL | | | | |
| 30 June 2023 – Unaudited | | | | | | |
| Equity shares | 11,814 | 4,498 | 16,312 | 7,878 | – | 24,190 |
| Interests in investment funds and exchangeable loan notes | 15,811 | 7,865 | 23,676 | 17,590 | – | 41,266 |
| Total | 27,625 | 12,363 | 39,988 | 25,468 | – | 65,456 |

| US\$m | Policyholder and shareholder | | Subtotal | Unit-linked | Consolidated investment funds ⁽¹⁾ | Total |
|---|---|------------------------------------|---------------|---------------|--|---------------|
| | Participating funds and other participating business with distinct portfolios | Other policyholder and shareholder | | | | |
| | FVTPL | FVTPL | | | | |
| 31 December 2022 – Restated | | | | | | |
| Equity shares | 13,241 | 4,765 | 18,006 | 7,685 | – | 25,691 |
| Interests in investment funds and exchangeable loan notes | 14,307 | 7,214 | 21,521 | 17,056 | – | 38,577 |
| Total | 27,548 | 11,979 | 39,527 | 24,741 | – | 64,268 |

Note:

(1) 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. Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds. In preparing the interim condensed consolidated financial statements, the Group enhanced the presentation to further split and allocate the underlying assets held by consolidated investment funds to the respective fund segments of the asset-backing liabilities. Where consolidated investment funds are held by third-party unit holders, these continue to be classified under consolidated investment funds.

15. Financial investments (continued)

LOANS AND DEPOSITS

Loans and deposits by type comprise the following:

| US\$m | As at 30 June 2023 (Unaudited) | As at 31 December 2022 (Restated) |
|--|---|--|
| Mortgage loans on residential real estate | 443 | 469 |
| Mortgage loans on commercial real estate | 2 | 2 |
| Other loans | 292 | 372 |
| Loss allowance for loans | (10) | (9) |
| Loans | 727 | 834 |
| Term deposits | 2,361 | 2,509 |
| Promissory notes ⁽¹⁾ | 1,450 | 1,520 |
| Loss allowance for deposits measured at amortised cost | (12) | (18) |
| Total | 4,526 | 4,845 |

Note:

(1) The promissory notes are issued by a government. Promissory notes of US\$265m (31 December 2022: US\$279m) are measured at fair value through profit or loss.

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. At 30 June 2023, the restricted balance held within term deposits and promissory notes was US\$1,546m (31 December 2022: US\$381m).

Other loans include receivables from reverse repurchase agreements (reverse repos) under which the Group does not take physical possession of securities purchased under the agreements. Reverse repos are initially recorded at the cost of the loan or collateral advanced. At 30 June 2023, the carrying value of such receivables was US\$189m (31 December 2022: US\$261m).

At 30 June 2023, US\$137m of debt collateral was received in respect of reverse repos.

15. Financial investments (continued)

MATURITY PROFILE OF DEBT SECURITIES, LOANS AND DEPOSITS

The table below shows the maturity profile of debt securities, loans and deposits based on contractual maturity dates. The maturity profile below excludes unit-linked investments and consolidated investment funds as the investment risk is generally wholly borne by our customers.

| 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 June 2023 – Unaudited | | | | | | |
| Debt securities | 164,675 | 7,183 | 20,177 | 16,789 | 120,526 | – |
| Loans and deposits | 4,209 | 1,424 | 831 | 447 | 1,493 | 14 |
| Total | 168,884 | 8,607 | 21,008 | 17,236 | 122,019 | 14 |
| 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 2022 | | | | | | |
| Debt securities | 159,342 | 7,465 | 20,197 | 17,252 | 114,428 | – |
| Loans and deposits | 4,500 | 1,833 | 647 | 470 | 1,534 | 16 |
| Total | 163,842 | 9,298 | 20,844 | 17,722 | 115,962 | 16 |

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT

Significant increase in credit risk

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis based on the Group's experience, credit assessment performed by internal and external experts and forward-looking information.

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing the internal rating as at the reporting date with the internal rating as at the date of initial recognition of the exposure. Where external credit ratings are available, internal ratings are assigned consistent with such ratings in accordance with the Group's credit risk assessment framework. Where external credit ratings are not readily available, an internal rating methodology has been adopted.

The Group monitors changes in credit risk by tracking the change in internal rating of the exposure. The Group also monitors relevant information, including price movements of securities, and assess whether such information signifies a change in credit risk.

The Group has assumed that the credit risk of a financial asset has not increased significantly since initial recognition if the financial asset has low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment-grade". The Group considers this to be BBB-, Baa3 or higher based on Standard and Poor's, Fitch and Moody's ratings, which is equivalent to an internal risk grade of 4- or higher.

15. Financial investments (continued)

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT (continued)

Significant increase in credit risk (continued)

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due, unless there are other indications that there is no significant increase in credit risk. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined after considering any grace period that might be available to the debtor.

Modified financial assets

The contractual terms of a financial asset may be modified for a number of reasons including changing market conditions and other factors not related to current or potential credit deterioration of the debtor. An existing financial asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new financial asset at fair value in accordance with the accounting policies in note 2.4.1.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of significant increase in credit risk is assessed based on the change in internal rating as at the reporting date and the date of initial recognition. The internal rating as at reporting date is rated based on the modified contractual terms while the initial rating is rated based on the original contractual terms.

Definition of default

The Group considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to mitigating actions. The criteria of “default” are consistent with those of “credit-impaired”.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a “base case” view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on management knowledge and consideration of a variety of external actual and forecast information. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations, and selected private-sector and academic forecasters.

The base case represents a best estimate and the other scenarios represent more optimistic and more pessimistic outcomes.

15. Financial investments (continued)

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT (continued)

Incorporation of forward-looking information (continued)

The Group has identified and documented key drivers of credit risk and ECL for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationship between macro-economic variables and key drivers of credit risk. The specific values of the core macro-economic variable used by the Group for evaluating ECL for the six months ended 30 June 2023 and the year ended 31 December 2022 are as follows:

| | As at 30 June 2023 (Unaudited) | As at 31 December 2022 |
|--|---|------------------------------|
| GDP growth (5-year average of year-over-year %) | | |
| Base case scenario | 3.1% | 3.1% |
| Upside scenario | 3.8% | 3.8% |
| Downside scenario | 2.1% | 2.1% |

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of probability of default (PD), loss given default (LGD) and exposure at default (EAD). They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

To determine lifetime and 12-month PDs, the Group leverages on the internal rating and convert it into PD based on the level of rating and obligor characteristics like industry type and country. Changes in the rating at the reporting date for a counterparty or exposure lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group leverages on recovery statistics to calculate LGD. The LGD models consider a number of factors including among others, the structure, collateral and seniority of the claim, that are integral to the financial asset. LGD estimates are recalibrated for different economic scenarios.

PDs and LGDs are adjusted to reflect forward-looking information and different economic scenarios as described above.

EAD represents the expected exposure in the event of a default. The EAD of a financial asset is its gross carrying amount at the time of default. The Group derives the EAD from the current exposure to the counterparty, with any adjustments for changes to the current exposure, such as amortisation, and prepayments.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any debtor's extension options) over which it is exposed to credit risk.

15. Financial investments (continued)

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT (continued)

Measurement of ECL (continued)

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, which include instrument type, credit risk gradings, collateral type, date of initial recognition, remaining term to maturity, industry and geographical location of debtor.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external information that the Group uses to derive the default rates of its portfolios.

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- the restructuring of an amount due to the Group on terms that the Group would not otherwise consider;
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

A financial asset that has been renegotiated due to a deterioration in the debtor's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

16. Derivative financial instruments

The Group's derivative exposure was as follows:

| US\$m | Notional amount | Fair value | |
|---|-----------------|------------|----------------|
| | | Assets | Liabilities |
| 30 June 2023 – Unaudited | | | |
| Foreign exchange contracts | | | |
| Cross-currency swaps | 7,707 | 241 | (380) |
| Forwards | 5,254 | 47 | (59) |
| Foreign exchange futures | 46 | – | – |
| Total foreign exchange contracts | 13,007 | 288 | (439) |
| Interest rate contracts | | | |
| Interest rate swaps | 7,117 | 234 | (158) |
| Other | | | |
| Warrants and options | 1,285 | 21 | (1) |
| Forward contracts | 38,045 | 70 | (7,097) |
| Swaps | 207 | 3 | (2) |
| Netting | (46) | – | – |
| Total | 59,615 | 616 | (7,697) |
| 31 December 2022 | | | |
| Foreign exchange contracts | | | |
| Cross-currency swaps | 6,994 | 220 | (295) |
| Forwards | 6,025 | 56 | (86) |
| Foreign exchange futures | 48 | – | – |
| Total foreign exchange contracts | 13,067 | 276 | (381) |
| Interest rate contracts | | | |
| Interest rate swaps | 8,500 | 240 | (283) |
| Other | | | |
| Warrants and options | 1,344 | 27 | (1) |
| Forward contracts | 37,995 | 74 | (8,056) |
| Swaps | 2,051 | 13 | (18) |
| Netting | (48) | – | – |
| Total | 62,909 | 630 | (8,739) |

The column “notional amount” in the above table refers to the pay leg of derivative transactions other than equity-index options. For certain equity-index call and put options with the 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\$9m (31 December 2022: US\$32m) 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 interim consolidated statement of financial position as derivative financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Group's derivative contracts are established to provide an economic hedge to 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 interim 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.

16. 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. Swaps are OTC contractual agreements between the Group and a third party to exchange a series of cash flows based upon index, rates or other variables applied to a notional amount.

NETTING ADJUSTMENT

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

COLLATERAL UNDER DERIVATIVE TRANSACTIONS

At 30 June 2023, the Group had posted cash collateral of US\$241m (31 December 2022: US\$309m) and pledged debt securities with carrying value of US\$7,945m (31 December 2022: US\$9,656m) for liabilities, and held cash collateral of US\$262m (31 December 2022: US\$231m) and debt securities collateral with carrying value of US\$53m (31 December 2022: US\$55m) for assets in respect of derivative transactions. The Group did not sell or repledge the debt collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard repurchase agreements.

17. Fair value measurement

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group classifies all financial assets as either at fair value through profit or loss (mandatory and by designated), or as at fair value through other comprehensive income, or 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 17.

The following tables present the fair values of the Group's financial assets and financial liabilities:

| US\$m | Notes | Fair value | | | Amortised cost | Total carrying value | Total fair value |
|--|-------|-------------------|--------------------|---------------|----------------|----------------------|------------------|
| | | FVTPL – mandatory | FVTPL – designated | FVOCI | | | |
| 30 June 2023 – Unaudited | | | | | | | |
| Financial investments | 15 | | | | | | |
| Loans and deposits | | – | 265 | – | 4,261 | 4,526 | 4,664 |
| Debt securities | | 7,428 | 77,190 | 85,209 | 1,980 | 171,807 | 171,562 |
| Equity shares, interests in investment funds and exchangeable loan notes | | 65,456 | – | – | – | 65,456 | 65,456 |
| Derivative financial instruments | 16 | 616 | – | – | – | 616 | 616 |
| Receivables | | – | – | – | 1,243 | 1,243 | 1,243 |
| Accrued investment income | | – | – | – | 1,836 | 1,836 | 1,836 |
| Cash and cash equivalents | 18 | 2,769 | – | – | 4,622 | 7,391 | 7,391 |
| Financial assets | | 76,269 | 77,455 | 85,209 | 13,942 | 252,875 | 252,768 |
| | Notes | | | FVTPL | Amortised cost | Total carrying value | Total fair value |
| Financial liabilities | | | | | | | |
| Investment contract liabilities | 20 | | | 11,013 | 511 | 11,524 | 11,524 |
| Borrowings | 21 | | | – | 11,310 | 11,310 | 10,235 |
| Obligations under repurchase agreements | 22 | | | – | 2,000 | 2,000 | 2,000 |
| Derivative financial instruments | 16 | | | 7,697 | – | 7,697 | 7,697 |
| Other liabilities | | | | 843 | 3,416 | 4,259 | 4,259 |
| Financial liabilities | | | | 19,553 | 17,237 | 36,790 | 35,715 |

17. Fair value measurement (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

| US\$m | Notes | Fair value | | | Amortised cost | Total carrying value | Total fair value |
|--|-------|-------------------|--------------------|---------------|----------------|----------------------|------------------|
| | | FVTPL – mandatory | FVTPL – designated | FVOCI | | | |
| 31 December 2022 – Restated | | | | | | | |
| Financial investments | 15 | | | | | | |
| Loans and deposits | | – | 279 | – | 4,566 | 4,845 | 4,912 |
| Debt securities | | 7,482 | 70,845 | 86,097 | 1,787 | 166,211 | 165,944 |
| Equity shares, interests in investment funds and exchangeable loan notes | | 64,268 | – | – | – | 64,268 | 64,268 |
| Derivative financial instruments | 16 | 630 | – | – | – | 630 | 630 |
| Receivables | | – | – | – | 1,718 | 1,718 | 1,718 |
| Accrued investment income | | – | – | – | 1,752 | 1,752 | 1,752 |
| Cash and cash equivalents | 18 | 2,248 | – | – | 6,721 | 8,969 | 8,969 |
| Financial assets | | 74,628 | 71,124 | 86,097 | 16,544 | 248,393 | 248,193 |
| | Notes | | | FVTPL | Amortised cost | Total carrying value | Total fair value |
| Financial liabilities | | | | | | | |
| Investment contract liabilities | 20 | | | 11,226 | 530 | 11,756 | 11,756 |
| Borrowings | 21 | | | – | 11,206 | 11,206 | 9,837 |
| Obligations under repurchase agreements | 22 | | | – | 1,748 | 1,748 | 1,748 |
| Derivative financial instruments | 16 | | | 8,739 | – | 8,739 | 8,739 |
| Other liabilities | | | | 865 | 3,444 | 4,309 | 4,309 |
| Financial liabilities | | | | 20,830 | 16,928 | 37,758 | 36,389 |

The Group does not have assets or liabilities measured at fair value on a non-recurring basis during the six months ended 30 June 2023.

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.

17. Fair value measurement (continued)

FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT ON A RECURRING BASIS

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

| US\$m | Fair value hierarchy | | | Total |
|---|----------------------|----------------|---------------|----------------|
| | Level 1 | Level 2 | Level 3 | |
| 30 June 2023 – Unaudited | | | | |
| Recurring fair value measurements | | | | |
| Non-financial assets | | | | |
| Property held for own use | – | – | 2,452 | 2,452 |
| Investment property | – | – | 4,480 | 4,480 |
| Financial assets | | | | |
| At fair value through other comprehensive income | | | | |
| Debt securities | 80 | 83,134 | 1,995 | 85,209 |
| At fair value through profit or loss | | | | |
| Debt securities | | | | |
| Participating funds and other participating business with distinct portfolios | 351 | 73,300 | 1,696 | 75,347 |
| Unit-linked and consolidated investment funds | 35 | 6,749 | – | 6,784 |
| Other policyholder and shareholder | – | 2,137 | 350 | 2,487 |
| Loans and deposits | – | – | 265 | 265 |
| Equity shares, interests in investment funds and exchangeable loan notes | | | | |
| Participating funds and other participating business with distinct portfolios | 15,573 | 1,247 | 10,805 | 27,625 |
| Unit-linked and consolidated investment funds | 24,868 | 274 | 326 | 25,468 |
| Other policyholder and shareholder | 4,793 | 1,795 | 5,775 | 12,363 |
| Cash and cash equivalents | | | | |
| Other policyholder and shareholder | 2,769 | – | – | 2,769 |
| Derivative financial instruments | | | | |
| Foreign exchange contracts | – | 288 | – | 288 |
| Interest rate contracts | – | 234 | – | 234 |
| Other contracts | 5 | 30 | 59 | 94 |
| Total assets on a recurring fair value measurement basis | 48,474 | 169,188 | 28,203 | 245,865 |
| <i>% of Total</i> | <i>19.7</i> | <i>68.8</i> | <i>11.5</i> | <i>100.0</i> |
| Financial liabilities | | | | |
| Investment contract liabilities | – | 8,915 | 2,098 | 11,013 |
| Derivative financial instruments | | | | |
| Foreign exchange contracts | – | 439 | – | 439 |
| Interest rate contracts | – | 158 | – | 158 |
| Other contracts | 4 | 7,096 | – | 7,100 |
| Other liabilities | – | 843 | – | 843 |
| Total liabilities on a recurring fair value measurement basis | 4 | 17,451 | 2,098 | 19,553 |
| <i>% of Total</i> | <i>0.0</i> | <i>89.3</i> | <i>10.7</i> | <i>100.0</i> |

17. Fair value measurement (continued)

FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT ON A RECURRING BASIS (continued)

| US\$m | Fair value hierarchy | | | Total |
|--|----------------------|-------------|-------------|--------------|
| | Level 1 | Level 2 | Level 3 | |
| 31 December 2022 – Restated | | | | |
| Recurring fair value measurements | | | | |
| Non-financial assets | | | | |
| Property held for own use | – | – | 1,235 | 1,235 |
| Investment property | – | – | 4,600 | 4,600 |
| Financial assets | | | | |
| At fair value through other comprehensive income | | | | |
| Debt securities | – | 84,300 | 1,797 | 86,097 |
| At fair value through profit or loss | | | | |
| Debt securities | | | | |
| Participating funds and other participating business | | | | |
| with distinct portfolios | 2 | 67,408 | 1,609 | 69,019 |
| Unit-linked and consolidated investment funds | 16 | 6,516 | – | 6,532 |
| Other policyholder and shareholder | – | 2,347 | 429 | 2,776 |
| Loans and deposits | – | – | 279 | 279 |
| Equity shares, interests in investment funds and exchangeable loan notes | | | | |
| Participating funds and other participating business | | | | |
| with distinct portfolios | 16,372 | 1,266 | 9,910 | 27,548 |
| Unit-linked and consolidated investment funds | 24,121 | 249 | 371 | 24,741 |
| Other policyholder and shareholder | 4,920 | 1,782 | 5,277 | 11,979 |
| Cash and cash equivalents | | | | |
| Other policyholder and shareholder | 2,248 | – | – | 2,248 |
| Derivative financial instruments | | | | |
| Foreign exchange contracts | – | 276 | – | 276 |
| Interest rate contracts | – | 240 | – | 240 |
| Other contracts | 17 | 56 | 41 | 114 |
| Total assets on a recurring fair value measurement basis | | | | |
| | 47,696 | 164,440 | 25,548 | 237,684 |
| <i>% of Total</i> | <i>20.1</i> | <i>69.2</i> | <i>10.7</i> | <i>100.0</i> |
| Financial liabilities | | | | |
| Investment contract liabilities | – | 9,042 | 2,184 | 11,226 |
| Derivative financial instruments | | | | |
| Foreign exchange contracts | – | 381 | – | 381 |
| Interest rate contracts | – | 283 | – | 283 |
| Other contracts | 14 | 8,061 | – | 8,075 |
| Other liabilities | – | 865 | – | 865 |
| Total liabilities on a recurring fair value measurement basis | | | | |
| | 14 | 18,632 | 2,184 | 20,830 |
| <i>% of Total</i> | <i>0.1</i> | <i>89.4</i> | <i>10.5</i> | <i>100.0</i> |

The Group's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the six months ended 30 June 2023, the Group transferred US\$2m (year ended 31 December 2022: US\$103m) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Group transferred US\$6m (year ended 31 December 2022: US\$28m) of assets from Level 2 to Level 1 during the six months ended 30 June 2023.

17. Fair value measurement (continued)

FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT ON A RECURRING BASIS (continued)

The Group's Level 2 financial instruments include debt securities, equity shares, interests in investment funds, derivative financial instruments, investment contract liabilities 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 private 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 six months ended 30 June 2023. The tables reflect gains and losses, including gains and losses on assets and liabilities categorised as Level 3 as at 30 June 2023.

Level 3 assets and liabilities

| US\$m | Property held for own use | Investment property | Debt securities | Loans and deposits | Equity shares, interests in investment funds and exchangeable loan notes | Derivative financial assets/(liabilities) | Investment contracts |
|---|---------------------------|---------------------|-----------------|--------------------|--|---|----------------------|
| At 1 January 2023 | 1,235 | 4,600 | 3,835 | 279 | 15,558 | 41 | (2,184) |
| Net movement on investment contract liabilities | - | - | - | - | - | - | 86 |
| Total gains/(losses) | | | | | | | |
| Reported under investment return and other expenses in the interim consolidated income statement | (13) | (35) | 50 | (6) | 63 | 19 | - |
| Reported under fair value reserve, foreign currency translation reserve and property revaluation reserve in the interim consolidated statement of comprehensive income | 10 | (64) | (154) | (8) | (141) | (1) | - |
| Transfer to/from investment property | 7 | (28) | - | - | - | - | - |
| Purchases | 1,213 | 7 | 377 | - | 1,769 | - | - |
| Sales | - | - | (22) | - | (180) | - | - |
| Settlements | - | - | (47) | - | - | - | - |
| Transfer into/out of Level 3 | - | - | 2 | - | (163) | - | - |
| At 30 June 2023 – Unaudited | <u>2,452</u> | <u>4,480</u> | <u>4,041</u> | <u>265</u> | <u>16,906</u> | <u>59</u> | <u>(2,098)</u> |
| Change in unrealised gains or losses included in the interim consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return and other expenses | <u>(13)</u> | <u>(35)</u> | <u>(110)</u> | <u>(6)</u> | <u>(320)</u> | <u>18</u> | <u>-</u> |

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets.

Assets transferred out of Level 3 mainly relate to interests in investment funds 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.

17. Fair value measurement (continued)

SIGNIFICANT UNOBSERVABLE INPUTS FOR LEVEL 3 FAIR VALUE MEASUREMENTS

As at 30 June 2023, the valuation techniques and applicable unobservable inputs used to measure the Group's Level 3 financial instruments are summarised as follows:

| Description | Fair value at 30 June 2023 (Unaudited) (US\$m) | Valuation techniques | Unobservable inputs | Range |
|-----------------|---|-----------------------|-----------------------------|----------------|
| Debt securities | 2,092 | Discounted cash flows | Risk adjusted discount rate | 2.87% - 46.91% |

For certain equity shares, interests in investment funds and exchangeable loan notes held by the Group, management obtains values from independent professional valuers who use valuation techniques, such as the market approach, to determine the fair value. Under the market approach, the most relevant valuation multiples based on a number of factors, such as enterprise value to sales, or enterprise value to EBITDA (earnings before interest, taxes, depreciation and amortisation), are used to determine the fair value of the financial assets.

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 private 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 private 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 debt 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.

18. Cash and cash equivalents

| US\$m | As at 30 June 2023 (Unaudited) | As at 31 December 2022 |
|----------------------------|---|------------------------------|
| Cash | 3,373 | 3,367 |
| Cash equivalents | 4,018 | 5,602 |
| Total⁽¹⁾ | 7,391 | 8,969 |

Note:

(1) US\$1,331m (31 December 2022: US\$1,462m) are held to back unit-linked contracts and US\$47m (31 December 2022: US\$43m) are held by consolidated investment funds. In preparing the interim condensed consolidated financial statements, the Group enhanced the presentation to further split and allocate the underlying assets held by consolidated investment funds to the respective fund segments of the asset-backing liabilities. Where consolidated investment funds are held by third-party unit holders, these continue to be classified under 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 that are convertible into known amounts of cash and subject to insignificant risk of changes in value. Accordingly, all such amounts are expected to be realised within 12 months after the end of the reporting period.

19. Insurance contracts and reinsurance contracts held

MOVEMENT IN CARRYING AMOUNTS

The following reconciliations show how the net carrying amounts of insurance contracts and reinsurance contracts held changed during the period as a result of cash flows and amounts recognised in the interim consolidated income statement and interim consolidated statement of comprehensive income. The Group presents a table separately analyses movements in the liabilities for remaining coverage and movements in the liabilities for incurred claims and reconciles these movements to the line items in the interim consolidated income statement and interim consolidated statement of comprehensive income. A second reconciliation is presented for contracts not measured under the premium allocation approach, which separately analyses changes in the estimates of the present value of future cash flows, the risk adjustment for non-financial risk and the contractual service margin.

The estimates of the present value of future cash flows from insurance and reinsurance contract assets represent the Group's maximum exposure to credit risk from these assets.

19. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by remaining coverage and incurred claims of insurance contracts not measured under the premium allocation approach

| | | Six months ended 30 June 2023 (Unaudited) | | | |
|--|-------|---|-------------------|---------------------------------------|----------------|
| | | Liabilities for remaining coverage | | Liabilities for incurred claims | Total |
| US\$m | Notes | Excluding loss component | Loss component | | |
| Opening assets | | (1,230) | 20 | 640 | (570) |
| Opening liabilities | | 176,319 | 250 | 7,003 | 183,572 |
| Net opening balance | | 175,089 | 270 | 7,643 | 183,002 |
| Insurance revenue | 8 | (7,302) | – | – | (7,302) |
| Insurance service expenses | | | | | |
| Incurred claims and other insurance service expenses | | – | (44) | 4,382 | 4,338 |
| Amortisation of insurance acquisition cash flows | | 449 | – | – | 449 |
| Losses and reversal of losses on onerous contracts | | – | 74 | – | 74 |
| Adjustments to liabilities for incurred claims | | – | – | (467) | (467) |
| Total insurance service expenses | | 449 | 30 | 3,915 | 4,394 |
| Investment components | | (5,774) | – | 5,774 | – |
| Other changes | | (7) | – | 7 | – |
| Insurance service result | | (12,634) | 30 | 9,696 | (2,908) |
| Net finance expenses from insurance contracts | 9 | 10,105 | 4 | 184 | 10,293 |
| Effect of movements in exchange rates | | (3,145) | 1 | (252) | (3,396) |
| Total changes in the interim consolidated income statement and interim consolidated statement of comprehensive income | | (5,674) | 35 | 9,628 | 3,989 |
| Cash flows | | | | | |
| Premiums received | | 19,255 | – | – | 19,255 |
| Claims and other insurance service expenses paid, including investment components | | – | – | (11,718) | (11,718) |
| Insurance acquisition cash flows paid | | (3,149) | – | – | (3,149) |
| Other amounts received | | – | – | 1,931 | 1,931 |
| Total cash flows | | 16,106 | – | (9,787) | 6,319 |
| Adjusted for: | | | | | |
| Non-cash operating expenses | | (78) | – | (34) | (112) |
| Other non-cash items | | (165) | – | – | (165) |
| Total non-cash items | | (243) | – | (34) | (277) |
| Net closing balance | | 185,278 | 305 | 7,450 | 193,033 |
| Closing assets | | (935) | 33 | 587 | (315) |
| Closing liabilities | | 186,213 | 272 | 6,863 | 193,348 |
| Net closing balance | | 185,278 | 305 | 7,450 | 193,033 |

19. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by remaining coverage and incurred claims of insurance contracts not measured under the premium allocation approach (continued)

| US\$m | Year ended 31 December 2022 | | | |
|--|------------------------------------|----------------|---------------------------------|-----------------|
| | Liabilities for remaining coverage | | Liabilities for incurred claims | Total |
| | Excluding loss component | Loss component | | |
| Opening assets | (2,753) | 10 | 625 | (2,118) |
| Opening liabilities | 210,450 | 204 | 7,875 | 218,529 |
| Net opening balance | 207,697 | 214 | 8,500 | 216,411 |
| Insurance revenue | (14,524) | – | – | (14,524) |
| Insurance service expenses | | | | |
| Incurred claims and other insurance service expenses | – | (68) | 8,371 | 8,303 |
| Amortisation of insurance acquisition cash flows | 696 | – | – | 696 |
| Losses and reversal of losses on onerous contracts | – | 129 | – | 129 |
| Adjustments to liabilities for incurred claims | – | – | (259) | (259) |
| Total insurance service expenses | 696 | 61 | 8,112 | 8,869 |
| Investment components | (10,674) | – | 10,674 | – |
| Other changes | (14) | – | 14 | – |
| Insurance service result | (24,516) | 61 | 18,800 | (5,655) |
| Net finance (income)/expenses from insurance contracts | (35,058) | 3 | (460) | (35,515) |
| Effect of movements in exchange rates | (5,145) | (8) | (493) | (5,646) |
| Total changes in the consolidated income statement and consolidated statement of comprehensive income | (64,719) | 56 | 17,847 | (46,816) |
| Cash flows | | | | |
| Premiums received | 38,174 | – | – | 38,174 |
| Claims and other insurance service expenses paid, including investment components | – | – | (21,550) | (21,550) |
| Insurance acquisition cash flows paid | (5,536) | – | – | (5,536) |
| Other amounts received | – | – | 2,902 | 2,902 |
| Total cash flows | 32,638 | – | (18,648) | 13,990 |
| Adjusted for: | | | | |
| Non-cash operating expenses | (184) | – | (56) | (240) |
| Other non-cash items | (343) | – | – | (343) |
| Total non-cash items | (527) | – | (56) | (583) |
| Net closing balance | 175,089 | 270 | 7,643 | 183,002 |
| Closing assets | (1,230) | 20 | 640 | (570) |
| Closing liabilities | 176,319 | 250 | 7,003 | 183,572 |
| Net closing balance | 175,089 | 270 | 7,643 | 183,002 |

19. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by measurement component of insurance contracts not measured under the premium allocation approach

| US\$m | Notes | Six months ended 30 June 2023 (Unaudited) | | | |
|--|-------|---|--|---------------|----------------|
| | | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | CSM | Total |
| Opening assets | | (8,689) | 739 | 7,380 | (570) |
| Opening liabilities | | 135,747 | 2,796 | 45,029 | 183,572 |
| Net opening balance | | 127,058 | 3,535 | 52,409 | 183,002 |
| Insurance service result | | | | | |
| Changes that relate to current services | | | | | |
| CSM recognised for services provided | 8 | – | – | (2,729) | (2,729) |
| Change in risk adjustment for non-financial risk | | – | (60) | – | (60) |
| Experience adjustments | | 335 | – | – | 335 |
| Others | | (61) | – | – | (61) |
| Changes that relate to future services | | | | | |
| Contracts initially recognised in the period | | (3,524) | 210 | 3,377 | 63 |
| Changes in estimates that adjust the CSM | | 456 | 126 | (582) | – |
| Changes in estimates that result in losses and reversal of losses on onerous contracts | | (11) | 22 | – | 11 |
| Changes that relate to past services | | (414) | (53) | – | (467) |
| Total insurance service result | | (3,219) | 245 | 66 | (2,908) |
| Net finance expenses | | | | | |
| from insurance contracts | 9 | 9,707 | – | 586 | 10,293 |
| Effect of movements in exchange rates | | (2,154) | (97) | (1,145) | (3,396) |
| Total changes in the interim consolidated income statement and interim consolidated statement of comprehensive income | | 4,334 | 148 | (493) | 3,989 |
| Cash flows | | 6,319 | – | – | 6,319 |
| Non-cash operating expenses | | (112) | – | – | (112) |
| Other non-cash items | | (165) | – | – | (165) |
| Net closing balance | | 137,434 | 3,683 | 51,916 | 193,033 |
| Closing assets | | (8,478) | 786 | 7,377 | (315) |
| Closing liabilities | | 145,912 | 2,897 | 44,539 | 193,348 |
| Net closing balance | | 137,434 | 3,683 | 51,916 | 193,033 |

19. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by measurement component of insurance contracts not measured under the premium allocation approach (continued)

| US\$m | Year ended 31 December 2022 | | | |
|--|---|--|----------------|-----------------|
| | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | CSM | Total |
| Opening assets | (10,154) | 796 | 7,240 | (2,118) |
| Opening liabilities | 167,514 | 3,097 | 47,918 | 218,529 |
| Net opening balance | 157,360 | 3,893 | 55,158 | 216,411 |
| Insurance service result | | | | |
| Changes that relate to current services | | | | |
| CSM recognised for services provided | – | – | (5,363) | (5,363) |
| Change in risk adjustment for non-financial risk | – | (179) | – | (179) |
| Experience adjustments | 151 | – | – | 151 |
| Others | (134) | – | – | (134) |
| Changes that relate to future services | | | | |
| Contracts initially recognised in the year | (6,358) | 450 | 5,983 | 75 |
| Changes in estimates that adjust the CSM | 2,783 | (364) | (2,419) | – |
| Changes in estimates that result in losses and reversal of losses on onerous contracts | 71 | (17) | – | 54 |
| Changes that relate to past services | (186) | (73) | – | (259) |
| Total insurance service result | (3,673) | (183) | (1,799) | (5,655) |
| Net finance (income)/expenses from insurance contracts | (36,703) | – | 1,188 | (35,515) |
| Effect of movements in exchange rates | (3,333) | (175) | (2,138) | (5,646) |
| Total changes in the consolidated income statement and consolidated statement of comprehensive income | (43,709) | (358) | (2,749) | (46,816) |
| Cash flows | 13,990 | – | – | 13,990 |
| Non-cash operating expenses | (240) | – | – | (240) |
| Other non-cash items | (343) | – | – | (343) |
| Net closing balance | 127,058 | 3,535 | 52,409 | 183,002 |
| Closing assets | (8,689) | 739 | 7,380 | (570) |
| Closing liabilities | 135,747 | 2,796 | 45,029 | 183,572 |
| Net closing balance | 127,058 | 3,535 | 52,409 | 183,002 |

19. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by remaining coverage and incurred claims of reinsurance contracts held not measured under the premium allocation approach

| | | Six months ended 30 June 2023 (Unaudited) | | | |
|--|------|---|--------------------------------|---------------------------------|--------------|
| | | Asset for remaining coverage | | Asset for incurred claims | Total |
| US\$m | Note | Excluding loss- recovery component | Loss- recovery component | | |
| Opening assets | | 2,044 | 124 | 3,537 | 5,705 |
| Opening liabilities | | (775) | 6 | 374 | (395) |
| Net opening balance | | 1,269 | 130 | 3,911 | 5,310 |
| Changes in the interim consolidated income statement and interim consolidated statement of comprehensive income | | | | | |
| Net (expenses)/income from reinsurance contracts held (excluding effect of changes in non-performance risk of reinsurers) | | (868) | 6 | 684 | (178) |
| Effect of changes in non-performance risk of reinsurers | | - | - | - | - |
| Net (expenses)/income from reinsurance contracts held | | (868) | 6 | 684 | (178) |
| Investment components | | (67) | - | 67 | - |
| Other changes | | - | - | - | - |
| Net finance income from reinsurance contracts held | 9 | 168 | - | 90 | 258 |
| Effect of movements in exchange rates | | 48 | (3) | (127) | (82) |
| Total changes in the interim consolidated income statement and interim consolidated statement of comprehensive income | | (719) | 3 | 714 | (2) |
| Cash flows | | | | | |
| Premiums paid | | 888 | - | - | 888 |
| Amounts received | | - | - | (727) | (727) |
| Other amounts paid | | - | - | 2 | 2 |
| Total cash flows | | 888 | - | (725) | 163 |
| Adjusted for: | | | | | |
| Non-cash operating expenses | | - | - | - | - |
| Other non-cash items | | - | - | - | - |
| Total non-cash items | | - | - | - | - |
| Net closing balance | | 1,438 | 133 | 3,900 | 5,471 |
| Closing assets | | 2,072 | 126 | 3,507 | 5,705 |
| Closing liabilities | | (634) | 7 | 393 | (234) |
| Net closing balance | | 1,438 | 133 | 3,900 | 5,471 |

19. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by remaining coverage and incurred claims of reinsurance contracts held not measured under the premium allocation approach (continued)

| US\$m | Year ended 31 December 2022 | | | Total |
|---|-----------------------------------|-------------------------|---------------------------|--------------|
| | Asset for remaining coverage | | Asset for incurred claims | |
| | Excluding loss-recovery component | Loss-recovery component | | |
| Opening assets | 2,410 | 124 | 3,815 | 6,349 |
| Opening liabilities | (1,035) | 2 | 324 | (709) |
| Net opening balance | 1,375 | 126 | 4,139 | 5,640 |
| Changes in the consolidated income statement and consolidated statement of comprehensive income | | | | |
| Net (expenses)/income from reinsurance contracts held (excluding effect of changes in non-performance risk of reinsurers) | (2,045) | 10 | 1,654 | (381) |
| Effect of changes in non-performance risk of reinsurers | – | – | – | – |
| Net (expenses)/income from reinsurance contracts held | (2,045) | 10 | 1,654 | (381) |
| Investment components | (139) | – | 139 | – |
| Other changes | – | – | – | – |
| Net finance income/(expenses) from reinsurance contracts held | 85 | 1 | (259) | (173) |
| Effect of movements in exchange rates | 50 | (7) | (258) | (215) |
| Total changes in the consolidated income statement and consolidated statement of comprehensive income | (2,049) | 4 | 1,276 | (769) |
| Cash flows | | | | |
| Premiums paid | 1,943 | – | – | 1,943 |
| Amounts received | – | – | (1,509) | (1,509) |
| Other amounts paid | – | – | 4 | 4 |
| Total cash flows | 1,943 | – | (1,505) | 438 |
| Adjusted for: | | | | |
| Non-cash operating expenses | – | – | 1 | 1 |
| Other non-cash items | – | – | – | – |
| Total non-cash items | – | – | 1 | 1 |
| Net closing balance | 1,269 | 130 | 3,911 | 5,310 |
| Closing assets | 2,044 | 124 | 3,537 | 5,705 |
| Closing liabilities | (775) | 6 | 374 | (395) |
| Net closing balance | 1,269 | 130 | 3,911 | 5,310 |

19. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by measurement component of reinsurance contracts held not measured under the premium allocation approach

| US\$m | Note | Six months ended 30 June 2023 (Unaudited) | | | |
|--|------|---|--|--------------|--------------|
| | | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | CSM | Total |
| Opening assets | | 3,356 | 523 | 1,826 | 5,705 |
| Opening liabilities | | (1,007) | 254 | 358 | (395) |
| Net opening balance | | 2,349 | 777 | 2,184 | 5,310 |
| Net (expenses)/income from reinsurance contracts held | | | | | |
| Changes that relate to current services | | | | | |
| CSM recognised for services received | | – | – | (111) | (111) |
| Change in risk adjustment for non-financial risk | | – | 1 | – | 1 |
| Experience adjustments | | 20 | – | – | 20 |
| Changes that relate to future services | | | | | |
| Changes in recoveries of losses on onerous underlying contracts that adjust the CSM | | – | – | 7 | 7 |
| Contracts initially recognised in the period | | – | 23 | (23) | – |
| Changes in estimates that adjust the CSM | | (207) | 30 | 177 | – |
| Changes in estimates that relate to losses and reversal of losses on onerous underlying contracts | | (1) | – | – | (1) |
| Changes that relate to past services | | (80) | (14) | – | (94) |
| Effect of changes in non-performance risk of reinsurers | | – | – | – | – |
| Total net (expenses)/income from reinsurance contracts held | | (268) | 40 | 50 | (178) |
| Net finance income from reinsurance contracts held | 9 | 228 | – | 30 | 258 |
| Effect of movements in exchange rates | | 38 | (25) | (95) | (82) |
| Total changes in the interim consolidated income statement and interim consolidated statement of comprehensive income | | (2) | 15 | (15) | (2) |
| Cash flows | | 163 | – | – | 163 |
| Non-cash operating expenses | | – | – | – | – |
| Other non-cash items | | – | – | – | – |
| Net closing balance | | 2,510 | 792 | 2,169 | 5,471 |
| Closing assets | | 3,383 | 540 | 1,782 | 5,705 |
| Closing liabilities | | (873) | 252 | 387 | (234) |
| Net closing balance | | 2,510 | 792 | 2,169 | 5,471 |

19. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by measurement component of reinsurance contracts held not measured under the premium allocation approach (continued)

| US\$m | Year ended 31 December 2022 | | | |
|--|---|--|--------------|--------------|
| | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | CSM | Total |
| Opening assets | 3,785 | 750 | 1,814 | 6,349 |
| Opening liabilities | (1,377) | 270 | 398 | (709) |
| Net opening balance | 2,408 | 1,020 | 2,212 | 5,640 |
| Net (expenses)/income from reinsurance contracts held | | | | |
| Changes that relate to current services | | | | |
| CSM recognised for services received | – | – | (242) | (242) |
| Change in risk adjustment for non-financial risk | – | (43) | – | (43) |
| Experience adjustments | (198) | – | – | (198) |
| Changes that relate to future services | | | | |
| Changes in recoveries of losses on onerous underlying contracts that adjust the CSM | – | – | 11 | 11 |
| Contracts initially recognised in the year | 12 | 47 | (59) | – |
| Changes in estimates that adjust the CSM | (171) | (160) | 331 | – |
| Changes in estimates that relate to losses and reversal of losses on onerous underlying contracts | (1) | – | – | (1) |
| Changes that relate to past services | 113 | (21) | – | 92 |
| Effect of changes in non-performance risk of reinsurers | – | – | – | – |
| Total net (expenses)/income from reinsurance contracts held | (245) | (177) | 41 | (381) |
| Net finance expenses from reinsurance contracts held | (151) | – | (22) | (173) |
| Effect of movements in exchange rates | (102) | (66) | (47) | (215) |
| Total changes in the consolidated income statement and consolidated statement of comprehensive income | (498) | (243) | (28) | (769) |
| Cash flows | 438 | – | – | 438 |
| Non-cash operating expenses | 1 | – | – | 1 |
| Other non-cash items | – | – | – | – |
| Net closing balance | 2,349 | 777 | 2,184 | 5,310 |
| Closing assets | 3,356 | 523 | 1,826 | 5,705 |
| Closing liabilities | (1,007) | 254 | 358 | (395) |
| Net closing balance | 2,349 | 777 | 2,184 | 5,310 |

19. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by remaining coverage and incurred claims of insurance contracts measured under the premium allocation approach

| | | Six months ended 30 June 2023 (Unaudited) | | | | | |
|--|-------|---|----------------|--|--|--------------|--|
| | | Liabilities for remaining coverage | | Liabilities for incurred claims | | | |
| US\$m | Notes | Excluding loss component | Loss component | Estimate of present value of future cash flows | Risk adjustment for non-financial risk | Total | |
| Opening assets | | - | - | 1 | - | 1 | |
| Opening liabilities | | 308 | - | 412 | 18 | 738 | |
| Net opening balance | | 308 | - | 413 | 18 | 739 | |
| Insurance revenue | 8 | (1,050) | - | - | - | (1,050) | |
| Insurance service expenses | | | | | | | |
| Incurred claims and other insurance service expenses | | - | - | 883 | 10 | 893 | |
| Amortisation of insurance acquisition cash flows | | 153 | - | - | - | 153 | |
| Losses and reversal of losses on onerous contracts | | - | - | - | - | - | |
| Adjustments to liabilities for incurred claims | | - | - | (87) | (9) | (96) | |
| Total insurance service expenses | | 153 | - | 796 | 1 | 950 | |
| Investment components | | (4) | - | 4 | - | - | |
| Other changes | | (2) | - | 2 | - | - | |
| Insurance service result | | (903) | - | 802 | 1 | (100) | |
| Net finance expenses from insurance contracts | 9 | - | - | - | - | - | |
| Effect of movements in exchange rates | | (11) | - | 29 | - | 18 | |
| Total changes in the interim consolidated income statement and interim consolidated statement of comprehensive income | | (914) | - | 831 | 1 | (82) | |
| Cash flows | | | | | | | |
| Premiums received | | 1,227 | - | - | - | 1,227 | |
| Claims and other insurance service expenses paid, including investment components | | - | - | (823) | - | (823) | |
| Insurance acquisition cash flows paid | | (165) | - | - | - | (165) | |
| Other amounts received | | - | - | - | - | - | |
| Total cash flows | | 1,062 | - | (823) | - | 239 | |
| Adjusted for: | | | | | | | |
| Non-cash operating expenses | | (5) | - | (2) | - | (7) | |
| Other non-cash items | | - | - | - | - | - | |
| Total non-cash items | | (5) | - | (2) | - | (7) | |
| Net closing balance | | 451 | - | 419 | 19 | 889 | |
| Closing assets | | - | - | - | - | - | |
| Closing liabilities | | 451 | - | 419 | 19 | 889 | |
| Net closing balance | | 451 | - | 419 | 19 | 889 | |

19. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by remaining coverage and incurred claims of insurance contracts measured under the premium allocation approach (continued)

| US\$m | Year ended 31 December 2022 | | | | |
|--|------------------------------------|----------------|--|--|--------------|
| | Liabilities for remaining coverage | | Liabilities for incurred claims | | Total |
| | Excluding loss component | Loss component | Estimate of present value of future cash flows | Risk adjustment for non-financial risk | |
| Opening assets | 1 | - | - | - | |
| Opening liabilities | 285 | - | 372 | 18 | 675 |
| Net opening balance | 286 | - | 372 | 18 | 676 |
| Insurance revenue | (1,795) | - | - | - | (1,795) |
| Insurance service expenses | | | | | |
| Incurred claims and other insurance service expenses | - | - | 1,391 | 11 | 1,402 |
| Amortisation of insurance acquisition cash flows | 207 | - | - | - | 207 |
| Losses and reversal of losses on onerous contracts | - | - | - | - | - |
| Adjustments to liabilities for incurred claims | - | - | (34) | (10) | (44) |
| Total insurance service expenses | 207 | - | 1,357 | 1 | 1,565 |
| Investment components | (2) | - | 2 | - | - |
| Other changes | (3) | - | 3 | - | - |
| Insurance service result | (1,593) | - | 1,362 | 1 | (230) |
| Net finance income from insurance contracts | - | - | - | - | - |
| Effect of movements in exchange rates | (14) | - | (9) | (1) | (24) |
| Total changes in the consolidated income statement and consolidated statement of comprehensive income | (1,607) | - | 1,353 | - | (254) |
| Cash flows | | | | | |
| Premiums received | 1,834 | - | - | - | 1,834 |
| Claims and other insurance service expenses paid, including investment components | (1) | - | (1,309) | - | (1,310) |
| Insurance acquisition cash flows paid | (200) | - | - | - | (200) |
| Other amounts received | - | - | - | - | - |
| Total cash flows | 1,633 | - | (1,309) | - | 324 |
| Adjusted for: | | | | | |
| Non-cash operating expenses | (4) | - | (3) | - | (7) |
| Other non-cash items | - | - | - | - | - |
| Total non-cash items | (4) | - | (3) | - | (7) |
| Net closing balance | 308 | - | 413 | 18 | 739 |
| Closing assets | - | - | 1 | - | 1 |
| Closing liabilities | 308 | - | 412 | 18 | 738 |
| Net closing balance | 308 | - | 413 | 18 | 739 |

19. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by measurement component of reinsurance contracts held measured under the premium allocation approach

| | | Six months ended 30 June 2023 (Unaudited) | | | | |
|--|------|---|-------------------------|--|--|-------------|
| | | Asset for remaining coverage | | Asset for incurred claims | | |
| US\$m | Note | Excluding loss-recovery component | Loss-recovery component | Estimate of present value of future cash flows | Risk adjustment for non-financial risk | Total |
| Opening assets | | (248) | - | 304 | 2 | 58 |
| Opening liabilities | | (77) | - | 65 | 1 | (11) |
| Net opening balance | | (325) | - | 369 | 3 | 47 |
| Changes in the interim consolidated income statement and interim consolidated statement of comprehensive income | | | | | | |
| Net (expenses)/income from reinsurance contracts held (excluding effect of changes in non-performance risk of reinsurers) | | | | | | |
| | | (154) | - | 130 | - | (24) |
| Effect of changes in non-performance risk of reinsurers | | | | | | |
| | | - | - | - | - | - |
| Net (expenses)/income from reinsurance contracts held | | (154) | - | 130 | - | (24) |
| Investment components | | (15) | - | 15 | - | - |
| Other changes | | - | - | - | - | - |
| Net finance income from reinsurance contracts held | 9 | 1 | - | - | - | 1 |
| Effect of movements in exchange rates | | 9 | - | (10) | - | (1) |
| Total changes in the interim consolidated income statement and interim consolidated statement of comprehensive income | | (159) | - | 135 | - | (24) |
| Cash flows | | | | | | |
| Premiums paid | | 178 | - | 1 | - | 179 |
| Amounts paid/(received) | | 1 | - | (142) | - | (141) |
| Other amounts paid | | - | - | 1 | - | 1 |
| Total cash flows | | 179 | - | (140) | - | 39 |
| Adjusted for: | | | | | | |
| Non-cash operating expenses | | - | - | - | - | - |
| Other non-cash items | | - | - | - | - | - |
| Total non-cash items | | - | - | - | - | - |
| Net closing balance | | (305) | - | 364 | 3 | 62 |
| Closing assets | | (288) | - | 358 | 2 | 72 |
| Closing liabilities | | (17) | - | 6 | 1 | (10) |
| Net closing balance | | (305) | - | 364 | 3 | 62 |

19. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by measurement component of reinsurance contracts held measured under the premium allocation approach (continued)

| US\$m | Year ended 31 December 2022 | | | | | Total |
|---|-----------------------------------|-------------------------|--|--|-------------|-------|
| | Asset for remaining coverage | | Asset for incurred claims | | | |
| | Excluding loss-recovery component | Loss-recovery component | Estimate of present value of future cash flows | Risk adjustment for non-financial risk | | |
| Opening assets | (191) | – | 275 | 3 | 87 | |
| Opening liabilities | (5) | – | 5 | – | – | |
| Net opening balance | (196) | – | 280 | 3 | 87 | |
| Changes in the consolidated income statement and consolidated statement of comprehensive income | | | | | | |
| Net (expenses)/income from reinsurance contracts held (excluding effect of changes in non-performance risk of reinsurers) | (289) | – | 251 | – | (38) | |
| Effect of changes in non-performance risk of reinsurers | – | – | – | – | – | |
| Net (expenses)/income from reinsurance contracts held | (289) | – | 251 | – | (38) | |
| Investment components | (28) | – | 28 | – | – | |
| Other changes | – | – | – | – | – | |
| Net finance expenses from reinsurance contracts held | (8) | – | – | – | (8) | |
| Effect of movements in exchange rates | 17 | – | (11) | – | 6 | |
| Total changes in the consolidated income statement and consolidated statement of comprehensive income | (308) | – | 268 | – | (40) | |
| Cash flows | | | | | | |
| Premiums paid | 179 | – | – | – | 179 | |
| Amounts paid/(received) | 1 | – | (181) | – | (180) | |
| Other amounts (received)/paid | (1) | – | 2 | – | 1 | |
| Total cash flows | 179 | – | (179) | – | – | |
| Adjusted for: | | | | | | |
| Non-cash operating expenses | – | – | – | – | – | |
| Other non-cash items | – | – | – | – | – | |
| Total non-cash items | – | – | – | – | – | |
| Net closing balance | (325) | – | 369 | 3 | 47 | |
| Closing assets | (248) | – | 304 | 2 | 58 | |
| Closing liabilities | (77) | – | 65 | 1 | (11) | |
| Net closing balance | (325) | – | 369 | 3 | 47 | |

19. Insurance contracts and reinsurance contracts held (continued)

FULFILMENT CASH FLOWS

Estimates of future cash flows

The Group's objective in estimating future cash flows is to determine the expected value or probability-weighted mean of the full range of possible outcomes. The Group incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows reflect the Group's view of current conditions at the reporting date and the estimates of any relevant market variables are consistent with observable market prices.

When estimating future cash flows, the Group takes into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not taken into account until the change in legislation is substantively enacted.

Cash flows are within the boundary of a contract if they arise from substantive right and obligations that exist during the reporting period. They relate directly to the fulfilment of the contract, including those for which the Group has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs. Other costs that are incurred in fulfilling the contracts include claims handling, maintenance and administration costs, and recurring commissions payable on instalment premiums receivable within the contract boundary.

Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Methodology and assumptions

Mortality

Assumptions have been developed by each business unit based on their recent historical experience, and their expectations of current and expected future experience including mortality improvement. 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.

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.

19. Insurance contracts and reinsurance contracts held (continued)

FULFILMENT CASH FLOWS (continued)

Methodology and assumptions (continued)

Persistency

Persistency covers the assumptions required, where relevant, for policy lapse (including surrender), premium persistency, premium holidays, partial withdrawals, policy loan take up and repayment 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 currency and expected future experience. Persistency assumptions would vary by policy year and product type with different rates for regular and single premium products where appropriate.

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.

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, maintenance and other activities, and then to allocate these acquisition and maintenance expenses that can be directly attributed to the portfolio of insurance contracts 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 that can be directly attributed to the portfolio of insurance contracts, 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.

Reinsurance

Reinsurance assumptions have been developed by each business unit based on the reinsurance arrangements in-force as at the reporting date and the recent historical and expected future experience.

19. Insurance contracts and reinsurance contracts held (continued)

FULFILMENT CASH FLOWS (continued)

Methodology and assumptions (continued)

Policyholder dividends, profit sharing and interest crediting

The projected policyholder dividends, profit sharing and interest crediting assumptions set by each business unit 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.

Participating funds and other participating business with distinct portfolios 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.

The assumed estimated crediting rates and participation percentages are generally based on the actual rates and percentages applied in the current period. The crediting rates applied vary between products and Group entities; in the current economic environment, the amounts credited are often determined by interest rate guarantees.

An adjustment to reflect the time value of money and the financial risks related to future cash flows

The Group adjusts the estimate of future cash flows to reflect the time value of money and the financial risks related to those cash flows. The cash flows are discounted by the discount rates to reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts.

The top-down approach has been primarily adopted for the derivation of discount rates. A top-down approach starts with considering a yield curve that reflects the current market rates of return of a reference portfolio of assets that have similar characteristics of the insurance contracts, and adjust this downwards to eliminate any factors not relevant to the insurance contracts (primarily the allowance for credit risk). The assessment of credit risk premium is done on external and internal ratings when the reference portfolio contains assets which are locally rated. Alternatively, a bottom-up approach could be used under which discount rates are determined by adjusting the liquid risk-free yield curve to reflect the liquidity characteristics of the insurance contracts.

In constructing the discount rates, market observable rates are used up to the last available market data point which is reliable and also relevant in reflecting the characteristics of the insurance contracts. The market observable rates are extrapolated between this point and an ultimate forward rate derived using long-term estimates by applying generally accepted technique such as Smith-Wilson method etc.

19. Insurance contracts and reinsurance contracts held (continued)

FULFILMENT CASH FLOWS (continued)

Methodology and assumptions (continued)

An adjustment to reflect the time value of money and the financial risks related to future cash flows (continued)

The table below sets out the spot rates used to discount the cash flows of insurance contracts for major currencies. To reflect the liquidity characteristics of the insurance contracts, the risk-free spot rates are adjusted by an illiquidity premium.

As at 30 June 2023 –

| Unaudited | 1 year | | 5 years | | 10 years | | 15 years | | 20 years | |
|------------|-----------|--------------------------|-----------|--------------------------|-----------|--------------------------|-----------|--------------------------|-----------|--------------------------|
| | Risk free | With illiquidity premium | Risk free | With illiquidity premium | Risk free | With illiquidity premium | Risk free | With illiquidity premium | Risk free | With illiquidity premium |
| Spot rates | | | | | | | | | | |
| USD | 5.27% | 5.60% | 4.05% | 5.12% | 3.76% | 5.03% | 3.81% | 5.08% | 4.12% | 5.33% |
| HKD | 4.82% | 5.15% | 4.02% | 5.08% | 3.77% | 5.04% | 3.79% | 5.07% | 4.11% | 5.31% |
| CNY | 1.86% | 2.37% | 2.44% | 2.88% | 2.67% | 3.00% | 2.85% | 3.19% | 2.99% | 3.40% |
| SGD | 3.52% | 5.23% | 3.03% | 4.09% | 2.90% | 4.09% | 2.67% | 3.88% | 2.37% | 3.57% |
| MYR | 3.27% | 3.76% | 3.62% | 4.03% | 3.91% | 4.22% | 4.08% | 4.41% | 4.18% | 4.57% |
| THB | 2.05% | 2.40% | 2.34% | 2.94% | 2.62% | 3.32% | 2.97% | 3.75% | 3.22% | 4.04% |

As at 31 December 2022

| | 1 year | | 5 years | | 10 years | | 15 years | | 20 years | |
|------------|-----------|--------------------------|-----------|--------------------------|-----------|--------------------------|-----------|--------------------------|-----------|--------------------------|
| | Risk free | With illiquidity premium | Risk free | With illiquidity premium | Risk free | With illiquidity premium | Risk free | With illiquidity premium | Risk free | With illiquidity premium |
| Spot rates | | | | | | | | | | |
| USD | 4.62% | 4.96% | 3.88% | 4.92% | 3.75% | 5.20% | 3.84% | 5.42% | 4.10% | 5.69% |
| HKD | 4.85% | 5.19% | 3.96% | 4.99% | 3.78% | 5.22% | 3.82% | 5.40% | 4.08% | 5.66% |
| CNY | 2.09% | 2.63% | 2.66% | 3.29% | 2.88% | 3.47% | 3.04% | 3.72% | 3.16% | 3.88% |
| SGD | 3.88% | 5.15% | 2.84% | 4.56% | 3.07% | 4.97% | 2.92% | 4.80% | 2.59% | 4.39% |
| MYR | 3.25% | 3.86% | 3.88% | 4.36% | 4.09% | 4.67% | 4.36% | 5.02% | 4.46% | 5.18% |
| THB | 1.38% | 1.83% | 1.98% | 2.62% | 2.74% | 3.59% | 3.34% | 4.33% | 3.75% | 4.79% |

For the insurance contracts with cash flows that vary based on the returns on any financial underlying items, the Group applies risk-neutral measurement techniques. Stochastic modelling is applied for insurance contracts with significant financial options and guarantees to estimate the expected present value. A large number of possible economic scenarios for market variables such as interest rates and equity returns are considered using risk neutral approach and consistent with market observable price.

19. Insurance contracts and reinsurance contracts held (continued)

RISK ADJUSTMENTS FOR NON-FINANCIAL RISK

Risk adjustments for non-financial risk are generally determined by considering the expected cash flows arising from insurance contracts in each segment for each of the geographical markets in which the Group operates, consistent with the way that non-financial risk is managed. Risk adjustments are determined separately from estimates from the present value of future cash flows, using the confidence level technique.

Applying a confidence level technique, the Group estimates the probability distribution of the expected present value of the future cash flows from insurance contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at 75th percentile (the target confidence level) over the expected present value of the future cash flows.

CONTRACTUAL SERVICE MARGIN

The CSM of a group of contracts is recognised as insurance revenue in each period based on the number of coverage units provided in the period, which is determined by considering for each contract the quantity of the services provided, its expected coverage period and time value of money.

For a group of contracts that is onerous at the start of a reporting period and becomes profitable subsequently that CSM is recognised during the reporting period, the total amount of recognised CSM is released to profit or loss if there are no more future coverage units.

INVESTMENT COMPONENTS

The Group identifies the investment component of an insurance contract by determining the amount that it would be required to repay to the policyholder in all circumstances, regardless of whether an insured event occurs. Investment components are excluded from insurance revenue and insurance service expenses. Generally, for relevant contracts, surrender value would be determined as an investment component.

20. Investment contracts

Investment contract liabilities include deferred fee income of US\$213m (31 December 2022: US\$230m).

21. Borrowings

| | As at 30 June 2023 (Unaudited) | As at 31 December 2022 |
|----------------------------------|---|------------------------------|
| US\$m | | |
| Medium-term notes and securities | | |
| Senior notes | 7,571 | 7,480 |
| Subordinated securities | 3,739 | 3,726 |
| Total | 11,310 | 11,206 |

21. Borrowings (continued)

The following table summarises the Company's outstanding medium-term notes and securities placed to the market at 30 June 2023:

SENIOR NOTES

| Issue date | Nominal amount | Interest rate | Tenor at issue | Maturity |
|--------------------------------|----------------|---------------|----------------|-----------------|
| 11 March 2014 ⁽¹⁾ | US\$500m | 4.875% | 30 years | 11 March 2044 |
| 11 March 2015 ⁽¹⁾ | US\$750m | 3.200% | 10 years | 11 March 2025 |
| 16 March 2016 ⁽¹⁾ | US\$750m | 4.500% | 30 years | 16 March 2046 |
| 23 May 2017 ⁽²⁾ | US\$500m | 4.470% | 30 years | 23 May 2047 |
| 6 April 2018 ⁽¹⁾ | US\$500m | 3.900% | 10 years | 6 April 2028 |
| 16 January 2019 | HK\$1,100m | 3.680% | 12 years | 16 January 2031 |
| 9 April 2019 ⁽¹⁾ | US\$1,000m | 3.600% | 10 years | 9 April 2029 |
| 7 April 2020 ⁽¹⁾ | US\$1,000m | 3.375% | 10 years | 7 April 2030 |
| 24 June 2020 | A\$90m | 2.950% | 10 years | 24 June 2030 |
| 29 March 2022 | HK\$6,500m | 2.250% | 1.99 years | 28 March 2024 |
| 24 October 2022 | HK\$1,200m | 5.040% | 2.99 years | 17 October 2025 |
| 25 October 2022 ⁽¹⁾ | US\$850m | 5.625% | 5 years | 25 October 2027 |
| 4 April 2023 ⁽¹⁾ | US\$600m | 4.950% | 10 years | 4 April 2033 |

SUBORDINATED SECURITIES

| Issue date | Nominal amount | Interest rate | Tenor at issue | Maturity |
|---------------------------------------|----------------|---------------|----------------|-------------------|
| 16 September 2020 ⁽¹⁾ | US\$1,750m | 3.200% | 20 years | 16 September 2040 |
| 7 April 2021 ⁽¹⁾⁽³⁾⁽⁴⁾ | US\$750m | 2.700% | Perpetual | n/a |
| 11 June 2021 ⁽¹⁾⁽³⁾⁽⁴⁾ | SG\$500m | 2.900% | Perpetual | n/a |
| 9 September 2021 ⁽¹⁾⁽³⁾⁽⁴⁾ | EUR750m | 0.880% | 12 years | 9 September 2033 |
| 19 October 2021 ⁽¹⁾⁽³⁾⁽⁴⁾ | SG\$105m | 3.000% | 30 years | 19 October 2051 |

Notes:

- (1) These medium-term notes and securities 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.
- (3) The Company has the right to redeem these securities, in whole, at par on predetermined dates as set out within the terms and conditions of the securities, subject to regulatory approval.
- (4) The coupon rate of these securities is fixed for a predetermined period as set out within the terms and conditions of the securities, and then resets to the initial spread plus a then prevailing benchmark rate if the securities have not been redeemed.

The net proceeds from issuance during the six months ended 30 June 2023 are used for refinancing and general corporate purposes.

The Group has access to an aggregate of US\$2,290m unsecured committed credit facilities, which includes a US\$100m revolving credit facility expiring in 2024 and a US\$2,190m credit facility expiring in 2026. The credit facilities will be used for general corporate purposes. There were no outstanding borrowings under these credit facilities as of 30 June 2023 and 31 December 2022.

22. Obligations under repurchase agreements

The Group has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date. At 30 June 2023, the obligations under repurchase agreements were US\$2,000m (31 December 2022: US\$1,748m).

The securities sold under repurchase agreements continue to be recognised within the appropriate financial asset classification. A liability is established for the consideration received. During the term of the repurchase agreements, the Group is restricted from selling or pledging the transferred debt securities. The following table specifies the amounts included within financial investments subject to repurchase agreements which do not qualify for de-recognition at each period end:

| US\$m | As at 30 June 2023 (Unaudited) | As at 31 December 2022 (Restated) |
|--|---|--|
| Debt securities – FVOCI Repurchase agreements | 1,772 | 1,769 |
| Debt securities – FVTPL Repurchase agreements | 445 | 112 |
| Total | 2,217 | 1,881 |

COLLATERAL UNDER REPURCHASE AGREEMENTS

At 30 June 2023 and 31 December 2022, there was no material collateral in respect of repurchase agreements.

23. Share capital and reserves

SHARE CAPITAL

| | As at 30 June 2023 | | As at 31 December 2022 | |
|---|-------------------------------|----------------------|------------------------|--------|
| | Million shares (Unaudited) | US\$m (Unaudited) | Million shares | US\$m |
| Ordinary shares⁽¹⁾, issued and fully paid | | | | |
| At beginning of the financial period | 11,781 | 14,171 | 12,097 | 14,160 |
| Shares issued under share option scheme and agency share purchase plan | 1 | 4 | 3 | 11 |
| Shares cancelled after repurchase under the share buy-back programme ⁽²⁾ | (197) | – | (319) | – |
| At end of the financial period, issued and fully paid | 11,585 | 14,175 | 11,781 | 14,171 |
| Shares not yet cancelled after repurchase under the share buy-back programme ⁽²⁾ | (34) | – | (47) | – |
| At end of the financial period, outstanding | 11,551 | 14,175 | 11,734 | 14,171 |

Notes:

- (1) Ordinary shares have no nominal value and there is no obligation to transfer cash or other assets to the holders of ordinary shares.
- (2) During the six months ended 30 June 2023, the Company acquired a total of 184,612,000 ordinary shares on the Hong Kong Stock Exchange with the aggregate cost amounting to approximately HK\$15,405m (equivalent to approximately US\$1,966m). Of these shares, 149,923,600 shares were cancelled during the period and 34,688,400 shares were in the process of share cancellation as at 30 June 2023 and were cancelled subsequent to the reporting date on 7 July 2023.

The Company issued 573,823 shares under share option scheme (year ended 31 December 2022: 1,895,760 shares) and 986,359 shares under agency share purchase plan (year ended 31 December 2022: 1,119,763 shares) during the six months ended 30 June 2023.

During the six months ended 30 June 2023, the employee share-based trusts purchased 9,806,139 shares (year ended 31 December 2022: 9,933,820 shares) and sold nil shares (year ended 31 December 2022: nil). These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange (HKSE). These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

During the six months ended 30 June 2023, 4,991,984 shares (six months ended 30 June 2022: 5,671,209 shares) were transferred to eligible directors, officers and employees of the Group from the employee share-based trusts under share-based compensation plans as a result of vesting. As at 30 June 2023, 38,174,554 shares (31 December 2022: 33,360,398 shares) of the Company were held by the employee share-based trusts.

23. Share capital and reserves (continued)

RESERVES

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of debt securities measured at fair value through other comprehensive income held at the end of the reporting period plus the related loss allowance recognised in profit or loss until the assets are derecognised.

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.

Insurance finance reserve

The insurance finance reserve comprises the cumulative insurance finance income or expenses recognised in other comprehensive income.

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. Where the Group is deemed to control the trusts, they are consolidated. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts" and carried at cost.

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.

24. 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 among Group members 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.

Group-wide Supervision Framework and the Local Capital Summation Method

The Group supervisor is the Hong Kong Insurance Authority (HKIA) and the Group is in compliance with its group capital adequacy requirements.

The Insurance (Group Capital) Rules (GWS Capital Rules) set out the capital requirements and overall solvency position for the Group under the Group-wide Supervision (GWS) framework. These requirements are based on a "summation approach" and are referred to as the Local Capital Summation Method (LCSM). Under the LCSM, the eligible group capital resources and group capital requirements are calculated as the sum of the eligible capital resources and capital requirements for each entity within the Group according to the respective local regulatory requirements, subject to any variation considered necessary by the HKIA.

The group prescribed capital requirement (GPCR) is the sum of the prescribed capital requirements of each entity within the Group, and represents the level below which the HKIA may intervene on grounds of capital adequacy.

The Group LCSM coverage ratio is calculated as the ratio of the eligible group capital resources to the GPCR and the Group LCSM surplus is defined as the excess of the eligible group capital resources over the GPCR.

The group minimum capital requirement (GMCR) is the sum of the minimum capital requirements of each entity within the Group.

24. Group capital structure (continued)

Group-wide Supervision Framework and the Local Capital Summation Method (continued)

The table shows a summary of the Group capital adequacy position.

| US\$m | As at 30 June 2023 (Unaudited) | As at 31 December 2022 |
|--|---|------------------------------|
| Group LCSM coverage ratio ⁽¹⁾ | 260% | 283% |
| Tier 1 group capital coverage ratio ⁽²⁾ | 323% | 355% |
| Eligible group capital resources | 68,501 | 70,698 |
| <i>Tier 1 group capital</i> | 44,038 | 45,508 |
| <i>Tier 2 group capital</i> | 24,463 | 25,190 |
| Group prescribed capital requirement (GPCR) | 26,320 | 24,989 |
| Group minimum capital requirement (GMCR) | 13,619 | 12,810 |
| Group LCSM surplus | 42,181 | 45,709 |

At 30 June 2023, the eligible group capital resources includes the following items, which are included within Tier 2 group capital:

- (i) US\$3,739m⁽³⁾ of subordinated securities. Subordinated securities with a fixed maturity receive full capital credit up to the date that is 5 years prior to the date of maturity, with the capital credit then reducing at the rate of 20 per cent per annum until maturity. Perpetual subordinated securities receive full capital credit unless they are redeemed; and
- (ii) US\$5,153m⁽³⁾ of senior notes issued before designation that have been approved by the HKIA as capital. Prior to maturity, the approved senior notes receive full capital credit until 14 May 2031, after which the capital credit reduces at the rate of 20 per cent per annum until 14 May 2036.

Notes:

- (1) The Group LCSM coverage ratio is referred to as the "eligible group capital resources coverage ratio" in the GWS framework and is defined as the ratio of the eligible group capital resources to the GPCR.
- (2) The Tier 1 group capital coverage ratio is defined in the GWS framework as the ratio of the Tier 1 group capital to the GMCR.
- (3) The amounts represent the carrying value of medium-term notes and securities contributing to the eligible group capital resources.

24. Group capital structure (continued)

Local Regulatory Solvency

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 Group's principal operating companies AIA Company Limited (AIA Co.) and AIA International Limited (AIA International), as authorised insurers in Hong Kong, are required by the HKIA to meet the Hong Kong solvency requirements. During the six months ended 30 June 2023 and the year ended 31 December 2022, these two principal operating companies were in compliance with these solvency requirements.

Dividends, remittances and other payments from individual branches and subsidiaries

The ability of the Company to pay dividends to shareholders and to meet other obligations depends ultimately on dividends, remittances and other payments being received from its operating branches and subsidiaries, 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 branches and subsidiaries to make payment of dividends, remittances and other 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.

25. Risk management

The financial risks that the Group is exposed to include, but are not limited to, credit risk, credit spread risk, interest rate risk, equity risk, foreign exchange rate risk and liquidity risk.

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 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 defence. Fundamental to AIA's credit risk management is adherence to a well-controlled underwriting process. Credit risk limits are applied to contain individual exposures, sector concentration and cross border investment according to an internal rating framework assigned to all counterparties. A detailed analysis of each counterparty is performed and a rating is determined by the investment teams. The Group's Risk Management function manages the Group's internal ratings framework and conducts periodic rating validations. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

CREDIT SPREAD RISK

Credit spread movements affect both the value of assets and liabilities. Credit spread risk is in a large part managed through the strategic asset allocation process, whereby the two key drivers of spread risk – credit rating and spread duration – are managed for capital efficiency, taking into account both the economic risk and the local solvency capital considerations. The risk is monitored by the Business Units, with special attention paid to any issuers with credit ratings close to the lower boundary of Investment Grade.

25. Risk management (continued)

INTEREST RATE RISK

Interest rate risk is primarily measured through the duration gap, which provides an understanding of the implications of interest rates movements on surplus. 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. Interest rate risk on the local solvency basis is also taken into consideration for business units where local solvency regimes deviate from the economic basis. Furthermore, AIA actively manages interest rate risk by extending asset duration, managing liability duration, repricing products, and implementing appropriate hedging programmes and reinsurance solutions where possible. For products with discretionary benefits, additional modelling of interest rate risk is performed to guide the determination of appropriate management actions. Management also takes into consideration the asymmetrical impact of interest rate movements when evaluating products with options and guarantees.

EQUITY RISK

Equity risk arises from changes in the market value of equity shares, interests in investment funds and exchangeable loan notes. Investments in equity shares, interests in investment funds and exchangeable loan notes on a long-term basis are expected to align with 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 risk is managed through strategic asset allocation and tactical asset allocation. Equity investments are subject to benchmarks and controls relating to maximum concentration and tracking errors. Equity limits are also applied to contain concentration risk of individual stocks and sectors, liquidity as well as equity volatility. Equity exposures are included in the aggregate exposure reports on each individual counterparty to ensure concentrations are avoided.

SENSITIVITY ANALYSIS

Sensitivity analysis to the key variables, namely interest rate and equity risk, affecting insurance contracts and reinsurance contracts held, and financial instruments held by the Group is set out below. 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 to changes in interest rates and equity prices, the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders.

Information is presented to illustrate the estimated impact on profits, total equity, allocated equity and CSM arising from a change in a single variable before taking into account the effects of taxation. The effects on these items are as mainly follows:

- The effects on profit or loss are changes relating to loss components and changes in investment return, insurance finance income or expenses and foreign exchange differences that are recognised in profit or loss.
- The effects on equity are the effects on profit or loss, and the effects on other comprehensive income arising from net changes in net investment results and net insurance finance income or expenses.
- The effects on CSM reflects the change of the corresponding market risks that impacts CSM.

The impact of any impairments of financial assets has been ignored for the purpose of illustrating the sensitivity of profit before tax, total equity, allocated equity and CSM 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.

25. Risk management (continued)

SENSITIVITY ANALYSIS ON INTEREST RATE RISK⁽¹⁾

An analysis of the Group's sensitivity to 50 basis points parallel increase or decrease in yield curves at the reporting date, assuming that all other variables remain constant, is presented below.

| 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 CSM |
|--|-----------------------------------|--|--|------------------|
| 30 June 2023 – Unaudited | | | | |
| <i>+ 50 basis points shift in yield curves:</i> | | | | |
| Insurance contracts and reinsurance contracts held | 6,277 | 9,265 | 6,277 | (585) |
| Financial instruments | (6,393) | (11,139) | (6,393) | – |
| | <u>(116)</u> | <u>(1,874)</u> | <u>(116)</u> | <u>(585)</u> |
| <i>– 50 basis points shift in yield curves:</i> | | | | |
| Insurance contracts and reinsurance contracts held | (7,042) | (10,338) | (7,042) | 742 |
| Financial instruments | 7,177 | 12,525 | 7,177 | – |
| | <u>135</u> | <u>2,187</u> | <u>135</u> | <u>742</u> |
| 31 December 2022 – Restated | | | | |
| <i>+ 50 basis points shift in yield curves:</i> | | | | |
| Insurance contracts and reinsurance contracts held | 5,911 | 8,476 | 5,911 | (713) |
| Financial instruments | (6,023) | (10,700) | (6,023) | – |
| | <u>(112)</u> | <u>(2,224)</u> | <u>(112)</u> | <u>(713)</u> |
| <i>– 50 basis points shift in yield curves:</i> | | | | |
| Insurance contracts and reinsurance contracts held | (6,630) | (9,329) | (6,630) | 934 |
| Financial instruments | 6,764 | 12,031 | 6,764 | – |
| | <u>134</u> | <u>2,702</u> | <u>134</u> | <u>934</u> |

Note:

- (1) At 31 December 2022, the assets and liabilities of Australian Savings and Investments (S&I) were included in the assets in disposal group held for sale and the liabilities in disposal group held for sale. Therefore, the amounts in the above table exclude the effects on the S&I assets and liabilities. The 2022 comparatives were prepared on the same basis to conform to the presentation for the current period.

25. Risk management (continued)

SENSITIVITY ANALYSIS ON EQUITY RISK⁽¹⁾

An analysis of the Group's sensitivity to 10% increase or decrease in equity prices at the reporting date, assuming that all other variables remain constant, is presented below.

| 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 CSM |
|--|-----------------------------------|--|--|------------------|
| 30 June 2023 – Unaudited | | | | |
| <i>10 per cent increase in equity prices:</i> | | | | |
| Insurance contracts and reinsurance contracts held | (2,704) | (2,745) | (2,704) | 617 |
| Financial instruments | 3,939 | 3,939 | 3,939 | – |
| | <u>1,235</u> | <u>1,194</u> | <u>1,235</u> | <u>617</u> |
| <i>10 per cent decrease in equity prices:</i> | | | | |
| Insurance contracts and reinsurance contracts held | 2,694 | 2,733 | 2,694 | (622) |
| Financial instruments | (3,939) | (3,939) | (3,939) | – |
| | <u>(1,245)</u> | <u>(1,206)</u> | <u>(1,245)</u> | <u>(622)</u> |
| 31 December 2022 – Restated | | | | |
| <i>10 per cent increase in equity prices:</i> | | | | |
| Insurance contracts and reinsurance contracts held | (2,702) | (2,744) | (2,702) | 577 |
| Financial instruments | 3,893 | 3,893 | 3,893 | – |
| | <u>1,191</u> | <u>1,149</u> | <u>1,191</u> | <u>577</u> |
| <i>10 per cent decrease in equity prices:</i> | | | | |
| Insurance contracts and reinsurance contracts held | 2,703 | 2,744 | 2,703 | (579) |
| Financial instruments | (3,893) | (3,893) | (3,893) | – |
| | <u>(1,190)</u> | <u>(1,149)</u> | <u>(1,190)</u> | <u>(579)</u> |

Note:

- (1) At 31 December 2022, the assets and liabilities of Australian S&I were included in the assets in disposal group held for sale and the liabilities in disposal group held for sale. Therefore, the amounts in the above table exclude the effects on the S&I assets and liabilities. The 2022 comparatives were prepared on the same basis to conform to the presentation for the current period.

25. Risk management (continued)

FOREIGN EXCHANGE RATE RISK

The Group's foreign exchange rate risk arises mainly from the Group's operations in multiple markets in Asia and the translation of multiple currencies to the 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.

Foreign currency transactions risk arising from the underlying items of participating contracts is generally borne by policyholders except to the extent of the Group's share of the performance of the underlying items.

Assets, liabilities and local regulatory and stress capital in each business unit are generally currency matched except for holdings of equities and other non-fixed income assets denominated in currencies other than the functional currency. Bonds denominated in currencies other than the functional currency are hedged with cross-currency swaps or foreign exchange forward contracts.

FOREIGN EXCHANGE RATE EXPOSURE⁽¹⁾

| US\$m | United States Dollar | China Renminbi | Hong Kong Dollar | Thai Baht | Singapore Dollar | Malaysian Ringgit |
|---|-------------------------|-------------------|---------------------|--------------|---------------------|----------------------|
| 30 June 2023 – Unaudited | | | | | | |
| Insurance contracts and reinsurance contracts held | | | | | | |
| Assets | 328 | 1,601 | 684 | 834 | 1,240 | 33 |
| Liabilities | (78,132) | (34,320) | (7,543) | (15,937) | (24,429) | (10,922) |
| Financial instruments | | | | | | |
| Assets | 117,698 | 40,957 | 7,069 | 21,591 | 21,102 | 12,919 |
| Liabilities | (20,591) | (3,419) | (4,475) | (2,430) | (3,226) | (198) |
| Net positions of currency derivatives | (5,871) | (893) | 704 | 1,833 | 4,186 | 155 |
| 31 December 2022 – Restated | | | | | | |
| Insurance contracts and reinsurance contracts held | | | | | | |
| Assets | 331 | 1,483 | 685 | 1,198 | 1,178 | 33 |
| Liabilities | (72,785) | (30,491) | (7,557) | (15,734) | (23,469) | (11,342) |
| Financial instruments | | | | | | |
| Assets | 111,492 | 40,082 | 8,389 | 21,229 | 20,271 | 13,375 |
| Liabilities | (20,311) | (3,505) | (4,646) | (2,590) | (2,479) | (88) |
| Net positions of currency derivatives | (5,996) | (344) | 324 | 1,996 | 3,875 | 210 |

Note:

- (1) At 31 December 2022, the assets and liabilities of Australian S&I were included in the assets in disposal group held for sale and the liabilities in disposal group held for sale. Therefore, the amounts in the above table exclude the effects on the S&I assets and liabilities. The 2022 comparatives were prepared on the same basis to conform to the presentation for the current period.

25. Risk management (continued)

SENSITIVITY ANALYSIS ON FOREIGN EXCHANGE RATE RISK⁽¹⁾

A reasonably possible strengthening or weakening of the following currencies against all other currencies at the reporting date would have affected the measurement of insurance contracts and reinsurance contracts held and financial instruments denominated in foreign currency and affected the profit before tax, total equity and CSM by the amounts shown below. This analysis assumes that all other variables remain constant.

| US\$m | United States Dollar | China Renminbi | Hong Kong Dollar | Thai Baht | Singapore Dollar | Malaysian Ringgit |
|--|-------------------------|-------------------|---------------------|-----------|---------------------|----------------------|
| 30 June 2023 – Unaudited | | | | | | |
| 5% strengthening of original currency | | | | | | |
| Impact on profit before tax | | | | | | |
| Insurance contracts and reinsurance contracts held | (949) | (34) | (179) | (3) | (22) | 2 |
| Financial instruments | 990 | 97 | 159 | 6 | 14 | 5 |
| Impact on total equity | | | | | | |
| Insurance contracts and reinsurance contracts held | – | (1,664) | (293) | (762) | (830) | (547) |
| Financial instruments | – | 1,832 | 165 | 1,050 | 1,103 | 644 |
| Impact on CSM | | | | | | |
| Insurance contracts and reinsurance contracts held | – | 813 | 58 | 298 | 139 | 118 |
| 5% strengthening of the US dollar | | | | | | |
| Impact on profit before tax | | | | | | |
| Insurance contracts and reinsurance contracts held | (949) | 25 | 142 | 1 | 18 | (2) |
| Financial instruments | 990 | (83) | (112) | (4) | 7 | (4) |
| Impact on total equity | | | | | | |
| Insurance contracts and reinsurance contracts held | – | 1,579 | 250 | 724 | 878 | 520 |
| Financial instruments | – | (1,745) | (157) | (1,000) | (1,051) | (613) |
| Impact on CSM | | | | | | |
| Insurance contracts and reinsurance contracts held | – | (773) | (52) | (284) | (141) | (112) |

Note:

- (1) At 31 December 2022, the assets and liabilities of Australian S&I were included in the assets in disposal group held for sale and the liabilities in disposal group held for sale. Therefore, the amounts in the above table exclude the effects on the S&I assets and liabilities. The 2022 comparatives were prepared on the same basis to conform to the presentation for the current period.

25. Risk management (continued)

SENSITIVITY ANALYSIS ON FOREIGN EXCHANGE RATE RISK⁽¹⁾ (continued)

| US\$m | United States Dollar | China Renminbi | Hong Kong Dollar | Thai Baht | Singapore Dollar | Malaysian Ringgit |
|--|-------------------------|-------------------|---------------------|-----------|---------------------|----------------------|
| 31 December 2022 – Restated | | | | | | |
| 5% strengthening of original currency | | | | | | |
| Impact on profit before tax | | | | | | |
| Insurance contracts and reinsurance contracts held | (934) | (48) | (212) | (4) | (30) | 2 |
| Financial instruments | 967 | 143 | 195 | (4) | (9) | 1 |
| Impact on total equity | | | | | | |
| Insurance contracts and reinsurance contracts held | – | (1,495) | (333) | (735) | (827) | (569) |
| Financial instruments | – | 1,812 | 203 | 1,032 | 1,083 | 675 |
| Impact on CSM | | | | | | |
| Insurance contracts and reinsurance contracts held | – | 847 | 69 | 303 | 150 | 124 |
| 5% strengthening of the US dollar | | | | | | |
| Impact on profit before tax | | | | | | |
| Insurance contracts and reinsurance contracts held | (934) | 39 | 185 | 3 | 25 | (2) |
| Financial instruments | 967 | (127) | (158) | 5 | 29 | – |
| Impact on total equity | | | | | | |
| Insurance contracts and reinsurance contracts held | – | 1,419 | 299 | 699 | 844 | 542 |
| Financial instruments | – | (1,725) | (194) | (983) | (1,032) | (643) |
| Impact on CSM | | | | | | |
| Insurance contracts and reinsurance contracts held | – | (806) | (64) | (289) | (149) | (118) |

Note:

- (1) At 31 December 2022, the assets and liabilities of Australian S&I were included in the assets in disposal group held for sale and the liabilities in disposal group held for sale. Therefore, the amounts in the above table exclude the effects on the S&I assets and liabilities. The 2022 comparatives were prepared on the same basis to conform to the presentation for the current period.

25. Risk management (continued)

LIQUIDITY RISK

Liquidity risk is defined as the risk of failure to meet current and future financial commitments as they fall due. This incorporates the risks arising from the timing mismatch of cash inflows and outflows in day-to-day operations, including policyholder and third-party payments, collateral requirements, as well as insufficient market liquidity of assets required for policyholder liabilities.

AIA has a liquidity framework which contains the standards, procedures, and tools used by the Group to monitor and manage liquidity risk on a forward-looking basis across multiple scenarios and time horizons.

The Group's liquidity framework builds liquidity resiliency in all our markets while providing central oversight and the ability to take timely management action if required to ensure we meet all our financial commitments as they fall due. The Group regularly measures and monitors liquidity adequacy to ensure compliance with the liquidity risk standards under the framework.

26. Share-based compensation

SHARE-BASED COMPENSATION PLANS

During the six months ended 30 June 2023, the Group made further grants of share options (SOs), restricted share units (RSUs) and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Group under the Share Option Scheme, the Restricted Share Unit Scheme and the Employee Share Purchase Plan. In addition, the Group made further grants of restricted stock subscription units (RSSUs) to eligible agents under the Agency Share Purchase Plan.

VALUATION METHODOLOGY

The Group utilises a binomial lattice model to calculate the fair value of the SO grants, involving a few significant assumptions such as the expected volatility, expected dividend yield and risk-free interest rate. The expected volatility of the Company's shares is estimated based on an analysis of historical data since they are traded in the HKSE. The expected dividend yield is estimated based on an analysis of historical dividend relative to historical share price. The risk-free interest rate is estimated based on implied yield of the Government Bonds and Exchange Fund Notes issued by the Hong Kong Monetary Authority as at the grant date. The analysis period for expected volatility and risk-free interest rate is consistent with the expected life of the SOs, which 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 Group utilises a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU, RSPU and RSSU grants, taking into account the terms and conditions upon which the grants were made. The value of expected dividends during the vesting period is estimated based on an analysis of historical dividend relative to historical share price. The estimate of market condition for performance-based RSUs is based on historical data preceding the grant date.

Forfeitures prior to vesting are not allowed for in the valuation of the grants.

The fair values calculated for the grants are inherently subjective due to the assumptions made and the limitations of the models utilised.

| | Share option | |
|---|---------------------|-------------|
| | Six months | Year |
| | ended | ended |
| | 30 June | 31 December |
| | 2023 | 2022 |
| | (Unaudited) | |
| Assumptions | | |
| Risk-free interest rate | 3.19% | 1.93% |
| Volatility | 28% | 26% |
| Dividend yield | 1.60% | 1.70% |
| Exercise price (HK\$) | 80.73 | 79.85 |
| Share option life (in years) | 10 | 10 |
| Expected life (in years) | 7.47 | 7.45 |
| Weighted average fair value per option/unit at measurement date (HK\$) | 23.97 | 21.00 |

The weighted average share price for SO valuation for grants made during the six months ended 30 June 2023 is HK\$80.73 (year ended 31 December 2022: HK\$79.85). The total fair value of SO granted during the six months ended 30 June 2023 is US\$6m (six months ended 30 June 2022: US\$7m).

RECOGNISED COMPENSATION COST

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation grants made by the Group for the six months ended 30 June 2023 is US\$31m (six months ended 30 June 2022: US\$36m).

27. Remuneration of key management personnel

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

| US\$ | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited) |
|---|--|--|
| Key management compensation and other expenses | | |
| Salaries and other short-term employee benefits | 12,056,247 | 12,301,026 |
| Post-employment benefits | 314,682 | 330,267 |
| Share-based payments ⁽¹⁾ | 7,866,786 | 9,130,368 |
| Termination payments or benefits | – | 2,844,552 |
| Total | <u>20,237,715</u> | <u>24,606,213</u> |

Note:

(1) Includes amortised expenses for unvested SOs, RSUs and matching shares under ESPP to the key management personnel based on the fair value at the respective grant dates.

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

| US\$ | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited) |
|------------------------|--|--|
| Below 1,000,000 | 1 | 1 |
| 1,000,001 to 2,000,000 | 9 | 8 |
| 2,000,001 to 3,000,000 | 1 | 1 |
| 3,000,001 to 4,000,000 | – | 1 |
| 5,000,001 to 6,000,000 | 1 | – |
| 6,000,001 to 7,000,000 | – | 1 |

28. Commitments and contingencies

INVESTMENT AND CAPITAL COMMITMENTS

| US\$m | As at 30 June 2023 (Unaudited) | As at 31 December 2022 |
|--|---|------------------------------|
| Not later than one year | 16,714 | 14,962 |
| Later than one and not later than five years | 135 | 105 |
| Total | 16,849 | 15,067 |

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, claims and taxes. The Group believes that these matters are adequately provided for in these financial statements.

The Group operates in many jurisdictions across Asia and in certain of those jurisdictions, the Group's interpretation of the relevant law or regulation may differ from that of the tax authorities, which can result in disputes arising. The Group has made provisions to cover the potential tax implications, based on management's judgement and best estimate in relation to the probability or likelihood of the potential outcomes, which is subject to periodic reassessment. Due to the uncertainty associated with these items, there remains a possibility that the final outcomes may differ on conclusion of the relevant tax matters at a future date.

29. Events after the reporting period

On 24 August 2023, a Committee appointed by the Board of Directors declared an interim dividend of 42.29 Hong Kong cents per share (six months ended 30 June 2022: 40.28 Hong Kong cents per share).

30. Disposal group held for sale

On 24 February 2022, the Group announced it had entered into an agreement to sell its Australian S&I business to Resolution Life Australasia Limited. The Australian S&I business is a constituent part of the businesses that transferred to AIA Australia following the acquisition of The Colonial Mutual Life Assurance Society Limited from Commonwealth Bank of Australia. The assets and liabilities of the Australian S&I business have been classified as assets in disposal group held for sale and liabilities in disposal group held for sale in the interim consolidated statement of financial position, contributed by the Australia operating segment. The transaction has been completed with statutory transfer approved by the Federal Court of Australia, effective on 1 July 2023.

At 30 June 2023, the assets and liabilities in disposal group held for sale were stated at the lower of its carrying amount and fair value less costs to sell. The assets and liabilities in disposal group held for sale are summarised below.

| US\$m | Notes | As at 30 June 2023 (Excluding disposal group) (Unaudited) | Assets and liabilities in disposal group (Unaudited) | As at 30 June 2023 (Including disposal group) (Unaudited) |
|---|--------|--|---|--|
| Assets | | | | |
| Intangible assets | 14 | 3,478 | – | 3,478 |
| Investments in associates and joint ventures | | 1,960 | – | 1,960 |
| Property, plant and equipment | | 4,027 | – | 4,027 |
| Investment property | | 4,480 | – | 4,480 |
| Insurance contract assets | 19 | 1,784 | – | 1,784 |
| Reinsurance contract assets | 19 | 5,777 | – | 5,777 |
| Financial investments: | 15, 17 | | | |
| At amortised cost | | | | |
| Debt securities | | 1,980 | – | 1,980 |
| Loans and deposits | | 4,261 | – | 4,261 |
| At fair value through other comprehensive income | | | | |
| Debt securities | | 85,167 | 42 | 85,209 |
| At fair value through profit or loss | | | | |
| Debt securities | | 83,823 | 795 | 84,618 |
| Loans and deposits | | 265 | – | 265 |
| Equity shares | | 21,883 | 2,307 | 24,190 |
| Interests in investment funds and exchangeable loan notes | | 41,266 | – | 41,266 |
| Derivative financial instruments | 16 | 566 | 50 | 616 |
| | | <u>239,211</u> | <u>3,194</u> | <u>242,405</u> |
| Deferred tax assets | | 212 | – | 212 |
| Current tax recoverable | | 188 | – | 188 |
| Other assets | | 4,112 | 99 | 4,211 |
| Cash and cash equivalents | 18 | 6,666 | 725 | 7,391 |
| Assets in disposal group held for sale | | <u>4,018</u> | <u>(4,018)</u> | <u>–</u> |
| Total assets | | <u><u>275,913</u></u> | <u><u>–</u></u> | <u><u>275,913</u></u> |
| Liabilities | | | | |
| Insurance contract liabilities | 19 | 191,872 | 1,023 | 192,895 |
| Reinsurance contract liabilities | 19 | 223 | 21 | 244 |
| Investment contract liabilities | 20 | 9,082 | 2,655 | 11,737 |
| Borrowings | 21 | 11,310 | – | 11,310 |
| Obligations under repurchase agreements | 22 | 2,000 | – | 2,000 |
| Derivative financial instruments | 16 | 7,623 | 74 | 7,697 |
| Provisions | | 155 | – | 155 |
| Deferred tax liabilities | | 2,948 | 4 | 2,952 |
| Current tax liabilities | | 383 | 5 | 388 |
| Other liabilities | | 4,215 | 44 | 4,259 |
| Liabilities in disposal group held for sale | | <u>3,826</u> | <u>(3,826)</u> | <u>–</u> |
| Total liabilities | | <u><u>233,637</u></u> | <u><u>–</u></u> | <u><u>233,637</u></u> |

31. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16

The Group has adopted IFRS 9, IFRS 17 and amendment to IAS 16, including any consequential amendments to other standards, with a date of initial adoption of 1 January 2023. The following table set out the impact of initial adoption of these standards on the Group's equity at 1 January 2022.

| US\$m | As at 31 December 2021 (As previously reported) | Impact upon initial adoption of IFRS 9, IFRS 17 and amendment to IAS 16 | As at 1 January 2022 (restated) |
|--|---|--|---------------------------------------|
| Equity | | | |
| Share capital | 14,160 | – | 14,160 |
| Employee share-based trusts | (225) | – | (225) |
| Other reserves | (11,841) | – | (11,841) |
| Retained earnings | 49,984 | (987) | 48,997 |
| Fair value reserve | 8,407 | (1,766) | 6,641 |
| Foreign currency translation reserve | (1,068) | – | (1,068) |
| Insurance finance reserve | – | (1,895) | (1,895) |
| Property revaluation reserve | 1,069 | 148 | 1,217 |
| Others | (19) | 56 | 37 |
| Amounts reflected in other comprehensive income | 8,389 | (3,457) | 4,932 |
| <i>Total equity attributable to:</i> | | | |
| Shareholders of AIA Group Limited | 60,467 | (4,444) | 56,023 |
| Non-controlling interests | 467 | 17 | 484 |
| Total equity | 60,934 | (4,427) | 56,507 |

31. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 17 INSURANCE CONTRACTS

Recognition, measurement and presentation of insurance contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts held and investment contracts with DPF. It introduces a model that measures groups of contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk and a CSM.

Under IFRS 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which the Group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. In addition, investment components are excluded from insurance revenue and insurance service expenses.

The Group no longer applies shadow accounting to insurance-related assets and liabilities.

Insurance finance income or expenses, disaggregated between profit or loss and other comprehensive income for the relevant business in participating funds and other participating business with distinct portfolios, other policyholder and shareholder and unit-linked funds, are presented separately from insurance revenue and insurance service expenses.

The Group applies the premium allocation approach to simplify the measurement of certain contracts. When measuring liabilities for remaining coverage, the premium allocation approach is similar to the Group's previous accounting treatment; however, when measuring liabilities for incurred claims, the Group now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk, as appropriate.

Previously, all acquisition costs were recognised and presented as separate assets from the related insurance contracts ("deferred acquisition costs") and are subsequently amortised over the expected life of the contracts. Under IFRS 17, only insurance acquisition cash flows that arise before the recognition of the related insurance contracts are recognised as separate assets and are tested for recoverability. These assets are presented as part of the carrying amount of the related portfolio of contracts and are subsequently derecognised when respective groups of contracts are recognised and hence included in the CSM measurement of that group.

Income and expenses from reinsurance contracts held other than insurance finance income or expenses are now presented as a single net amount in profit or loss. Previously, amounts recovered from reinsurers and reinsurance expenses were presented separately.

For an explanation of how the Group accounts for insurance contracts and reinsurance contracts held under IFRS 17, see note 2.3.

31. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 17 INSURANCE CONTRACTS (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied full retrospective approach to the extent practicable. Under the full retrospective approach, at 1 January 2022, the Group:

- identified, recognised and measured each group of insurance contracts and reinsurance contracts held as if IFRS 17 had always applied;
- identified, recognised and measured any assets for insurance acquisition cash flows as if IFRS 17 had always been applied, except that the recoverability assessment in note 2.3.5 was not applied before 1 January 2022;
- derecognised previously reported balances that would not have existed if IFRS 17 had always been applied. These included deferred acquisition costs for insurance contracts, insurance receivables and payables, policy loans and its accrued interest revenue and provisions that are attributable to existing insurance contracts, etc. Under IFRS 17, these are included in the measurement of the insurance contracts;
- recognised any resulting net difference in equity. The carrying amount of goodwill from previous business combinations was not adjusted.

Insurance contracts and reinsurance contracts held

For certain groups of contracts, the Group applied the modified retrospective approach or the fair value approach in IFRS 17 to identify, recognise and measure certain groups of contracts at 1 January 2022 because it was impracticable to apply the full retrospective approach.

The Group considered the full retrospective approach impracticable for contracts in these segments under any of the following circumstances.

- The effects of retrospective application were not determinable because the information required had not been collected (or had not been collected with sufficient granularity) and was unavailable because of system migrations, data retention requirements or other reasons.
- The full retrospective approach required assumptions about what Group management's intentions would have been in previous periods or significant accounting estimates that could not be made without the use of hindsight, the application of full retrospective approach is considered as impracticable if such assumptions and estimates were not determinable.

Irrespective of the transition approach used, the following items have not been applied retrospectively.

- When the Group uses derivatives to mitigate the financial risk from interest rate guarantees in traditional participating contracts and equity guarantees in variable annuity contracts, the option to exclude changes in the effect of that financial risk from the CSM has not been applied for periods before 1 January 2023.
- The consequential amendments to IFRS 3, Business Combinations introduced by IFRS 17 require the Group to classify contracts acquired as insurance contracts based on the contractual terms and other factors at the date of acquisition. This requirement was not applied to business combinations before 1 January 2023, for which the Group classified contracts acquired as insurance contracts based on the conditions at contract inception.

31. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 17 INSURANCE CONTRACTS (continued)

Transition (continued)

Insurance contracts and reinsurance contracts held (continued)

To indicate the effect of applying the modified retrospective approach or the fair value approach on the insurance finance income or expenses, the Group has provided additional disclosures in notes 2.3.9 and 9.

The following table shows the effect of applying the modified retrospective approach or the fair value approach on CSM on insurance contracts at 1 January 2022.

| US\$m | As at 1 January 2022 |
|---|-------------------------|
| CSM | |
| Contracts under the modified retrospective approach | 11,983 |
| Contracts under the fair value approach | 36,917 |
| Other contracts | 6,258 |
| Total CSM | 55,158 |

Assets for insurance acquisition cash flows

The Group also applied the modified retrospective approach or the fair value approach to identify, recognise and measure certain assets for insurance acquisition cash flows at 1 January 2022.

It was impracticable to apply the full retrospective approach because:

- data had not been collected with sufficient granularity;
- information required to identify fixed and variable overheads as relating to acquisition activities and to allocate them to groups of contracts was not available; or
- original assumptions about the manner in which the Group would have expected insurance acquisition cash flows to be recovered, which were required to allocate them to renewals, could not be made without the use of hindsight.

Effect of initial adoption

The Group has applied the transition provisions in IFRS 17 and has not disclosed the impact of the adoption of IFRS 17 on each financial statement line item.

31. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS

Classification of financial assets and financial liabilities

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available for sale financial assets. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

For explanations of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see note 2.4.

IFRS 9 has not had a significant effect on the Group's accounting policies for financial liabilities and hedge accounting.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" model. The new impairment model applies to financial assets measured at amortised cost, debt securities at fair value through other comprehensive income, trade receivables and lease receivables. Under IFRS 9, credit losses are recognised earlier than under IAS 39 (see note 2.4.3).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The comparative period has been restated. As permitted under IFRS 17, the Group has elected to apply classification overlay in the comparative period presented. The classification overlay has been applied to all financial assets that had been derecognised before 1 January 2023 based on how those assets are expected to be classified on initial adoption of IFRS 9. In applying the classification overlay to financial assets derecognised during the comparative period, the Group has applied the impairment requirements of IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2023.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at fair value through profit or loss.
- If an investment in a debt security had low credit risk at 1 January 2023, then the Group determined that the credit risk on the asset had not increased significantly since initial recognition.

As permitted by IFRS 7, the Group has not disclosed information about the line item amounts that are reported in accordance with the classification and measurement (including impairment) requirements of IFRS 9 for 2022 and those that would have been reported in accordance with the classification and measurement requirements of IAS 39 for 2023.

31. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS (continued)

Effect of initial adoption

Classification of financial assets and financial liabilities

The following table shows the original measurement category and carrying amount under IAS 39 and the new measurement category and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities.

| US\$m | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 as at 31 December 2022 | New carrying amount under IFRS 9 as at 1 January 2023 |
|--|---|------------------------------------|---|--|
| Financial assets | | | | |
| Debt securities | FVTPL | FVTPL (mandatory) | 6,802 | 6,802 |
| Debt securities | Available for sale | FVTPL (mandatory) | 680 | 680 |
| Debt securities | FVTPL | FVTPL (designated) | 28,634 | 28,634 |
| Debt securities | Available for sale | FVTPL (designated) | 42,211 | 42,211 |
| Debt securities | FVTPL | FVOCI | 1,226 | 1,226 |
| Debt securities | Available for sale | FVOCI | 84,871 | 84,871 |
| Debt securities | Available for sale | Amortised cost | 1,519 | 1,787 |
| Loans and deposits | Loans and receivables | Amortised cost | 4,582 | 4,566 |
| Loans and deposits | Loans and receivables | FVTPL (designated) | 250 | 279 |
| Equity shares | FVTPL | FVTPL (mandatory) | 25,691 | 25,691 |
| Interests in investment funds and exchangeable loan notes | FVTPL | FVTPL (mandatory) | 38,577 | 38,577 |
| Derivative assets | FVTPL | FVTPL (mandatory) | 630 | 630 |
| Accrued investment income | Loans and receivables | Amortised cost | 1,752 | 1,752 |
| Receivables | Loans and receivables | Amortised cost | 1,743 | 1,718 |
| Cash and cash equivalents | Loans and receivables | FVTPL (mandatory) | 2,248 | 2,248 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 6,721 | 6,721 |
| Total financial assets | | | 248,137 | 248,393 |
| Financial liabilities | | | | |
| Investment contract liabilities ⁽¹⁾ | FVTPL | FVTPL (designated) | 9,441 | 9,441 |
| Investment contract liabilities ⁽¹⁾ | Not applicable | FVTPL (designated) | – | 2,015 |
| Investment contract liabilities ⁽¹⁾ | Amortised cost | Amortised cost | 530 | 530 |
| Borrowings | Amortised cost | Amortised cost | 11,206 | 11,206 |
| Obligations under repurchase agreements | Amortised cost | Amortised cost | 1,748 | 1,748 |
| Derivative liabilities | FVTPL | FVTPL (mandatory) | 8,739 | 8,739 |
| Trade and other payables | Amortised cost | Amortised cost | 2,913 | 2,913 |
| Trade and other payables | Not applicable | Amortised cost | – | 137 |
| Third-party interests in consolidated investment funds | FVTPL | FVTPL (designated) | 865 | 865 |
| Total financial liabilities | | | 35,442 | 37,594 |

Note:

- (1) For the purpose of consistency in preparation of the investment contract liabilities to the statement of financial position, the balance includes US\$230m of deferred fee income that are not carried at FVTPL.

31. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS (continued)

Effect of initial adoption (continued)

Classification of financial assets and financial liabilities (continued)

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in note 2.4. The application of these policies resulted in the reclassifications set out in the table above and explained below.

- a. Under IAS 39, certain debt securities were designated as at fair value through profit or loss because the Group managed them on a fair value basis or such designation eliminates or significantly reduces a measurement or recognition inconsistency. Under IFRS 9, these assets are mandatorily measured at fair value through profit or loss because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets or their contractual cash flows do not represent solely payments of principal and interest on the principal amount outstanding.
- b. Under IAS 39, certain debt securities that were classified as available for sale financial assets; under IFRS 9, a portion of these assets are mandatorily measured at fair value through profit or loss either because their contractual cash flows do not represent solely payments of principal and interest on the principal amount outstanding or they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. Some of these debt securities are designated as at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise, while others are classified as fair value through other comprehensive income based on the criteria in IFRS 9.
- c. There are some debt securities being designated as at fair value through profit or loss under IAS 39. The Group has revoked the designation to measure them at fair value through profit or loss upon the adoption of IFRS 9 because there is no longer a significant accounting mismatch arising from the securities as a result of adoption of IFRS 17. These assets are classified as fair value through other comprehensive income based on the criteria in IFRS 9.
- d. Certain debt securities that were classified as available for sale under IAS 39 are held within a business model whose objective is to hold assets to collect the contractual cash flows and they have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Therefore, these assets are measured at amortised cost under IFRS 9.
- e. Under IAS 39, equity shares, interests in investment funds and exchangeable loan notes were designated as at fair value through profit or loss because they are managed on a fair value basis. Under IFRS 9, these assets are mandatorily measured at fair value through profit or loss because they do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and the Group has not elected to measure them at fair value through other comprehensive income.
- f. Certain cash equivalents that were classified as loans and receivables under IAS 39 are mandatorily measured at fair value through profit or loss under IFRS 9 because the contractual cash flows do not represent solely payments of principal and interest on the principal amount outstanding.
- g. Certain financial assets and liabilities recognised upon the adoption of IFRS 9 are designated at FVTPL because such designation eliminates or significantly reduces measurement inconsistency.

31. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS (continued)

Effect of initial adoption (continued)

Classification of financial assets and financial liabilities (continued)

There are no changes in carrying amounts of equity shares, interests in investment funds, exchangeable loan notes, derivative assets and financial liabilities except for investment contract liabilities at fair value through profit or loss and payables under IAS 39 to the carrying amounts under IFRS 9. The following table reconciles the carrying amounts of other financial assets, investment contract liabilities at fair value through profit or loss and payables that there are reclassifications and/or remeasurement on transition to IFRS 9 on 1 January 2023.

| US\$m | 31 December 2022 IAS 39 | Reclassification | Remeasurement | 1 January 2023 IFRS 9 |
|--|----------------------------|------------------|---------------|--------------------------|
| Financial assets | | | | |
| Financial assets measured at fair value through profit or loss | | | | |
| Debt securities | | | | |
| Brought forward | 36,662 | – | – | – |
| Reclassified from available for sale | – | 42,891 | – | – |
| Reclassified to fair value through other comprehensive income | – | (1,226) | – | – |
| Carried forward | – | – | – | 78,327 |
| Loans and deposits | | | | |
| Brought forward | – | – | – | – |
| Reclassified from amortised cost | – | 250 | – | – |
| Remeasurement | – | – | 29 | – |
| Carried forward | – | – | – | 279 |
| Cash and cash equivalents | | | | |
| Brought forward | – | – | – | – |
| Reclassified from amortised cost | – | 2,248 | – | – |
| Carried forward | – | – | – | 2,248 |
| Total financial assets measured at fair value through profit or loss | 36,662 | 44,163 | 29 | 80,854 |
| Debt securities measured at fair value through other comprehensive income | | | | |
| Debt securities | | | | |
| Reclassified from fair value through profit or loss | – | 1,226 | – | – |
| Reclassified from available for sale | – | 84,871 | – | – |
| Carried forward | – | – | – | 86,097 |
| Total debt securities measured at fair value through other comprehensive income | – | 86,097 | – | 86,097 |
| Available for sale debt securities | | | | |
| Brought forward | 129,281 | – | – | – |
| Reclassified to fair value through other comprehensive income | – | (84,871) | – | – |
| Reclassified to fair value through profit or loss | – | (42,891) | – | – |
| Reclassified to amortised cost | – | (1,519) | – | – |
| Total available for sale debt securities | 129,281 | (129,281) | – | – |

31. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS (continued)

Effect of initial adoption (continued)

Classification of financial assets and financial liabilities (continued)

| US\$m | 31 December 2022 IAS 39 | Reclassification | Remeasurement | 1 January 2023 IFRS 9 |
|--|----------------------------|------------------|---------------|--------------------------|
| Financial assets measured at amortised cost | | | | |
| Debt securities | | | | |
| Reclassified from available for sale | – | 1,519 | – | – |
| Remeasurement | – | – | 268 | – |
| Carried forward | – | – | – | 1,787 |
| Loans and deposits | | | | |
| Brought forward: Loans and receivables | 4,832 | – | – | – |
| Reclassified to fair value through profit or loss | – | (250) | – | – |
| Remeasurement | – | – | (16) | – |
| Carried forward | – | – | – | 4,566 |
| Accrued investment income | | | | |
| Brought forward: Loans and receivables | 1,752 | – | – | – |
| Carried forward | – | – | – | 1,752 |
| Receivables | | | | |
| Brought forward: Loans and receivables | 1,743 | – | – | – |
| Remeasurement | – | – | (25) | – |
| Carried forward | – | – | – | 1,718 |
| Cash and cash equivalents | | | | |
| Brought forward: Loans and receivables | 8,969 | – | – | – |
| Reclassified to fair value through profit or loss | – | (2,248) | – | – |
| Carried forward | – | – | – | 6,721 |
| Total financial assets measured at amortised cost | 17,296 | (979) | 227 | 16,544 |
| Financial liabilities | | | | |
| Investment contract liabilities measured at fair value through profit or loss | | | | |
| Investment contract liabilities | | | | |
| Brought forward | 9,441 | – | – | – |
| Recognised on transition to IFRS 17 | – | – | 2,015 | – |
| Carried forward | – | – | – | 11,456 |
| Total investment contract liabilities measured at fair value through profit or loss | 9,441 | – | 2,015 | 11,456 |
| Trade and other payables measured at amortised cost | | | | |
| Trade and other payables | | | | |
| Brought forward | 2,913 | – | – | – |
| Recognised on transition to IFRS 17 | – | – | 137 | – |
| Carried forward | – | – | – | 3,050 |
| Total trade and other payables measured at amortised cost | 2,913 | – | 137 | 3,050 |

31. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS (continued)

Effect of initial adoption (continued)

Classification of financial assets and financial liabilities (continued)

The following table summarises the effects of the reclassification of (i) debt securities measured at fair value through profit or loss to fair value through other comprehensive income category and (ii) debt securities reclassified to amortised cost category as a result of the transition to IFRS 9.

Reclassification from FVTPL to FVOCI

| | |
|--|--------------|
| US\$m | 2023 |
| Fair value at 30 June | 1,093 |
| Fair value losses that would have been recognised in the profit or loss during the period if the financial asset had not been reclassified | (25) |
| Effective interest rate determined on 1 January | 3.8% |
| Interest revenue recognised | 26 |

Reclassifications to amortised cost

| | |
|---|--------------|
| US\$m | 2023 |
| From available for sale | |
| Fair value at 30 June | 1,508 |
| Fair value gains that would have been recognised in the other comprehensive income during the period if the financial asset had not been reclassified | 20 |

Impairment of financial assets

The following table reconciles the closing impairment allowance in accordance with IAS 39 as at 31 December 2022 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2023.

| US\$m | 31 December 2022 IAS 39 | Reclassification | Remeasurement | 1 January 2023 IFRS 9 |
|---|----------------------------|------------------|---------------|--------------------------|
| Debt securities at FVOCI under IFRS 9: from available for sale under IAS 39 | 78 | – | 222 | 300 |
| Financial assets at amortised cost under IFRS 9: from loans and receivables under IAS 39 | 11 | – | 41 | 52 |
| from available for sale under IAS 39 | – | – | 6 | 6 |
| | <u>89</u> | <u>–</u> | <u>269</u> | <u>358</u> |

31. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

AMENDMENT TO IAS 16 PROPERTY, PLANT AND EQUIPMENT

At the same time as IFRS 17 was issued, an amendment was made to IAS 16 to allow for measuring own used properties using the fair value model. On adoption of IFRS 17, the Group applied this election and changed its accounting policy for measuring its own used properties that are solely held as underlying items of insurance contracts with direct participation features from revaluation model to fair value model to reduce accounting mismatches with that for the corresponding insurance contracts. As a result of this change, which was adopted on a retrospective basis, revaluation gains on property held for own use that have been accumulated in other comprehensive income of US\$221m at 1 January 2022 was reclassified from property revaluation reserve to retained earnings. For the six months ended 30 June 2023, net fair value losses of property held for own use measured at fair value model of US\$20m (six months ended 30 June 2022: US\$4m) was included in other investment return in the interim consolidated income statement.

IMPACT ON EARNINGS PER SHARE

Upon the initial adoption of IFRS 9 and IFRS 17, together with the amendment to IAS 16, the impact to basic and diluted earnings per share is as follows.

| US cents | Six months ended 30 June 2022 (Unaudited and as previously reported) | Impact of changes in accounting policies | Six months ended 30 June 2022 (Unaudited and restated) |
|---|--|---|---|
| Net profit per share | | | |
| Basic | (4.74) | 17.57 | 12.83 |
| Diluted | (4.74) | 17.55 | 12.81 |
| Operating profit after tax per share | | | |
| Basic | 26.76 | 1.11 | 27.87 |
| Diluted | 26.76 | 1.08 | 27.84 |

32. Interim statement of financial position of the Company

| US\$m | As at 30 June 2023 (Unaudited) | As at 31 December 2022 |
|---|---|------------------------------|
| Assets | | |
| Investment in subsidiaries at cost ⁽²⁾ | 22,437 | 21,580 |
| Financial investments: | | |
| At fair value through other comprehensive income | | |
| Debt securities ⁽³⁾ | 4,858 | 7,151 |
| At fair value through profit or loss | | |
| Interests in investment funds ⁽²⁾ | 2,009 | 2,156 |
| Derivative financial instruments | 65 | 1 |
| | <u>6,932</u> | <u>9,308</u> |
| Loans to/amounts due from subsidiaries | 882 | 886 |
| Other assets | 103 | 40 |
| Promissory notes from subsidiaries ⁽⁴⁾ | 128 | 63 |
| Cash and cash equivalents | 1,708 | 1,298 |
| Total assets | <u>32,190</u> | <u>33,175</u> |
| Liabilities | | |
| Borrowings | 12,717 | 11,799 |
| Derivative financial instruments | 3 | 1 |
| Other liabilities | 242 | 109 |
| Total liabilities | <u>12,962</u> | <u>11,909</u> |
| Equity | | |
| Share capital | 14,175 | 14,171 |
| Employee share-based trusts | (368) | (290) |
| Other reserves | 355 | 351 |
| Retained earnings | 4,967 | 6,990 |
| Amounts reflected in other comprehensive income | 99 | 44 |
| Total equity | <u>19,228</u> | <u>21,266</u> |
| Total liabilities and equity | <u>32,190</u> | <u>33,175</u> |

Notes:

- (1) The financial information of the Company should be read in conjunction with the interim condensed consolidated financial statements of the Group.
- (2) The Company's interests in investment funds such as mutual funds and unit trusts, including funds controlled by the Group, are measured at fair value through profit or loss. Interests in other entities controlled by the Group are measured at cost, unless impaired, and presented as investment in subsidiaries at cost. Interests in investment funds include US\$514m (31 December 2022: US\$833m) comprising the combined value of debt securities held by an investment fund controlled by the Group and interests in an external fixed income fund. Fixed income fund refers to the investment fund solely investing in fixed income instruments and cash equivalents, where investors of the fund own a pro-rata share of economic interests of the fund according to the number of shares or units they own of the fund. Investment fund may use derivatives for hedging purpose.
- (3) Includes United States Treasury securities of US\$2,702m (31 December 2022: US\$4,914m) and China Government bonds of US\$2,156m (31 December 2022: US\$2,237m) as at 30 June 2023.
- (4) The promissory notes from subsidiaries are repayable on demand.

Approved and authorised for issue by the Board of Directors on 24 August 2023.

33. Interim statement of changes in equity of the Company

| US\$m | | | | | | Amounts reflected in other | Total equity |
|---|---------------|-----------------------------------|-------------------|----------------------|-------------------------|----------------------------------|--------------|
| | Share capital | Employee share-based trusts | Other reserves | Retained earnings | comprehensive income | | |
| Balance at 1 January 2023 | 14,171 | (290) | 351 | 6,990 | 44 | 21,266 | |
| Net profit | - | - | - | 1,615 | - | 1,615 | |
| Fair value gains on debt securities at fair value through other comprehensive income | - | - | - | - | 46 | 46 | |
| Fair value losses on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal | - | - | - | - | 9 | 9 | |
| Dividends | - | - | - | (1,672) | - | (1,672) | |
| Share buy-back | - | - | - | (1,966) | - | (1,966) | |
| Shares issued under share option scheme and agency share purchase plan | 4 | - | - | - | - | 4 | |
| Share-based compensation | - | - | 31 | - | - | 31 | |
| Purchase of shares held by employee share-based trusts | - | (105) | - | - | - | (105) | |
| Transfer of vested shares from employee share-based trusts | - | 27 | (27) | - | - | - | |
| Balance at 30 June 2023 – Unaudited | 14,175 | (368) | 355 | 4,967 | 99 | 19,228 | |

| US\$m | | | | | | Amounts reflected in other | Total equity |
|---|---------------|-----------------------------------|-------------------|----------------------|-------------------------|----------------------------------|--------------|
| | Share capital | Employee share-based trusts | Other reserves | Retained earnings | comprehensive income | | |
| Balance at 1 January 2022 | 14,160 | (225) | 309 | 9,519 | 125 | 23,888 | |
| Net profit | - | - | - | 752 | - | 752 | |
| Fair value losses on debt securities at fair value through other comprehensive income | - | - | - | - | (253) | (253) | |
| Fair value losses on debt securities at fair value through other comprehensive income transferred to profit or loss on disposal | - | - | - | - | 44 | 44 | |
| Dividends | - | - | - | (1,650) | - | (1,650) | |
| Share buy-back | - | - | - | (1,342) | - | (1,342) | |
| Shares issued under share option scheme and agency share purchase plan | 3 | - | - | - | - | 3 | |
| Share-based compensation | - | - | 36 | - | - | 36 | |
| Purchase of shares held by employee share-based trusts | - | (94) | - | - | - | (94) | |
| Transfer of vested shares from employee share-based trusts | - | 29 | (29) | - | - | - | |
| Balance at 30 June 2022 – Unaudited | 14,163 | (290) | 316 | 7,279 | (84) | 21,384 | |

REPORT ON REVIEW OF SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023 TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED

(incorporated in Hong Kong with limited liability)



羅兵咸永道

Introduction

We have reviewed the Supplementary Embedded Value Information (“the EV Information”) set out on pages 185 to 208, which comprises the EV consolidated results of AIA Group Limited (the “Company”) and its subsidiaries (together, the “Group”) as at and for the six-month period ended 30 June 2023, comprising sensitivity analysis and significant methodology and assumptions and other explanatory information. The directors of the Company are responsible for the preparation and presentation of the EV Information in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information. Our responsibility is to express a conclusion on this EV Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of the EV Information, including the summary of significant methodology and assumptions, consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the EV Information of the Group is not 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 of Preparation

Without modifying our conclusion, we draw attention to Sections 4 and 5 of the EV Information, which describes the EV basis of preparation. As a result, the EV Information may not be suitable for another purpose. This report does not extend to any financial statements of the Company.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 August 2023

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SUPPLEMENTARY EMBEDDED VALUE INFORMATION

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 the 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.

The Supplementary Embedded Value Information is unaudited, but has been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers' independent review report to the Board of Directors is included on page 184.

1. SUMMARY

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. AIA Group Limited (the "Company"), together with its subsidiaries (collectively the "Group") use a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB) for all entities other than Tata AIA Life Insurance Company Limited (Tata AIA Life). 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. For Tata AIA Life, the Group uses the Indian Embedded Value (IEV) methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, consistent with local practice in India.

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, after allowing for taxes. More details on the EV results, methodology and assumptions are covered in later sections of this report.

Following the announcement of the share buy-back programme reported in the Company's Annual Report 2021, the Group has commenced the repurchase of shares over a three-year period starting from March 2022. The effects of this programme on the Group's EV results are shown in Sections 2.6 and 2.7 of this report.

See note 2 to the International Financial Reporting Standard (IFRS) interim condensed consolidated financial statements regarding the Group's adoption of IFRS 9 and IFRS 17, effective from 1 January 2023. The adoption of IFRS 9 and IFRS 17 does not have a material impact on the Group's EV and VONB as at and for the six months ended 30 June 2023.

Effective from 1 January 2023, the Financial Supervisory Service (FSS) has announced a new capital adequacy framework (Korean Insurance Capital Standard (K-ICS)) for Korean insurers. Further the Korean local statutory basis, referred to as the Statutory Accounting Principles (SAP), has also been changed to align to IFRS 17. The effects of these changes have been reflected in the Group's EV and VONB results with effect from 1 January 2023.

The Supplementary Embedded Value Information in this report should be read in conjunction with the Supplementary Embedded Value Information of the Group in the Company's Annual Report 2022.

Unless otherwise stated, the growth rates provided in the commentaries are shown on a constant exchange rate (CER) basis, and the per-share information provided in the tables are based on the basic number of ordinary shares outstanding as at the specified point in time, as disclosed in the IFRS interim condensed consolidated financial statements.

1. SUMMARY (continued)

Summary of Key Metrics⁽¹⁾ (US\$ millions)

| | As at 30 June 2023 (Unaudited) | As at 31 December 2022 | Change CER | Change AER |
|---|---|---|---------------|---------------|
| EV Equity | 70,621 | 71,202 | 1% | (1)% |
| EV Equity per share (US\$) | 6.11 | 6.07 | 2% | 1% |
| EV | 68,033 | 68,865 | – | (1)% |
| EV per share (US\$) | 5.89 | 5.87 | 2% | – |
| Free surplus | 16,260 | 17,850 | (8)% | (9)% |
| Adjusted net worth (ANW) | 32,703 | 33,751 | (2)% | (3)% |
| Value of in-force business (VIF) | 35,330 | 35,114 | 3% | 1% |
| | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited) | YoY CER | YoY AER |
| VONB | 2,029 | 1,536 | 37% | 32% |
| Annualised new premiums (ANP) | 3,984 | 2,778 | 49% | 43% |
| VONB margin | 50.8% | 55.2% | (4.5) pps | (4.4) pps |
| EV operating profit | 4,423 | 3,953 | 16% | 12% |
| Operating return on EV (Operating ROEV) ⁽²⁾ | 13.3% | 11.1% | 2.2 pps | 2.2 pps |
| Underlying free surplus generation (UFSG) | 3,288 | 3,190 | 6% | 3% |

Notes:

(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) On an annualised basis.

2. EMBEDDED VALUE RESULTS

2.1 Embedded Value by Business Unit

The EV as at 30 June 2023 is presented consistently with the segment information in the IFRS interim condensed consolidated financial statements.

Summary of EV by Business Unit (US\$ millions)

| Business Unit | As at 30 June 2023 (Unaudited) | | | | EV |
|--|-----------------------------------|----------------------|--------------|---------------------|---------------|
| | ANW ⁽¹⁾ | VIF before CoC | CoC | VIF after CoC | |
| AIA China | 5,035 | 8,282 | 91 | 8,191 | 13,226 |
| AIA Hong Kong | 12,178 | 14,672 | 704 | 13,968 | 26,146 |
| AIA Thailand | 4,593 | 4,793 | 886 | 3,907 | 8,500 |
| AIA Singapore | 2,497 | 5,018 | 625 | 4,393 | 6,890 |
| AIA Malaysia | 1,077 | 2,352 | 207 | 2,145 | 3,222 |
| Other Markets ⁽²⁾ | 5,985 | 4,055 | 1,420 | 2,635 | 8,620 |
| Group Corporate Centre | 5,728 | – | – | – | 5,728 |
| Subtotal | 37,093 | 39,172 | 3,933 | 35,239 | 72,332 |
| Adjustment to reflect consolidated reserving and capital requirements ⁽³⁾ | (4,030) | 2,434 | 366 | 2,068 | (1,962) |
| After-tax value of unallocated Group Office expenses | – | (1,699) | – | (1,699) | (1,699) |
| Total EV (before non-controlling interests) | 33,063 | 39,907 | 4,299 | 35,608 | 68,671 |
| Non-controlling interests | (360) | (296) | (18) | (278) | (638) |
| Total EV | 32,703 | 39,611 | 4,281 | 35,330 | 68,033 |
| Goodwill and other intangible assets ⁽⁴⁾ | | | | | 2,588 |
| Total EV Equity | | | | | 70,621 |

2. EMBEDDED VALUE RESULTS (continued)

2.1 Embedded Value by Business Unit (continued)

| Business Unit | As at 31 December 2022 | | | | EV |
|--|------------------------|----------------------|--------------|---------------------|---------------|
| | ANW ⁽¹⁾ | VIF before CoC | CoC | VIF after CoC | |
| AIA China | 4,485 | 8,664 | 60 | 8,604 | 13,089 |
| AIA Hong Kong | 12,659 | 13,913 | 984 | 12,929 | 25,588 |
| AIA Thailand | 4,804 | 4,528 | 853 | 3,675 | 8,479 |
| AIA Singapore | 2,842 | 4,942 | 575 | 4,367 | 7,209 |
| AIA Malaysia | 1,184 | 2,338 | 211 | 2,127 | 3,311 |
| Other Markets | 3,564 | 5,381 | 1,228 | 4,153 | 7,717 |
| Group Corporate Centre | 7,324 | – | – | – | 7,324 |
| Subtotal | 36,862 | 39,766 | 3,911 | 35,855 | 72,717 |
| Adjustment to reflect consolidated reserving and capital requirements ⁽³⁾ | (2,758) | 1,480 | 446 | 1,034 | (1,724) |
| After-tax value of unallocated Group Office expenses | – | (1,603) | – | (1,603) | (1,603) |
| Total EV (before non-controlling interests) | 34,104 | 39,643 | 4,357 | 35,286 | 69,390 |
| Non-controlling interests | (353) | (182) | (10) | (172) | (525) |
| Total EV | 33,751 | 39,461 | 4,347 | 35,114 | 68,865 |
| Goodwill and other intangible assets ⁽⁴⁾ | | | | | 2,337 |
| Total EV Equity | | | | | 71,202 |

Notes:

- (1) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre.
- (2) Includes the effects of the change in solvency regime in South Korea (K-ICS and SAP) effective from 1 January 2023.
- (3) Adjustment reflects the consolidated reserving and capital requirements as described in Section 4.4 of the Supplementary Embedded Value Information in the Company's Annual Report 2022 and Section 4.1 of this report.
- (4) Consistent with the IFRS interim condensed consolidated financial statements, shown net of tax, amounts attributable to participating funds and non-controlling interests.

2. EMBEDDED VALUE RESULTS (continued)

2.2 Reconciliation of ANW from IFRS Equity

Derivation of the Consolidated ANW from IFRS Equity (US\$ millions)⁽¹⁾

| | As at 30 June 2023 (Unaudited) | As at 31 December 2022 |
|---|---|------------------------------|
| IFRS shareholders' allocated equity | 45,071 | 44,805 |
| Fair value reserve | (1,310) | (6,709) |
| Insurance finance reserve | (1,970) | – |
| IFRS equity attributable to shareholders of the Company | 41,791 | 38,096 |
| Elimination of IFRS deferred acquisition and origination costs assets | – | (30,046) |
| Difference between IFRS policy liabilities and local statutory policy liabilities ⁽²⁾ | (2,413) | 28,831 |
| Difference between net IFRS policy liabilities and local statutory policy liabilities | (2,413) | (1,215) |
| Mark-to-market adjustment for property, mortgage loan and other investments, net of amounts attributable to participating funds | (68) | 112 |
| Elimination of intangible assets | (3,477) | (3,277) |
| Recognition of deferred tax impacts of the above adjustments | 775 | 2,692 |
| Recognition of non-controlling interests impacts of the above adjustments | 125 | 101 |
| ANW (Business Unit) | 36,733 | 36,509 |
| Adjustment to reflect consolidated reserving requirements, net of tax | (4,030) | (2,758) |
| ANW (Consolidated) | 32,703 | 33,751 |

Notes:

(1) The amounts as at 30 June 2023 presented in this section are after the adoption of IFRS 9 and IFRS 17. The amounts as at 31 December 2022 presented are under IFRS 4 and IAS 39, and these are in line with the IFRS consolidated financial statements in the Company's Annual Report 2022.

(2) Includes the effects of the change in solvency regime in South Korea (K-ICS and SAP) effective from 1 January 2023.

2. EMBEDDED VALUE RESULTS (continued)

2.3 Reconciliation of Free Surplus from ANW

Derivation of Free Surplus from ANW (US\$ millions)

| | As at 30 June 2023 (Unaudited) | | As at 31 December 2022 | |
|---|-----------------------------------|----------------|------------------------|--------------|
| | Business Unit | Consolidated | Business Unit | Consolidated |
| ANW | 36,733 | 32,703 | 36,509 | 33,751 |
| Adjustment for certain assets not eligible for regulatory capital purposes | (1,160) | (1,160) | (1,482) | (1,482) |
| Less: Required capital | 12,413 | 15,283 | 11,672 | 14,419 |
| Free surplus⁽¹⁾ | 23,160 | 16,260 | 23,355 | 17,850 |

Note:

- (1) The free surplus is defined as the ANW in excess of the required capital adjusted for certain assets that are not eligible for regulatory capital purposes. The free surplus on consolidated basis is further adjusted for the consolidated reserving and capital requirements.

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)

| Expected period of emergence | As at 30 June 2023 (Unaudited) | |
|------------------------------|-----------------------------------|---------------|
| | Undiscounted | Discounted |
| 1 – 5 years | 22,232 | 18,381 |
| 6 – 10 years | 20,786 | 11,503 |
| 11 – 15 years | 19,819 | 7,478 |
| 16 – 20 years | 17,997 | 4,605 |
| 21 years and thereafter | 194,489 | 8,646 |
| Total | 275,323 | 50,613 |

| Expected period of emergence | As at 31 December 2022 | |
|------------------------------|------------------------|---------------|
| | Undiscounted | Discounted |
| 1 – 5 years | 22,629 | 18,674 |
| 6 – 10 years | 20,362 | 11,249 |
| 11 – 15 years | 19,432 | 7,269 |
| 16 – 20 years | 16,887 | 4,277 |
| 21 years and thereafter | 184,885 | 8,064 |
| Total | 264,195 | 49,533 |

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US\$50,613 million (31 December 2022: US\$49,533 million) plus the free surplus of US\$16,260 million (31 December 2022: US\$17,850 million) and the non-eligible assets excluded in the free surplus calculation of US\$1,160 million (31 December 2022: US\$1,482 million) as shown in Section 2.3 of this report is equal to the EV of US\$68,033 million (31 December 2022: US\$68,865 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 six months ended 30 June 2023 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 interim condensed consolidated financial statements.

The Group VONB for the six months ended 30 June 2023 was US\$2,029 million, an increase of US\$493 million, or 37 per cent, from US\$1,536 million for the six months ended 30 June 2022.

Summary of VONB by Business Unit (US\$ millions)

| Business Unit | Six months ended 30 June 2023 (Unaudited) | | | Six months ended 30 June 2022 (Unaudited) | | |
|---|---|------------|----------------------|---|-----|----------------------|
| | VONB before CoC | CoC | VONB after CoC | VONB before CoC | CoC | VONB after CoC |
| AIA China | 677 | 76 | 601 | 599 | 36 | 563 |
| AIA Hong Kong | 712 | 31 | 681 | 351 | 28 | 323 |
| AIA Thailand | 345 | 18 | 327 | 278 | 18 | 260 |
| AIA Singapore | 182 | 9 | 173 | 167 | 6 | 161 |
| AIA Malaysia | 178 | 8 | 170 | 171 | 10 | 161 |
| Other Markets ⁽¹⁾ | 275 | 63 | 212 | 260 | 53 | 207 |
| Total before unallocated Group Office expenses and non-controlling interests (Business Unit) | 2,369 | 205 | 2,164 | 1,826 | 151 | 1,675 |
| Adjustment to reflect consolidated reserving and capital requirements | (21) | (1) | (20) | (17) | 8 | (25) |
| Total before unallocated Group Office expenses and non-controlling interests (Consolidated) | 2,348 | 204 | 2,144 | 1,809 | 159 | 1,650 |
| After-tax value of unallocated Group Office expenses | (100) | – | (100) | (99) | – | (99) |
| Total before non-controlling interests (Consolidated) | 2,248 | 204 | 2,044 | 1,710 | 159 | 1,551 |
| Non-controlling interests | (15) | – | (15) | (16) | (1) | (15) |
| Total | 2,233 | 204 | 2,029 | 1,694 | 158 | 1,536 |

Note:

(1) The VONB for the six months ended 30 June 2023 has reflected the effects of the change in solvency regime in South Korea (K-ICS and SAP) effective from 1 January 2023.

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 six months ended 30 June 2023.

The VONB margin and PVNBP margin are defined as VONB, gross of non-controlling interests and excluding pension business, expressed as a percentage of ANP and PVNBP, respectively. The VONB used in the margin calculation is gross of non-controlling interests and excludes pension business to be consistent with the definition of ANP and PVNBP.

The Group VONB margin for the six months ended 30 June 2023 was 50.8 per cent compared with 55.2 per cent for the six months ended 30 June 2022. The Group PVNBP margin for the six months ended 30 June 2023 was 10 per cent compared with 10 per cent for the six months ended 30 June 2022.

Breakdown of VONB, ANP, VONB Margin and PVNBP Margin (US\$ millions)

| | VONB after CoC | ANP | VONB margin | PVNBP margin |
|--|-------------------|-------|----------------|-----------------|
| Half Year | | | | |
| Values for 2023 | | | | |
| Six months ended 30 June 2023 (Unaudited) | 2,029 | 3,984 | 50.8% | 10% |
| Values for 2022 | | | | |
| Six months ended 30 June 2022 (Unaudited) | 1,536 | 2,778 | 55.2% | 10% |
| Quarter | | | | |
| Values for 2023 | | | | |
| Three months ended 31 March 2023 (Unaudited) | 1,046 | 1,998 | 52.3% | 10% |
| Three months ended 30 June 2023 (Unaudited) | 983 | 1,986 | 49.3% | 9% |
| Values for 2022 | | | | |
| Three months ended 31 March 2022 (Unaudited) | 853 | 1,567 | 54.4% | 10% |
| Three months ended 30 June 2022 (Unaudited) | 683 | 1,211 | 56.2% | 10% |

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)

| Business Unit | Six months ended 30 June 2023 (Unaudited) | | | Six months ended 30 June 2022 (Unaudited) | | |
|---|---|--------------|----------------|---|--------------|----------------|
| | VONB excluding pension | ANP | VONB margin | VONB excluding pension | ANP | VONB margin |
| AIA China | 601 | 1,195 | 50.3% | 563 | 835 | 67.4% |
| AIA Hong Kong | 662 | 1,165 | 56.9% | 307 | 443 | 69.3% |
| AIA Thailand | 327 | 357 | 91.5% | 260 | 311 | 83.8% |
| AIA Singapore | 173 | 267 | 65.0% | 161 | 244 | 65.9% |
| AIA Malaysia | 169 | 261 | 64.8% | 160 | 239 | 67.2% |
| Other Markets ⁽¹⁾ | 213 | 739 | 28.6% | 206 | 706 | 29.1% |
| Total before unallocated Group Office expenses (Business Unit) | 2,145 | 3,984 | 53.8% | 1,657 | 2,778 | 59.6% |
| Adjustment to reflect consolidated reserving and capital requirements | (21) | – | | (25) | – | |
| Total before unallocated Group Office expenses (Consolidated) | 2,124 | 3,984 | 53.3% | 1,632 | 2,778 | 58.8% |
| After-tax value of unallocated Group Office expenses | (100) | – | | (99) | – | |
| Total | 2,024 | 3,984 | 50.8% | 1,533 | 2,778 | 55.2% |

Note:

(1) The VONB for the six months ended 30 June 2023 has reflected the effects of the change in solvency regime in South Korea (K-ICS and SAP) effective from 1 January 2023.

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement

Analysis of Movement in EV (US\$ millions)

| | Six months ended 30 June 2023 (Unaudited) | | | Six months ended 30 June 2022 (Unaudited) | | | YoY AER |
|--|---|---------------|----------------|---|---------|---------------------|--------------------|
| | ANW | VIF | EV | ANW | VIF | EV | EV |
| Opening EV Equity⁽¹⁾ | | | 71,202 | | | 75,001 | (5)% |
| Removal of goodwill and other intangible assets ⁽²⁾ | | | (2,337) | | | (2,014) | 16% |
| Opening EV | 33,751 | 35,114 | 68,865 | 33,302 | 39,685 | 72,987 | (6)% |
| Effect of acquisitions | (238) | – | (238) | – | – | – | n/m ⁽³⁾ |
| Release of resilience margins | – | – | – | 2,168 | (1,283) | 885 | n/m |
| Impact of HKRBC early adoption | – | – | – | 8,407 | (6,028) | 2,379 | n/m |
| VONB | (55) | 2,084 | 2,029 | (144) | 1,680 | 1,536 | 32% |
| Expected return on EV | 2,667 | (58) | 2,609 | 2,338 | (109) | 2,229 | 17% |
| Operating experience variances | 186 | (19) | 167 | 388 | (4) | 384 | (57)% |
| Operating assumption changes | (170) | (13) | (183) | (2) | (23) | (25) | n/m |
| Finance costs | (199) | – | (199) | (171) | – | (171) | 16% |
| EV operating profit | 2,429 | 1,994 | 4,423 | 2,409 | 1,544 | 3,953 | 12% |
| Investment return variances ⁽⁴⁾ | (56) | (597) | (653) | (4,436) | (357) | (4,793) | n/m |
| Other non-operating variances | 1,150 | (587) | 563 | (1,548) | 1,402 | (146) | n/m |
| Total EV profit | 3,523 | 810 | 4,333 | 7,000 | (4,722) | 2,278 | 90% |
| Dividends | (1,672) | – | (1,672) | (1,650) | – | (1,650) | 1% |
| Share buy-back | (1,966) | – | (1,966) | (1,342) | – | (1,342) | n/m |
| Other capital movements | (70) | – | (70) | (55) | – | (55) | 27% |
| Effect of changes in exchange rates | (625) | (594) | (1,219) | (960) | (1,153) | (2,113) | n/m |
| Closing EV | 32,703 | 35,330 | 68,033 | 36,295 | 33,810 | 70,105 | (3)% |
| Inclusion of goodwill and other intangible assets ⁽²⁾ | | | 2,588 | | | 2,221 | 17% |
| Closing EV Equity⁽¹⁾ | | | 70,621 | | | 72,326 | (2)% |
| Closing EV per share (US\$) | | | 5.89 | | | 5.86 ⁽⁵⁾ | 1% |
| Closing EV Equity per share (US\$) | | | 6.11 | | | 6.04 | 1% |

Notes:

- (1) Includes the EV Equity for Australian Savings and Investments (S&I) business held for sale as per note 30 to the IFRS interim condensed consolidated financial statements.
- (2) Consistent with the IFRS interim condensed consolidated financial statements, shown net of tax, amounts attributable to participating funds and non-controlling interests.
- (3) Not meaningful (n/m).
- (4) Includes the effect of change in economic assumption due to the change in risk discount rate of AIA Sri Lanka for the six months ended 30 June 2022.
- (5) For the six months ended 30 June 2022, the closing EV per share of US\$5.84 was calculated based on the basic number of ordinary shares in issue, as previously disclosed in the Supplementary Embedded Value Information in the Company's Interim Report 2022.

2. EMBEDDED VALUE RESULTS (continued)

2.6 Analysis of EV Movement (continued)

The opening EV Equity was US\$71,202 million at 31 December 2022.

The opening EV was US\$68,865 million at 31 December 2022 after removal of goodwill and other intangible assets of US\$2,337 million.

EV operating profit was US\$4,423 million (2022: US\$3,953 million), reflecting VONB of US\$2,029 million (2022: US\$1,536 million), an expected return on EV of US\$2,609 million (2022: US\$2,229 million), partly offset by operating experience variances and operating assumption changes with a net impact of US\$(16) million (2022: increased EV operating profit by US\$359 million), and net of finance costs of US\$199 million (2022: US\$171 million).

The VONB is calculated at the point of sale for business written during the period. The expected return on EV is the expected change in the EV over the period plus the expected return on the VONB up to 30 June 2023. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the period and that expected based on the operating assumptions.

The operating experience variances, net of tax, increased EV by US\$167 million (2022: increased by US\$384 million), driven by:

- Expense variances of US\$92 million (2022: US\$79 million), partly offset by development costs of US\$7 million (2022: US\$3 million);
- Mortality and morbidity claims variances of US\$33 million (2022: US\$208 million); and
- Persistency and other variances of US\$49 million (2022: US\$100 million) which included persistency variances of US\$(47) million (2022: US\$71 million) and other variances including management actions of US\$96 million (2022: US\$29 million).

The effect of changes in operating assumptions during the period was a decrease in EV of US\$183 million (2022: a decrease in EV of US\$25 million).

The EV profit of US\$4,333 million (2022: US\$2,278 million) is the total of EV operating profit, investment return variances and other non-operating variances.

The investment return variances decreased EV by US\$653 million (2022: decreased EV by US\$4,793 million) driven by the effect of short-term fluctuations in interest rates and equity markets, and other capital market movements, on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns.

Other non-operating variances increased EV by US\$563 million (2022: decreased EV by US\$146 million) which comprised positive impacts from model-related enhancements and the effects of the change in solvency regime in South Korea (K-ICS and SAP) effective from 1 January 2023, partly offset by negative impacts from non-operating expenses, the effect of the implementation of IFRS 17, and adjustments to capital requirements on consolidation.

The final shareholder dividend for 2022 paid in the first half of 2023 totalled US\$1,672 million (2022: US\$1,650 million). The capital deployed for the share buy-back programme, under which 185 million shares⁽¹⁾ (2022: 132 million shares) have been repurchased in the first half of 2023, was US\$1,966 million (2022: US\$1,342 million). Other capital movements decreased EV by US\$70 million (2022: decreased EV by US\$55 million).

Foreign exchange movements decreased EV by US\$1,219 million (2022: decreased EV by US\$2,113 million).

The closing EV was US\$68,033 million at 30 June 2023.

The closing EV Equity was US\$70,621 million as at 30 June 2023, after inclusion of goodwill and other intangible assets of US\$2,588 million.

Note:

- (1) Of these shares, 150 million shares were cancelled in the first half of 2023, and the remaining 35 million shares have subsequently been cancelled as per note 23 to the IFRS interim condensed consolidated financial statements.

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 13.3 per cent (2022: 11.1 per cent) for the six months ended 30 June 2023.

| | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited) | YoY CER | YoY AER |
|---|---|---|---------|---------|
| EV operating profit | 4,423 | 3,953 | 16% | 12% |
| Opening EV | 68,865 | 72,987 | (3)% | (6)% |
| Operating ROEV⁽¹⁾ | 13.3% | 11.1% | 2.2 pps | 2.2 pps |
| EV operating earnings per share (US cents)⁽²⁾ | 38.11 | 32.86 | 20% | 16% |

Notes:

(1) On an annualised basis.

(2) Based on weighted average number of ordinary shares outstanding during the respective period. For the six months ended 30 June 2022, the EV operating earnings per share of 32.82 US cents was calculated based on the weighted average number of ordinary shares in issue, as previously disclosed in the Supplementary Embedded Value Information in the Company's Interim Report 2022.

2. EMBEDDED VALUE RESULTS (continued)

2.7 Free Surplus Generation

Free Surplus Generation (US\$ millions)

| | Six months ended 30 June 2023 (Unaudited) | Six months ended 30 June 2022 (Unaudited) | YoY CER (Unaudited) | YoY AER (Unaudited) |
|---|---|---|---------------------------|---------------------------|
| Opening free surplus | 17,850 | 17,025 | 7% | 5% |
| Effect of acquisitions | (238) | – | n/m ⁽¹⁾ | n/m |
| Release of resilience margins | – | 3,400 | n/m | n/m |
| Impact of HKRBC early adoption | – | 4,403 | n/m | n/m |
| UFSG | 3,288 | 3,190 | 6% | 3% |
| Free surplus used to fund new business | (738) | (686) | 15% | 8% |
| Investment return variances and other items | 162 | (3,357) | n/m | n/m |
| Unallocated Group Office expenses | (157) | (131) | 20% | 20% |
| Dividends | (1,672) | (1,650) | 1% | 1% |
| Share buy-back | (1,966) | (1,342) | n/m | n/m |
| Finance costs and other capital movements | (269) | (226) | n/m | n/m |
| Closing free surplus | 16,260 | 20,626 | (20)% | (21)% |

Free surplus decreased by US\$1,590 million to US\$16,260 million (31 December 2022: US\$17,850 million) as at 30 June 2023, after reflecting the impact of share buy-back of US\$1,966 million.

UFSG, as defined in Section 4.8 of the Supplementary Embedded Value Information in the Company's Annual Report 2022, increased by 6 per cent, to US\$3,288 million (2022: US\$3,190 million). Investment in writing new business was US\$738 million (2022: US\$686 million).

Investment return variances and other items amounted to US\$162 million (2022: US\$(3,357) million), reflecting the effect of short-term fluctuations in interest rates and equity markets, and other capital market movements, on the Group's investment portfolio and the reserves and capital requirements compared with the expected returns and other items, including the free surplus impacts arising from other non-operating variances as described in Section 2.6.

Unallocated Group Office expenses amounted to US\$157 million (2022: US\$131 million).

Note:

(1) Not meaningful (n/m).

3. SENSITIVITY ANALYSIS

The EV as at 30 June 2023 and the VONB for the six months ended 30 June 2023 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;
- Equity return, property return and risk discount rates 100 basis points per annum lower than the central assumptions;
- The presentation currency (as explained below) appreciated by 5 per cent;
- The presentation currency depreciated by 5 per cent;
- Lapse and premium discontinuance rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Lapse and premium discontinuance rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Mortality/morbidity rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Mortality/morbidity rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Maintenance expenses 10 per cent lower (i.e. 90 per cent of the central assumptions); and
- Expense inflation set to 0 per cent.

The EV as at 30 June 2023 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 30 June 2023); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 30 June 2023).

3. SENSITIVITY ANALYSIS (continued)

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 30 June 2023 and the values of debt instruments and derivatives held at 30 June 2023 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For the equity return, property return and risk discount rates sensitivity, the projected bonus rates on participating business were changed to be consistent with the equity return assumptions and property return assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

As the Group operates in multiple geographical markets, the EV results for the Group are translated from multiple currencies to US dollar which is the Group's presentation currency. In order to provide sensitivity results for EV and VONB of the impact of foreign currency movements, a change of 5 per cent to the US dollar is included.

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 30 June 2023 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For each of the remaining sensitivity analyses, the statutory reserving bases as at 30 June 2023 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.

3. SENSITIVITY ANALYSIS (continued)

Sensitivity of EV (US\$ millions)

| Scenario | As at 30 June 2023 (Unaudited) | | As at 31 December 2022 | |
|---|-----------------------------------|----------|------------------------|----------|
| | EV | % Change | EV | % Change |
| Central value | 68,033 | | 68,865 | |
| <i>Impact of:</i> | | | | |
| 200 bps increase in risk discount rates | (8,421) | (12.4)% | (8,133) | (11.8)% |
| 200 bps decrease in risk discount rates | 13,526 | 19.9% | 13,036 | 18.9% |
| 10% increase in equity prices | 1,892 | 2.8% | 1,817 | 2.6% |
| 10% decrease in equity prices | (1,926) | (2.8)% | (1,821) | (2.6)% |
| 50 bps increase in interest rates | (915) | (1.3)% | (1,246) | (1.8)% |
| 50 bps decrease in interest rates | 1,142 | 1.7% | 1,347 | 2.0% |
| 100 bps decrease in equity and property returns and risk discount rates | 2,355 | 3.5% | 2,047 | 3.0% |
| 5% appreciation in the presentation currency | (1,796) | (2.6)% | (2,059) | (3.0)% |
| 5% depreciation in the presentation currency | 1,796 | 2.6% | 2,059 | 3.0% |
| 10% increase in lapse/discontinuance rates | (1,636) | (2.4)% | (1,532) | (2.2)% |
| 10% decrease in lapse/discontinuance rates | 1,767 | 2.6% | 1,693 | 2.5% |
| 10% increase in mortality/morbidity rates | (4,998) | (7.3)% | (4,659) | (6.8)% |
| 10% decrease in mortality/morbidity rates | 4,900 | 7.2% | 4,514 | 6.6% |
| 10% decrease in maintenance expenses | 899 | 1.3% | 862 | 1.3% |
| Expense inflation set to 0% | 983 | 1.4% | 941 | 1.4% |

Sensitivity of VONB (US\$ millions)

| Scenario | Six months ended 30 June 2023 (Unaudited) | | Six months ended 30 June 2022 (Unaudited) | |
|---|---|----------|---|----------|
| | VONB | % Change | VONB | % Change |
| Central value | 2,029 | | 1,536 | |
| <i>Impact of:</i> | | | | |
| 200 bps increase in risk discount rates | (433) | (21.3)% | (308) | (20.1)% |
| 200 bps decrease in risk discount rates | 655 | 32.3% | 451 | 29.4% |
| 50 bps increase in interest rates | 85 | 4.2% | 47 | 3.1% |
| 50 bps decrease in interest rates | (101) | (5.0)% | (61) | (4.0)% |
| 100 bps decrease in equity and property returns and risk discount rates | 198 | 9.8% | 161 | 10.5% |
| 5% appreciation in the presentation currency | (73) | (3.6)% | (66) | (4.3)% |
| 5% depreciation in the presentation currency | 73 | 3.6% | 66 | 4.3% |
| 10% increase in lapse/discontinuance rates | (126) | (6.2)% | (102) | (6.6)% |
| 10% decrease in lapse/discontinuance rates | 138 | 6.8% | 108 | 7.0% |
| 10% increase in mortality/morbidity rates | (236) | (11.6)% | (205) | (13.3)% |
| 10% decrease in mortality/morbidity rates | 236 | 11.6% | 205 | 13.3% |
| 10% decrease in maintenance expenses | 53 | 2.6% | 53 | 3.5% |
| Expense inflation set to 0% | 38 | 1.9% | 37 | 2.4% |

4. METHODOLOGY

The methodology used by the Group for determining the EV results for the period is consistent with that described in Section 4 of the Supplementary Embedded Value Information in the Company's Annual Report 2022 taking into account the capital requirements as set out in Section 4.1.

4.1 Capital Requirements

Each of the Business Units has a regulatory requirement to hold shareholder capital in addition to the assets backing the insurance liabilities. The table below sets out the Group's assumed level of capital requirement for each Business Unit:

| Business Unit | Capital requirements |
|--------------------------------|---|
| AIA Australia | 100% of regulatory capital adequacy requirement |
| AIA China | 100% of required capital following the China Association of Actuaries (CAA) EV assessment guidance, updated to reflect C-ROSS II ⁽¹⁾ |
| AIA Hong Kong ⁽²⁾ | 100% of regulatory Risk-Based Capital requirement |
| AIA Indonesia | 120% of regulatory Risk-Based Capital requirement |
| AIA Korea ⁽³⁾ | 150% of regulatory Risk-Based Capital requirement |
| AIA Malaysia | 170% of regulatory Risk-Based Capital requirement |
| AIA New Zealand ⁽⁴⁾ | 100% of regulatory capital adequacy requirement |
| AIA Philippines | 125% of regulatory Risk-Based Capital requirement |
| AIA Singapore | Higher of 135% of capital adequacy requirement and 80% of Tier 1 capital requirement under the regulatory Risk-Based Capital framework |
| 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 |
| Tata AIA Life | 175% of required minimum solvency margin |

Notes:

- (1) China Risk-Oriented Solvency System phase II (C-ROSS II)
- (2) With effect from 1 January 2022, the capital requirement for the Hong Kong branch of AIA International Limited (AIA International) is updated following the Hong Kong Risk-based Capital (HKRBC) early adoption as approved by the Hong Kong Insurance Authority (HKIA) in a letter dated 8 April 2022. For clarity, AIA Everest Life Company Limited, which is a closed block of business acquired from The Bank of East Asia, Limited (BEA) under AIA Company Limited (AIA Co.), and the Hong Kong business written by AIA Co., are still evaluated based on 150 per cent of required minimum solvency margin under existing Hong Kong Insurance Ordinance (HKIO) requirements, and the Macau branch of AIA International is subject to 150 per cent of Macau statutory requirement.
- (3) Effective from 1 January 2023, the Financial Supervisory Service (FSS) has announced a new capital adequacy framework (Korean Insurance Capital Standard (K-ICS)) for Korean insurers.
- (4) AIA New Zealand refers to AIA New Zealand Limited, a subsidiary of AIA Sovereign Limited. AIA Sovereign Limited is a subsidiary of AIA Holdings Pte. Limited, a wholly-owned subsidiary of the Company. The Reserve Bank of New Zealand has issued a new solvency standard effective 1 January 2023.

Capital Requirements on Consolidation

The Company's subsidiaries, AIA Co. and AIA International, are both subject to the HKIA reserving and capital requirements. Following the approval by HKIA to early adopt the new HKRBC regime for AIA International, starting from 1 January 2022, AIA International is subject to the capital requirement under the new HKRBC regime, while AIA Co. continues to be subject to the existing HKIO requirements. The non-Hong Kong branches of AIA Co. and AIA International hold required capital of no less than 100 per cent of the HKIO solvency margin requirement and the HKRBC capital requirement respectively.

In addition, AIA International, which is incorporated in Bermuda, is subject to the Bermuda Monetary Authority (BMA) reserving and capital requirements. AIA International and its subsidiaries hold required capital of no less than 100 per cent of the BMA regulatory capital requirement.

The above 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.

The Company is also subject to the new group-wide supervision (GWS) framework implemented by the HKIA, including group capital adequacy requirements based on the Local Capital Summation Method (LCSM), under which the Group's published group available capital, group minimum capital requirement (GMCR) and group prescribed capital requirement (GPCR) are calculated as the sum of the available capital, minimum capital requirements and prescribed capital requirements according to the respective regulatory requirements for each entity within the Group, subject to any variation considered necessary by the HKIA. This has not imposed any additional capital requirement to those mentioned above.

5. ASSUMPTIONS

5.1 Introduction

This section summarises the assumptions used by the Group to determine the EV as at 30 June 2023 and the VONB for the period ended 30 June 2023.

Long-term investment return assumptions used in the EV basis for the interim results remain unchanged from those shown in Section 5.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2022, while risk discount rates were updated to reflect the risks associated with new business written during the reporting period as disclosed in Section 5.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2022.

The non-economic assumptions used are based on those at 31 December 2022, updated to reflect the Group's latest view of expected future experience. A more detailed description of the assumptions can be found in Section 5 of the Supplementary Embedded Value Information in the Company's Annual Report 2022.

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, 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 long-term 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.

For Tata AIA Life, the Group uses the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India for determining its EV and VONB. This methodology uses investment returns and risk discount rates that reflect the market-derived government bond yield curve. Therefore, the risk discount rate and long-term investment returns are not provided for Tata AIA Life.

5. ASSUMPTIONS (continued)

5.2 Economic Assumptions (continued)

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 allowance for risk.

The table below summarises the current market 10-year government bond yields referenced in EV calculations.

| Business Unit | Current market 10-year government bond yields referenced in EV calculations (%) | | |
|------------------------------|---|------------------------------|---|
| | As at 30 June 2023 (Unaudited) | As at 31 December 2022 | As at 30 June 2022 (Unaudited) |
| | AIA Australia | 4.02 | 4.05 |
| AIA China | 2.64 | 2.84 | 2.82 |
| AIA Hong Kong ⁽¹⁾ | 3.84 | 3.87 | 3.01 |
| AIA Indonesia | 6.26 | 6.94 | 7.22 |
| AIA Korea | 3.66 | 3.74 | 3.62 |
| AIA Malaysia | 3.84 | 4.09 | 4.24 |
| AIA New Zealand | 4.62 | 4.47 | 3.86 |
| AIA Philippines | 6.30 | 6.99 | 7.04 |
| AIA Singapore | 3.07 | 3.09 | 2.98 |
| AIA Sri Lanka | 19.43 | 26.18 | 21.47 |
| AIA Taiwan | 1.16 | 1.28 | 1.25 |
| AIA Thailand | 2.58 | 2.64 | 2.90 |
| AIA Vietnam | 2.68 | 4.90 | 3.27 |

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 risk discount rates as at 30 June 2023 reflect the weighted average of the risk margins of the in-force business at the start of 2023, and those of the new business written during the first half of 2023 which are determined at a product level to better reflect the market and non-market risks associated with the mix of products sold during the reporting period. In addition, the VONB results are calculated based on start-of-quarter long-term investment return assumptions consistent with the measurement at the point of sale. 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. The investment returns shown are gross of tax and investment expenses.

| Business Unit | Risk discount rates assumed in EV calculations (%) | | | Long-term investment returns assumed in EV calculations (%) | | | | | |
|------------------------------|---|-------------------------|--|---|-------------------------|--|--|-------------------------|--|
| | | | | 10-year government bonds | | | Local equities | | |
| | As at 30 Jun 2023 (Unaudited) | As at 31 Dec 2022 | As at 30 Jun 2022 (Unaudited) | As at 30 Jun 2023 (Unaudited) | As at 31 Dec 2022 | As at 30 Jun 2022 (Unaudited) | As at 30 Jun 2023 (Unaudited) | As at 31 Dec 2022 | As at 30 Jun 2022 (Unaudited) |
| | | | | | | | | | |
| AIA Australia | 7.43 | 7.43 | 6.42 | 3.30 | 3.30 | 2.30 | 7.60 | 7.60 | 6.60 |
| AIA China | 9.67 | 9.69 | 9.70 | 3.70 | 3.70 | 3.70 | 9.30 | 9.30 | 9.30 |
| AIA Hong Kong ⁽¹⁾ | 7.45 | 7.46 | 6.96 | 3.00 | 3.00 | 2.20 | 7.50 | 7.50 | 7.00 |
| AIA Indonesia | 13.13 | 13.09 | 13.03 | 7.50 | 7.50 | 7.50 | 12.00 | 12.00 | 12.00 |
| AIA Korea | 8.86 | 8.91 | 8.10 | 3.00 | 3.00 | 2.20 | 7.30 | 7.30 | 6.50 |
| AIA Malaysia | 8.86 | 8.92 | 8.49 | 4.50 | 4.50 | 4.00 | 9.10 | 9.10 | 8.60 |
| AIA New Zealand | 7.39 | 7.43 | 6.48 | 3.30 | 3.30 | 2.30 | 7.80 | 7.80 | 6.80 |
| AIA Philippines | 12.10 | 12.10 | 11.80 | 5.80 | 5.80 | 5.30 | 10.80 | 10.80 | 10.50 |
| AIA Singapore | 7.22 | 7.27 | 6.59 | 2.90 | 2.90 | 2.20 | 7.40 | 7.40 | 6.70 |
| AIA Sri Lanka | 21.00 | 21.00 | 20.00 | 10.00 | 10.00 | 9.00 | 12.00 | 12.00 | 11.00 |
| AIA Taiwan | 7.64 | 7.67 | 7.20 | 1.50 | 1.50 | 1.00 | 6.10 | 6.10 | 5.60 |
| AIA Thailand | 8.00 | 8.09 | 7.65 | 3.20 | 3.20 | 2.70 | 8.20 | 8.20 | 7.70 |
| AIA Vietnam | 9.55 | 9.57 | 9.11 | 4.00 | 4.00 | 3.50 | 9.30 | 9.30 | 8.80 |

Note:

- (1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond assumptions shown above are those of US dollar-denominated bonds. Starting from 31 December 2022, local equities assumption shown is that of US dollar-denominated equities. The local equities assumption as at 30 June 2022 shown above is that of HK dollar-denominated equities.

5. ASSUMPTIONS (continued)

5.3 Expense Inflation

The expected long-term expense inflation rates used by each Business Unit are set out below:

Expense Inflation Assumptions by Business Unit (%)

| Business Unit | As at 30 June 2023 (Unaudited) | As at 31 December 2022 |
|------------------------------|---|------------------------------|
| AIA Australia | 2.25 | 2.25 |
| AIA China | 2.00 | 2.00 |
| AIA Hong Kong | 2.00 | 2.00 |
| AIA Indonesia | 3.50 | 3.50 |
| AIA Korea | 3.50 | 3.50 |
| AIA Malaysia | 3.00 | 3.00 |
| AIA New Zealand | 2.00 | 2.00 |
| 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 | 4.00 | 4.00 |
| Tata AIA Life ⁽¹⁾ | 6.95 | 7.05 |

Note:

(1) For Tata AIA Life, in accordance with the IEV methodology as defined in Actuarial Practice Standard 10 issued by the Institute of Actuaries of India, the inflation assumption is derived by applying a spread to the reference interest rate.

Unallocated Group Office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

5. ASSUMPTIONS (continued)

5.4 Taxation

The EV and VONB presented in this report are net of tax based on current taxation legislation. The projected corporate income tax payable in any year allows for the benefits arising from any tax loss carried forward where relevant. Where applicable, tax payable on investment income has been reflected in the projected investment returns. Any withholding tax payable on future remittances from local business units is also reflected under the appropriate operating segment.

The local corporate income tax rates used by each Business Unit are set out below:

Local Corporate Income Tax Rates by Business Unit (%)

| Business Unit | As at 30 June 2023 (Unaudited) | As at 31 December 2022 |
|--------------------------|---|------------------------------|
| AIA Australia | 30.0 | 30.0 |
| AIA China | 25.0 | 25.0 |
| AIA Hong Kong | 16.5 | 16.5 |
| AIA Indonesia | 22.0 | 22.0 |
| AIA Korea ⁽¹⁾ | 23.1 | 26.5 |
| AIA Malaysia | 24.0 | 24.0 |
| AIA New Zealand | 28.0 | 28.0 |
| AIA Philippines | 25.0 | 25.0 |
| AIA Singapore | 17.0 | 17.0 |
| AIA Sri Lanka | 30.0 | 30.0 |
| AIA Taiwan | 20.0 | 20.0 |
| AIA Thailand | 20.0 | 20.0 |
| AIA Vietnam | 20.0 | 20.0 |
| Tata AIA Life | 14.6 | 14.6 |

Note:

(1) AIA Korea was subject to an assumed corporate income tax of 26.5 per cent up to fiscal year 2022, which includes an Accumulated Earnings Tax following the subsidiarisation of the branch in AIA Korea. Based on current regulations, the corporate income tax rate has changed to 23.1 per cent effective from 1 January 2023.

6. EVENTS AFTER THE REPORTING PERIOD

On 24 August 2023, a Committee appointed by the Board of Directors declared an interim dividend of 42.29 Hong Kong cents per share (six months ended 30 June 2022: 40.28 Hong Kong cents per share).

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YEAR ENDED 31 DECEMBER 2022**

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INDEPENDENT AUDITOR’S REPORT ON THE CONSOLIDATED FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated special purpose financial information (the “Consolidated Financial Information”) of AIA Group Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 5 to 91, which comprises:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the Consolidated Financial Information, including material accounting policy information.

Our opinion

In our opinion, the Consolidated Financial Information of the Group as at 31 December 2022 and for the year then ended is prepared, in all material respects, in accordance with the accounting policies set out in Note 2 to the Consolidated Financial Information.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial 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 Accounting and Restriction on Use

We draw attention to Note 2 to the Consolidated Financial Information, which describes the basis of accounting. The Consolidated Financial Information is prepared for the information of the Board of Directors of the Company in relation to the Group’s adoption of Hong Kong Financial Reporting Standards (“HKFRS”)/International Financial Reporting Standards (“IFRS”) 9 “Financial Instruments”, HKFRS/IFRS 17 “Insurance Contracts” and the amendment to Hong Kong Accounting Standard and International Accounting Standard 16 “Property, Plant and Equipment”. The Consolidated Financial Information does not comprise a full set of financial statements prepared in accordance with HKFRS or IFRS. As a result, the Consolidated Financial Information may not be suitable for another purpose. Our report is addressed to the Board of Directors of the Company. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED (CONTINUED)
(incorporated in Hong Kong with limited liability)

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

The Directors of the Company are responsible for the preparation of the Consolidated Financial Information in accordance with the accounting policies set out in Note 2 to the Consolidated Financial Information and for such internal control as the Directors determine is necessary to enable the preparation of the Consolidated Financial Information that is free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial 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 financial information reporting process.

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

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial 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, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Consolidated Financial Information.

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

- Identify and assess the risks of material misstatement of the Consolidated Financial 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, 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 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.

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED (CONTINUED)
(incorporated in Hong Kong with limited liability)

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

- 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 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, actions taken to eliminate threats or safeguards applied.

The engagement partner on the audit resulting in this independent auditor's report is Ling Tung Man, Tom.

The logo for PricewaterhouseCoopers, featuring the company name in a stylized, cursive script.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
9 June 2023

CONSOLIDATED INCOME STATEMENT

| US\$m | Notes | Year ended 31 December 2022 |
|---|-------|-----------------------------------|
| Insurance revenue | 6,12 | 16,319 |
| Insurance service expenses | 8,12 | (10,434) |
| Net expenses from reinsurance contracts held | 12 | (419) |
| Insurance service result | | 5,466 |
| Interest revenue on | 7 | |
| Financial assets not measured at fair value through profit or loss | | 3,837 |
| Financial assets measured at fair value through profit or loss | | 3,430 |
| Other investment return | 7 | (38,647) |
| Net impairment loss on financial assets | 7 | (233) |
| Investment return | 7 | (31,613) |
| Net finance income from insurance contracts | 7 | 30,957 |
| Net finance income from reinsurance contracts held | 7 | 67 |
| Movement in investment contract liabilities | 7 | 1,106 |
| Movement in third-party interests in consolidated investment funds | 7 | 34 |
| Net investment result | 7 | 551 |
| Fee income | | 138 |
| Other operating revenue | | 301 |
| Other expenses | 8 | (1,896) |
| Other finance costs | 8 | (385) |
| Profit before share of losses from associates and joint ventures | | 4,175 |
| Share of losses from associates and joint ventures | | (121) |
| Profit before tax | | 4,054 |
| Tax expense | | (689) |
| Net profit | | 3,365 |
| <i>Net profit attributable to:</i> | | |
| Shareholders of AIA Group Limited | | 3,331 |
| Non-controlling interests | | 34 |
| Earnings per share (US\$) | | |
| Basic | 9 | 0.28 |
| Diluted | 9 | 0.28 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended 31 December 2022 |
|---|-----------------------------------|
| US\$m | |
| Net profit | 3,365 |
| Other comprehensive income/(expense) | |
| Items that may be reclassified subsequently to profit or loss: | |
| Fair value losses on financial assets at fair value through other comprehensive income (net of tax of: US\$1,788m) | (10,519) |
| Fair value losses on financial assets at fair value through other comprehensive income reclassified to profit or loss on disposal (net of tax of: US\$(26)m) | 455 |
| Foreign currency translation adjustments | (1,490) |
| Cash flow hedges | (3) |
| Net finance income from insurance contracts (net of tax of: US\$(1,164)m) | 3,394 |
| Net finance expenses from reinsurance contracts held (net of tax of: US\$(3)m) | (251) |
| Share of other comprehensive expense from associates and joint ventures | (530) |
| Subtotal | (8,944) |
| Items that will not be reclassified subsequently to profit or loss: | |
| Revaluation gains on property held for own use (net of tax of: US\$(2)m) | 60 |
| Effect of remeasurement of net liability of defined benefit schemes (net of tax of: US\$(6)m) | 25 |
| Subtotal | 85 |
| Total other comprehensive expense | (8,859) |
| Total comprehensive expense | (5,494) |
| <i>Total comprehensive income/(expense) attributable to:</i> | |
| Shareholders of AIA Group Limited | (5,497) |
| Non-controlling interests | 3 |

Note:

(1) Where applicable, amounts are presented net of tax.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| US\$m | Notes | As at 31 December 2022 | As at 1 January 2022 |
|--|-------|------------------------------|----------------------------|
| Assets | | | |
| Intangible assets | | 3,277 | 2,914 |
| Investments in associates and joint ventures | | 2,056 | 831 |
| Property, plant and equipment | | 2,844 | 2,744 |
| Investment property | | 4,600 | 4,716 |
| Insurance contract assets | 12 | 2,037 | 3,681 |
| Reinsurance contract assets | 12 | 5,763 | 6,436 |
| Financial investments: | 10,14 | | |
| At amortised cost | | | |
| Debt securities | | 1,787 | 1,476 |
| Loans and deposits | | 4,566 | 5,434 |
| At fair value through other comprehensive income | | | |
| Debt securities | | 86,060 | 103,580 |
| At fair value through profit or loss | | | |
| Debt securities | | 77,496 | 94,916 |
| Loans and deposits | | 279 | 297 |
| Equity shares | | 23,378 | 30,817 |
| Interests in investment funds and exchangeable loan notes | | 38,577 | 40,243 |
| Derivative financial instruments | | 568 | 1,468 |
| | | <u>232,711</u> | <u>278,231</u> |
| Deferred tax assets | 14 | 229 | 104 |
| Current tax recoverable | 14 | 117 | 120 |
| Other assets | 14 | 4,524 | 6,486 |
| Cash and cash equivalents | 14 | 8,020 | 4,989 |
| Assets in disposal group held for sale | 14 | 4,293 | – |
| Total assets | | <u>270,471</u> | <u>311,252</u> |
| Liabilities | | | |
| Insurance contract liabilities | 12,14 | 181,851 | 217,773 |
| Reinsurance contract liabilities | 12,14 | 384 | 709 |
| Investment contract liabilities | 14 | 9,092 | 13,896 |
| Borrowings | | 11,206 | 9,588 |
| Obligations under repurchase agreements | | 1,748 | 1,588 |
| Derivative financial instruments | 14 | 8,638 | 1,392 |
| Provisions | | 153 | 186 |
| Deferred tax liabilities | 14 | 3,409 | 4,103 |
| Current tax liabilities | | 467 | 389 |
| Other liabilities | 14 | 4,264 | 5,121 |
| Liabilities in disposal group held for sale | 14 | 4,111 | – |
| Total liabilities | | <u>225,323</u> | <u>254,745</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

| US\$m | As at 31 December 2022 | As at 1 January 2022 |
|--|------------------------------|----------------------------|
| Equity | | |
| Share capital | 14,171 | 14,160 |
| Employee share-based trusts | (290) | (225) |
| Other reserves | (11,812) | (11,841) |
| Retained earnings | 46,499 | 48,997 |
| Other comprehensive income | (3,896) | 4,932 |
| <i>Total equity attributable to:</i> | | |
| Shareholders of AIA Group Limited | 44,672 | 56,023 |
| Non-controlling interests | 476 | 484 |
| Total equity | <u>45,148</u> | <u>56,507</u> |
| Total liabilities and equity | <u>270,471</u> | <u>311,252</u> |

Approved under the authority of the Board of Directors on 9 June 2023.



Lee Yuan Siong
Director



Edmund Sze-Wing Tse
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| US\$m | Note | Other comprehensive income | | | | | | | | | | Total equity |
|---|------|----------------------------|-----------------------------|-----------------|-------------------|--------------------|--------------------------------------|---------------------------|------------------------------|-----------|---------------------------|----------------|
| | | Share capital | Employee share-based trusts | Other reserves | Retained earnings | Fair value reserve | Foreign currency translation reserve | Insurance finance reserve | Property revaluation reserve | Others | Non-controlling interests | |
| Balance at 1 January 2022, as previously reported | | 14,160 | (225) | (11,841) | 49,984 | 8,407 | (1,068) | - | 1,069 | (19) | 467 | 60,934 |
| Impact of initial adoption of IFRS 9 and IFRS 17 | 13 | - | - | - | (1,208) | (1,766) | - | (1,895) | 369 | 56 | 17 | (4,427) |
| Retrospective adjustments for amendment to IAS 16 | 13 | - | - | - | 221 | - | - | - | (221) | - | - | - |
| Balance at 1 January 2022 – after adoption | | 14,160 | (225) | (11,841) | 48,997 | 6,641 | (1,068) | (1,895) | 1,217 | 37 | 484 | 56,507 |
| Net profit | | - | - | - | 3,331 | - | - | - | - | - | 34 | 3,365 |
| Fair value losses on financial assets at fair value through other comprehensive income | | - | - | - | - | (10,499) | - | - | - | - | (20) | (10,519) |
| Fair value losses on financial assets at fair value through other comprehensive income reclassified to profit or loss on disposal | | - | - | - | - | 455 | - | - | - | - | - | 455 |
| Foreign currency translation adjustments | | - | - | - | - | - | (1,469) | - | - | - | (21) | (1,490) |
| Cash flow hedges | | - | - | - | - | - | - | - | - | (3) | - | (3) |
| Net finance income from insurance contracts | | - | - | - | - | - | - | 3,384 | - | - | 10 | 3,394 |
| Net finance expenses from reinsurance contracts held | | - | - | - | - | - | - | (251) | - | - | - | (251) |
| Share of other comprehensive (expense)/income from associates and joint ventures | | - | - | - | - | (334) | (198) | - | 2 | - | - | (530) |
| Revaluation gains on property held for own use | | - | - | - | - | - | - | - | 60 | - | - | 60 |
| Effect of remeasurement of net liability of defined benefit schemes | | - | - | - | - | - | - | - | - | 25 | - | 25 |
| Total comprehensive income/ (expense) for the year | | - | - | - | 3,331 | (10,378) | (1,667) | 3,133 | 62 | 22 | 3 | (5,494) |
| Dividends | | - | - | - | (2,259) | - | - | - | - | - | (20) | (2,279) |
| Share buy-back | | - | - | - | (3,570) | - | - | - | - | - | - | (3,570) |
| Shares issued under share option scheme and agency share purchase plan | | 11 | - | - | - | - | - | - | - | - | - | 11 |
| Increase in non-controlling interests | | - | - | (13) | - | - | - | - | - | - | 13 | - |
| Acquisition of non-controlling interests | | - | - | - | - | - | - | - | - | - | (4) | (4) |
| Share-based compensation | | - | - | 80 | - | - | - | - | - | - | - | 80 |
| Purchase of shares held by employee share-based trusts | | - | (103) | - | - | - | - | - | - | - | - | (103) |
| Transfer of vested shares from employee share-based trusts | | - | 38 | (38) | - | - | - | - | - | - | - | - |
| Balance at 31 December 2022 | | 14,171 | (290) | (11,812) | 46,499 | (3,737) | (2,735) | 1,238 | 1,279 | 59 | 476 | 45,148 |

Note:

(1) Where applicable, amounts are presented net of tax.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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. 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.

1.1 PURPOSE OF THIS DOCUMENT

The purpose of this set of consolidated special purpose financial information (the “Consolidated Financial Information”) is in preparation for the Group’s adoption of Hong Kong Financial Reporting Standards (HKFRS) and International Financial Reporting Standards (IFRS) 9, Financial Instruments, HKFRS and IFRS 17, Insurance Contracts, and amendment to Hong Kong Accounting Standard (HKAS) and International Accounting Standard (IAS) 16, Property, Plant and Equipment for financial periods beginning from 1 January 2023.

The Group has updated its accounting policy to reflect IFRS 9, IFRS 17, and amendment to IAS 16’s requirements (as set out in note 2).

The Consolidated Financial Information relating to the year ended 31 December 2022 is not the Group’s statutory annual consolidated financial statements for that year. Further information relating to such statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Group has delivered its statutory financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Group’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under either sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. Material accounting policy information

2.1 BASIS OF PREPARATION

The Consolidated Financial Information has been prepared in accordance with the Group's accounting policies adopted for preparing the Group's consolidated financial statements for the year ended 31 December 2022 except for items that are within the scope of IFRS 9, IFRS 17 and amendment to IAS 16 (2017) which are prepared in accordance with the accounting policies set out in note 2. The Consolidated Financial Information does not comprise a full set of financial statements prepared in accordance with IFRS or HKFRS.

Operating profit information is prepared based on the accounting policies set out in note 2.2.

The Consolidated Financial Information is audited by PricewaterhouseCoopers in accordance with the Hong Kong Standards on Auditing 805 (Revised), Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers' independent audit report to the Board of Directors is included on pages 2 to 4. The Consolidated Financial Information has also been reviewed by the Company's Audit Committee.

Items included in the Consolidated Financial Information 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 Consolidated Financial Information is presented in millions of US dollar (US\$m) unless otherwise stated, which is the Company's functional currency, and the presentation currency of the Company and the Group.

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. The assumptions used to determine expected long-term investment return are the same, in all material respects, as those used by the Group in determining its embedded value and are disclosed in Supplementary Embedded Value Information in the Group's Annual Report 2022. The Group defines operating profit after tax as net profit excluding the following non-operating items:

- Short-term investment and discount rate variances
 - Variances between expected and actual investment returns across relevant asset classes and the corresponding impact on the measurement of relevant insurance contract liabilities;
 - Variances between expected and actual discount rates impacting the measurement of fulfilment cash flows of relevant insurance and reinsurance contract assets and liabilities;
 - Other investment returns; and
- Other significant items that management considers to be non-operating income and expenses.

2. Material accounting policy information (continued)

2.2 OPERATING PROFIT (continued)

The impacts of non-operating items arising from investment assets as well as direct insurance contracts issued and reinsurance contracts held by the Group entities are presented under net investment result in the segment information note. The Group considers that the presentation of operating profit enhances the understanding and comparability of its performance and that of its operating segments. The Group considers that trends can be more clearly identified without the fluctuating effects of these non-operating items, many of which are largely dependent on market factors.

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

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD

Consistent accounting policies for the measurement and recognition of insurance, reinsurance and investment contracts have been adopted throughout the Group. The Group has elected an accounting policy where the estimates made in previous interim financial statements are not changed when applying IFRS 17 in subsequent interim periods or in the annual reporting period.

2.3.1 Insurance contracts, investment contracts with DPF and reinsurance contracts held classification

The Group classifies its contracts written as either insurance contracts or investment contracts, depending on the level of insurance risk. Contracts under which the Group transfers significant insurance risk are classified as insurance contracts, while those contracts which have the legal form of insurance contracts but do not transfer significant insurance risk are classified as financial liabilities and are referred to as investment contracts. Some insurance and investment contracts, referred to as traditional participating life business, have 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 and has a possibility of incurring a loss on a present value basis, the contract is considered as transferring significant insurance risk and is accounted for as an insurance contract. Contracts held by the Group under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance contracts held. Insurance contracts and reinsurance contracts held can also expose the Group to financial risk. For investment contracts that do not contain DPF, IFRS 9, Financial Instruments, and, if the contract includes an investment management element, IFRS 15, Revenue from Contracts with Customers, are applied. Once a contract has been classified as an insurance, reinsurance or investment contract, reclassification is not subsequently performed unless the terms of the agreement are later amended.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.1 Insurance contracts, investment contracts with DPF and reinsurance contracts held classification (continued)

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. Policyholders may be entitled to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are expected to be a significant portion of the total contractual benefits;
- the timing or amount of which are contractually at the discretion of the Group; and
- that are contractually based on:
 - the returns on 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 Group; or
 - the profit or loss of the Group, fund or other entity that issues the contract.

In some jurisdictions traditional participating life 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. 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 assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory. The allocation of benefit from the assets held in such other participating business with distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time. The current policyholder participation ratio applied for recognition and measurement of the insurance contract liabilities for locations with participating funds and other participating business with distinct portfolios is set out below.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.1 Insurance contracts, investment contracts with DPF and reinsurance contracts held classification (continued)

| Country | Current policyholder participation |
|--|---|
| Participating funds | |
| Mainland China | 70% |
| Singapore | 90% |
| Brunei | 80% |
| Malaysia | 90% |
| Australia | 80% |
| New Zealand | 80% |
| Vietnam | 70% – 80% |
| Other participating business with distinct portfolios | |
| Hong Kong | 70% – 90% |

In some jurisdictions participating business is not written in a distinct fund and the Group refers to this as other participating business without distinct portfolios.

Contracts with direct participation features are contracts for which, at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of underlying items.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.1 Insurance contracts, investment contracts with DPF and reinsurance contracts held 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 contracts | Investment contracts |
| Traditional participating life | <p>Participating funds and other participating business with distinct portfolios</p> <p>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</p> <p>For participating funds, local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends</p> <p>For other participating business with distinct portfolios, the allocation of benefit from the assets held in such distinct portfolios is set according to the underlying bonus rule as determined by the relevant Board based on applicable regulatory requirements after considering the Appointed Actuary's recommendation. The extent of such policyholder participation may change over time</p> | <p>Participating products where there is a distinct portfolio meet the definition of an insurance contract with direct participation features and is measured under an approach commonly referred to as the Variable Fee Approach (VFA) measurement model. The VFA modifies the general measurement model in IFRS 17 to reflect the nature of the income to the insurer is a variable fee</p> | <p>Investment contracts with DPF are accounted for in the same way as insurance contracts under IFRS 17</p> |
| | <p>Other participating business without distinct portfolios</p> <p>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</p> | <p>The general measurement model is applied to these insurance contracts</p> | <p>Investment contracts with DPF are accounted for in the same way as insurance contracts under IFRS 17</p> |
| Non-participating life, annuities and other protection products | <p>Benefits payable are not at the discretion of the insurer</p> | <p>The general measurement model is applied to these insurance contracts except for some insurance contracts where the permitted premium allocation approach (PAA) simplification (see note 2.3.7) is applied</p> | <p>Investment contract liabilities are measured at amortised cost</p> |

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.1 Insurance contracts, investment contracts with DPF and reinsurance contracts held classification (continued)

| Policy type | Description of benefits payable | Basis of accounting for: | |
|----------------|---|---|---|
| | | Insurance contracts | Investment contracts |
| 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 | The general measurement model is applied to these insurance contracts | 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 | Unit-linked products that meet the definition of an insurance contract with direct participation features are measured under the VFA measurement model, otherwise they follow the IFRS 17 general measurement model | Investment contract liabilities under IFRS 9 are measured at fair value (determined with reference to the accumulation value) |

The basis of accounting for insurance contracts and reinsurance contracts held is discussed in notes 2.3.2 to 2.3.11 below.

2.3.2 Separating components from insurance contracts and reinsurance contracts held

At inception, the Group separates the following components from an insurance contract or a reinsurance contract held and accounts for them as if they were stand-alone financial instruments:

- derivatives embedded in the contract whose economic characteristics and risks are not closely related to those of the host contract, and whose terms would not meet the definition of an insurance contract or a reinsurance contract held as a stand-alone instrument; and
- distinct investment components – i.e. investment components that are not highly inter-related with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction.

After separating any financial instrument components, the Group separates any promises to transfer distinct goods or services other than insurance coverage and investment services and accounts for them as separate contracts with customers (i.e. not as insurance contracts). A good or service is distinct if the policyholder can benefit from it either on its own or with other resources that are readily available to the policyholder. A good or service is not distinct and is accounted for together with the insurance component if the cash flows and risks associated with the good or service are highly inter-related with the cash flows and risks associated with the insurance component, and the Group provides a significant service of integrating the good or service with the insurance component.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.3 Level of aggregation and recognition of group of insurance contracts and reinsurance contracts held

Insurance contracts

Insurance contracts are aggregated into groups for measurement purposes. Groups of contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into semi-annual cohorts and each semi-annual cohort into three groups based on the profitability of contracts:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the portfolio.

An insurance contract issued by the Group is recognised from the earliest of:

- the beginning of its coverage period (i.e. the period during which the Group provides services in respect of any premiums within the boundary of the contract);
- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- when facts and circumstances indicate that the contract is onerous.

An insurance contract acquired in a transfer of contracts or a business combination is recognised on the date of acquisition.

When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

Reinsurance contracts held

Reinsurance contracts held by the Group cover underlying insurance contracts.

A group of reinsurance contracts held is recognised on the following dates:

- Reinsurance contracts held that provide proportionate coverage: Generally later of the beginning of the coverage period of the group of reinsurance contracts held, or the date on which any underlying insurance contract is initially recognised.
- Other reinsurance contracts held: The beginning of the coverage period of the group of reinsurance contracts held. However, if the Group recognises an onerous group of underlying insurance contracts on an earlier date and the related reinsurance contract held was entered into on or before that earlier date, then the group of reinsurance contracts held is recognised on that earlier date.
- Reinsurance contracts acquired: The date of acquisition.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.4 Fulfilment cash flows and contract boundaries

Fulfilment cash flows

Fulfilment cash flows comprise:

- estimates of future cash flows;
- an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows; and
- a risk adjustment for non-financial risk.

Further details of the related methodology and assumptions in respect of estimation of fulfilment cash flows are provided in note 12.

Contract boundaries

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group, determined as follows.

Insurance contracts

Cash flows are within the boundary of a contract if they arise from substantive rights and obligations that exist during the reporting period under which the Group can compel the policyholder to pay premiums or has a substantive obligation to provide insurance contract services.

A substantive obligation to provide insurance contract services ends when:

- the Group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Group has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio; and the pricing of the premiums for coverage up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

Reinsurance contracts held

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.4 Fulfilment cash flows and contract boundaries (continued)

Contract boundaries (continued)

Reinsurance contracts held (continued)

A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Group's substantive rights and obligations and, therefore, may change over time.

2.3.5 Insurance acquisition cash flows

Insurance acquisition cash flows are allocated to groups of contracts using a systematic and rational allocation method and considering, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort. At each reporting date, the Group revises the amounts allocated to groups to reflect any changes in assumptions that determine the inputs to the allocation method used. Amounts allocated to a group are not revised once all contracts have been added to the group.

Insurance acquisition cash flows arising before the recognition of the related groups of contracts are recognised as an asset. Such an asset is recognised for each group of contracts to which the insurance acquisition cash flows are allocated. The asset is derecognised, fully or partially, when the insurance acquisition cash flows are included in the measurement of the related groups of contracts.

When the Group acquires insurance contracts in a transfer of contracts or a business combination, at the date of acquisition it recognises an asset for insurance acquisition cash flows at the fair value for the rights to obtain:

- renewals of contracts recognised at the date of acquisition; and
- other future contracts after the date of acquisition without paying again insurance acquisition cash flows that the acquiree has already paid.

Recoverability assessment

At each reporting date, if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired, then the Group:

- recognises an impairment loss in profit or loss so that the carrying amount of the asset does not exceed the expected net cash inflow of the related group; and
- if the asset relates to future renewals, recognises an impairment loss in profit or loss to the extent that it expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals and this excess has not already been recognised as an impairment loss.

The Group recognises any reversal of impairment losses in profit or loss when the impairment conditions no longer exist or have improved.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.6 Measurement – insurance contracts not measured under the PAA

2.3.6.1 Initial measurement

On initial recognition, the Group measures a group of contracts as the total of: (a) the fulfilment cash flows, which comprise estimates of future cash flows, an adjustment to reflect time value of money and associated financial risks, and a risk adjustment for non-financial risk; and (b) the contractual service margin (CSM).

The measurement of the fulfilment cash flows of a group of contracts does not reflect the Group's non-performance risk.

The risk adjustment for non-financial risk for a group of contracts, determined separately from the other estimates, is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

The CSM of a group of contracts represents the unearned profit that the Group will recognise as it provides services under those contracts. On initial recognition of a group of contracts, if the total of the fulfilment cash flows, any cash flows arising at that date and any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group (including assets for insurance acquisition cash flows) is a net inflow, then the group is not onerous. In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition.

If the total is a net outflow, then the group is onerous. In this case, the net outflow is recognised as a loss in profit or loss. A loss component is created to depict the amount of the net cash outflows, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous groups and are excluded from insurance revenue. In the case of a business combination, the net outflow is recognised as an adjustment to goodwill or a gain on a bargain purchase for contracts acquired.

For groups of contracts acquired in a transfer of contracts or a business combination, the consideration received for the contracts is included in the fulfilment cash flows as a proxy for the premiums received at the date of acquisition. In a business combination, the consideration received is the fair value of the contracts at that date.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.6 Measurement – insurance contracts not measured under the PAA (continued)

2.3.6.2 Subsequent measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage (LRC) and the liability for incurred claims (LIC). The LRC comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date. The LIC includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

The fulfilment cash flows of groups of contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognised as follows.

- Changes relating to future services are adjusted against the CSM (or recognised in the insurance service result in profit or loss if the group is onerous);
- Changes relating to current or past services are recognised in the insurance service result in profit or loss; and
- Effects of the time value of money, financial risk and changes therein on estimated future cash flows are recognised as insurance finance income or expenses for insurance contracts without direct participation features or adjusted against CSM for insurance contracts with direct participation features.

The CSM of each group of contracts is calculated at each reporting date as follows.

Insurance contracts without direct participation features

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted mainly for:

- the CSM of any new contracts that are added to the group in the period;
- interest accreted on the carrying amount of the CSM during the period, measured at the discount rates determined on initial recognition that are applied to nominal cash flows that do not vary based on the returns on underlying items;
- changes in fulfilment cash flows that relate to future services, except to the extent that:
 - any increases in the fulfilment cash flows exceed the carrying amount of the CSM, in which case the excess is recognised in insurance service expenses and recognised as a loss component in LRC; or
 - any decreases in the fulfilment cash flows adjust the loss component in the LRC and the corresponding amount is recognised in insurance service expenses. If the loss component is reduced to zero, the excess reinstates the CSM;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue for service provided in the period.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.6 Measurement – insurance contracts not measured under the PAA (continued)

2.3.6.2 Subsequent measurement (continued)

Insurance contracts without direct participation features (continued)

Changes in fulfilment cash flows that relate to future services mainly comprise:

- experience adjustments arising from premiums received in the period that relate to future services and related cash flows, measured at the discount rates determined on initial recognition;
- changes in estimates of the present value of future cash flows in the LRC, measured at the discount rates determined on initial recognition, except for those that relate to the effects of the time value of money, financial risk and changes therein;
- differences between (a) any investment component expected to become payable in the period, determined as the payment expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable; and (b) the actual amount that becomes payable in the period;
- differences between (a) any loan to a policyholder expected to become repayable in the period, determined as the repayment expected at the start of the period plus any insurance finance income or expenses related to that expected repayment before it becomes repayable; and (b) the actual amount that becomes repayable in the period; and
- changes in the risk adjustment for non-financial risk that relate to future services.

To determine how to identify a change in discretionary cash flows, the basis is generally determined at inception of the contract. Changes in cash flows arising from the Group's discretion are regarded as relating to future services and accordingly adjust the CSM, these cash flows are determined based on the relevant contract terms, dividend and bonus philosophy.

Insurance contracts with direct participation features

Contracts with direct participation features are contracts under which the Group's obligation to the policyholder is the net of:

- the obligation to pay the policyholder an amount equal to the fair value of the underlying items; and
- a variable fee in exchange for future services provided by the contracts, being the amount of the Group's share of the fair value of the underlying items less fulfilment cash flows that do not vary based on the returns on underlying items. The Group provides investment services under these contracts by promising an investment return based on underlying items, in addition to insurance coverage.

When measuring a group of contracts with direct participation features, the Group adjusts the fulfilment cash flows for the changes in the obligation to pay policyholders an amount equal to the policyholder's share of the fair value of the underlying items. These changes do not relate to future services and are recognised in profit or loss.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.6 Measurement – insurance contracts not measured under the PAA (continued)

2.3.6.2 Subsequent measurement (continued)

Insurance contracts with direct participation features (continued)

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted mainly for:

- the CSM of any new contracts that are added to the group in the period;
- the change in the amount of the Group's share of the fair value of the underlying items and changes in fulfilment cash flows that relate to future services, except to the extent that:
 - a decrease in the amount of the Group's share of the fair value of the underlying items, or an increase in the fulfilment cash flows that relate to future services, exceeds the carrying amount of the CSM. The excess is recognised in insurance service expenses and recognised as a loss component in LRC; or
 - an increase in the amount of the Group's share of the fair value of the underlying items, or a decrease in the fulfilment cash flows that relate to future service, which adjust the loss component in the LRC and the corresponding amount is recognised in insurance service expenses. If the loss component is reduced to zero, the excess reinstates the CSM.
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue for service provided in the period.

Changes in fulfilment cash flows not varying based on the return on underlying items that relate to future services include the changes relating to future services specified above for contracts without direct participation features (measured at current discount rates) and changes in the effect of the time value of money and financial risks that do not arise from underlying items – e.g. the effect of financial guarantees.

2.3.7 Measurement – insurance contracts measured under the PAA

The Group generally uses the PAA to simplify the measurement of groups of contracts in the following circumstances:

- where the coverage period of each contract in the group of contracts is one year or less; or
- the Group reasonably expects that the resulting measurement of the LRC would not differ materially from the result of applying the accounting policies of contracts not measured under the PAA.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.7 Measurement – insurance contracts measured under the PAA (continued)

2.3.7.1 Initial measurement

On initial recognition of each group of contracts, the carrying amount of the LRC is measured at the premiums received on initial recognition minus any insurance acquisition cash flows allocated to the group at that date, and adjusted for amounts arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group. The Group has elected the accounting policy choice to defer insurance acquisition cash flows through the LRC.

2.3.7.2 Subsequent measurement

Subsequently, the carrying amount of the LRC is increased by (i) any premiums received; and (ii) any amortisation of the insurance acquisition cash flows, and decreased by (i) insurance acquisition cash flows paid; (ii) the amount recognised as insurance revenue for coverage provided; and (iii) any investment component paid or transferred to the LIC. On initial recognition of each group of contracts, the Group expects that the time gap between providing each part of the coverage and the related premium due date is not significant. Accordingly, the Group has chosen not to adjust the LRC to reflect the time value of money and the effect of financial risk.

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Group recognises a loss in profit or loss and increases the LRC to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage (including the risk adjustment for non-financial risk) exceed the carrying amount of the LRC as loss component. The fulfilment cash flows are adjusted for the time value of money and the effect of financial risk (using current estimates) if the LIC is also adjusted for the time value of money and the effect of financial risk. In subsequent periods, unless facts and circumstances indicate that the group of contracts is no longer onerous, the loss component is remeasured at each reporting date as the difference between the current estimates of the fulfilment cash flows that relate to remaining coverage (including the risk adjustment for non-financial risk) and the carrying amount of the LRC without loss component.

The Group recognises the LIC of a group of insurance contracts for the amount of the fulfilment cash flows relating to incurred claims. The fulfilment cash flows are discounted (at current rates) unless the cash flows are expected to be paid in one year or less from the date the claims are incurred.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.8 Reinsurance contracts held

For groups of reinsurance contracts held, the Group applies the same accounting policies as that applied to insurance contracts without direct participation features, with the following modifications.

The carrying amount of a group of reinsurance contracts held at each reporting date is the sum of the asset for remaining coverage and the asset for incurred claims. The asset for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be received under the contracts in future periods and (b) any remaining CSM at that date.

The Group measures the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the reinsurer. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognised in profit or loss.

The risk adjustment for non-financial risk is the amount of risk being transferred by the Group to the reinsurer.

On initial recognition, the CSM of a group of reinsurance contracts held represents a net cost or net gain on purchasing reinsurance. It is measured as the equal and opposite amount of the total of (a) the fulfilment cash flows, (b) the amount arising from assets or liabilities previously recognised for cash flows related to the group, before the group is recognised, (c) cash flows arising from the contracts in the group at that date and (d) any income recognised in profit or loss because of onerous underlying contracts recognised at that date. However, if any net cost on purchasing reinsurance coverage relates to insured events that occurred before the purchase of the reinsurance, then the Group recognises the cost immediately in profit or loss as an expense.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted for:

- the CSM of any new contracts that are added to the group in the period;
- interest accreted on the carrying amount of the CSM during the period, measured at the discount rates determined on initial recognition that are applied to nominal cash flows;
- income recognised in profit or loss in respect of a loss recognised for onerous underlying contracts. A loss-recovery component is established or adjusted in the asset for remaining coverage of reinsurance contracts held for the amount of income recognised;
- reversals of a loss-recovery component to the extent that they are not changes in the fulfilment cash flows of the group;
- changes in fulfilment cash flows that relate to future services, measured at the discount rates determined on initial recognition, unless the changes result from changes in fulfilment cash flows of onerous underlying contracts, in which case they are recognised in profit or loss and create or adjust a loss-recovery component;

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.8 Reinsurance contracts held (continued)

- the effect of any currency exchange differences on the CSM; and
- the amount recognised in profit or loss for the services received in the period.

Reinsurance of onerous underlying insurance contracts

The Group adjusts the CSM of the group to which a reinsurance contract held belongs and as a result recognises income when it recognises a loss on initial recognition of onerous underlying contracts, if the reinsurance contract held is entered into before or at the same time as the onerous underlying contracts are recognised. The adjustment to the CSM is determined by multiplying:

- the amount of the loss that relates to the underlying contracts; and
- the percentage of claims on the underlying contracts that the Group expects to recover from the reinsurance contracts held.

For reinsurance contracts acquired in a transfer of contracts or a business combination covering onerous underlying contracts, the adjustment to the CSM is determined by multiplying:

- the amount of the loss that relates to the underlying contracts at the date of acquisition; and
- the percentage of claims on the underlying contracts that the Group expects at the date of acquisition to recover from the reinsurance contracts held.

For reinsurance contracts held which were acquired in a business combination, the adjustment to the CSM reduces goodwill or increases a gain on a bargain purchase.

If the reinsurance contract held covers only some of the insurance contracts included in an onerous group of contracts, then the Group uses a systematic and rational method to determine a portion of losses recognised on the onerous group of contracts containing the insurance contracts covered by the reinsurance contract held.

A loss-recovery component is established or adjusted in the asset for remaining coverage of reinsurance contracts held, which determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts held and are excluded from the allocation of reinsurance premiums paid.

Reinsurance contracts held measured under the PAA

The Group applies the same accounting principles to measure a group of insurance contracts or reinsurance contracts held under the PAA.

If a loss-recovery component is established for a group of reinsurance contracts held measured under the PAA, the Group adjusts the carrying amount of the asset.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.9 Transition approaches

The Group adopts both the modified retrospective approach and the fair value approach when it is impracticable to use a full retrospective approach in determining transition amounts at the IFRS 17 transition date.

Contracts measured under the modified retrospective approach

The objective of this approach was to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. The Group applied each of the following modifications only to the extent that it did not have reasonable and supportable information to apply IFRS 17 retrospectively.

Contracts without direct participation features

For relevant groups of contracts without direct participation features,

- The future cash flows on initial recognition were estimated by adjusting the cash flows that were known to have occurred.
- The risk adjustment for non-financial risk on initial recognition was determined by adjusting the amount at 1 January 2022 for the expected release of risk before 1 January 2022. The expected release of risk was determined with reference to the release of risk for similar insurance contracts that the Group issued at 1 January 2022.
- When any of these modifications was used to determine the CSM (or the loss component) at initial recognition:
 - the amount of the CSM recognised in profit or loss before 1 January 2022 was determined by comparing the remaining coverage units at 1 January 2022 with the coverage units provided under the group of contracts before that date; and
 - the amount allocated to the loss component before 1 January 2022 determined using the proportion of the loss component relative to the total estimate of the present value of the future cash outflows and the risk adjustment for non-financial risk on initial recognition.

Contracts with direct participation features

For relevant groups of contracts with direct participation features,

- The Group determined the CSM (or the loss component) at 1 January 2022 by calculating a proxy for the total CSM for all services to be provided under the group that equal to the fair value of the underlying items at 1 January 2022 minus the fulfilment cash flows at 1 January 2022, adjusted for:
 - amounts charged to policyholders (including charges deducted from the underlying items) before 1 January 2022;
 - amounts paid before 1 January 2022 that would not have varied based on the underlying items;

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.9 Transition approaches (continued)

Contracts measured under the modified retrospective approach (continued)

Contracts with direct participation features (continued)

- the change in the risk adjustment for non-financial risk caused by the release from risk before 1 January 2022, which was estimated based on an analysis of similar contracts that the Group issued at 1 January 2022; and
 - insurance acquisition cash flows arising before 1 January 2022 that were allocated to the group.
- If the calculation resulted in a CSM, then the Group measured the CSM at 1 January 2022 by deducting the CSM related to services provided before 1 January 2022. The CSM related to services provided before 1 January 2022 was determined by comparing the coverage units at 1 January 2022 with the coverage units provided under the group of contracts before that date.
 - If the calculation resulted in a loss component, then the Group adjusted the loss component to zero and increased the LRC excluding the loss component by the same amount at 1 January 2022.
 - The amount of insurance finance income or expenses accumulated in the insurance finance reserve at 1 January 2022 was determined to be equal to the cumulative amount recognised in the other comprehensive income on the underlying items as applicable.

Reinsurance of onerous underlying contracts

For groups of reinsurance contracts held covering onerous underlying contracts that were entered into before or at the same time as the onerous underlying contracts, the Group established a loss-recovery component at 1 January 2022. For some groups of reinsurance contracts held measured under the modified retrospective approach, the Group determined the loss-recovery component by multiplying:

- the amount of the loss component that relates to the underlying contracts at 1 January 2022; and
- the percentage of claims on the underlying contracts that the Group expected to recover from the reinsurance contracts held.

For certain other groups of reinsurance contracts held, the Group did not identify a loss-recovery component because it did not have reasonable and supportable information to do so.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.9 Transition approaches (continued)

Contracts measured under the modified retrospective approach (continued)

Insurance acquisition cash flows – Modified retrospective approach

Under the modified retrospective approach, the Group identified any insurance acquisition cash flows arising before 1 January 2022 that did not relate to contracts that had ceased to exist before that date. These cash flows were allocated, using the same systematic and rational method, to:

- groups of contracts recognised at 1 January 2022 (which adjusted the CSM of those groups); and
- groups of contracts expected to be recognised after 1 January 2022 (which were recognised as assets for insurance acquisition cash flows).

Contracts measured under the fair value approach

For the groups of contracts that are measured under the fair value approach, the Group determined the CSM or loss component of the LRC at 1 January 2022 as the difference between the fair value of a group of contracts at that date and the fulfilment cash flows at that date.

The fair value of groups of contracts is primarily determined by using present value technique from the perspective of a market participant with considerations of the following:

- estimate of future cash flows that a market participant would expect to incur or receive in fulfilling the liabilities;
- time value of money, represented by the risk-free interest rate plus a spread based on the characteristic of the liabilities;
- premiums that a market participant would require for bearing uncertainty inherent in the cash flows in relation to non-financial risks and compensation that a market participant would require to assume the obligations;
- the non-performance risk relating to those liabilities; and
- other factors that a market participant would take into account in the circumstances.

To the extent possible, the Group maximised the use of relevant market data and information of market transactions in Asia. For the unobservable inputs, the Group used the best information available in the circumstances, which might include the Group's own data.

For all contracts measured under the fair value approach, the Group used reasonable and supportable information available at 1 January 2022 to determine:

- how to identify groups of contracts;
- whether a contract meets the definition of a contract with or without direct participation features or investment contract with discretionary participation features; and
- how to identify discretionary cash flows for contracts without direct participation features.

For contracts acquired in a transfer of contracts or a business combination before 2022, the Group classified liabilities for settlement of claims as liabilities for incurred claims, even though the claims might have been incurred before the contracts were acquired.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.9 Transition approaches (continued)

Contracts measured under the fair value approach (continued)

For groups of contracts measured under the fair value approach,

- the discount rates on initial recognition were determined at 1 January 2022 instead of at the date of initial recognition.
- the amount of insurance finance income or expenses accumulated in the insurance finance reserve at 1 January 2022 was determined to be zero for contracts without direct participation features and to be equal to the cumulative amount recognised in the other comprehensive income on the underlying items for contracts with direct participation features as applicable.

For groups of reinsurance contracts held covering onerous underlying contracts, the Group established a loss-recovery component at 1 January 2022. The Group determined the loss-recovery component by multiplying:

- the amount of the loss component that relates to the underlying contracts at 1 January 2022; and
- the percentage of claims on the underlying contracts that the Group expected to recover from the reinsurance contracts held.

Insurance acquisition cash flows – Fair value approach

The Group measured an asset for insurance acquisition cash flows under the fair value approach at an amount equal to the insurance acquisition cash flows that it would incur at 1 January 2022 for the rights to obtain:

- recoveries of insurance acquisition cash flows from premiums of contracts issued before 1 January 2022 but not yet recognised at that date, and future contracts that are renewals of such contracts;
- future contracts that are renewals of contracts recognised at 1 January 2022; and
- other future contracts after 1 January 2022 without paying again insurance acquisition cash flows that the Group has already paid.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.10 Derecognition and contract modification

The Group derecognises a contract when it is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled.

The Group also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the Group treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

On the derecognition of a contract in a group of contracts not measured under the PAA:

- the fulfilment cash flows allocated to the group are adjusted to eliminate those that relate to the rights and obligations derecognised;
- the CSM of the group is adjusted for the change in the fulfilment cash flows that relate to future service, except where such changes are allocated to a loss component; and
- the number of coverage units for the expected remaining services is adjusted to reflect the coverage units derecognised from the group.

If a contract is derecognised because it is transferred to third party, then the CSM is also adjusted for the premium charged by the third party, unless the contract is onerous.

If a contract is derecognised because its terms are modified, then the CSM is also adjusted for the premium that would have been charged had the Group entered into a contract with the new contract's terms at the date of modification, less any additional premium charged for the modification. The new contract recognised is measured assuming that, at the date of modification, the issuer received the premium that it would have charged less any additional premium charged for the modification.

2.3.11 Presentation

Portfolios of insurance contracts and reinsurance contracts held in an asset position are presented separately from those in a liability position. Portfolios of insurance contracts issued are presented separately from portfolios of reinsurance contracts held. Any assets recognised for insurance acquisition cash flows arising before the recognition of the related group of insurance contracts are included in the carrying amount of the related portfolios of insurance contracts. Any assets or liabilities for cash flows arising before the recognition of the related group of reinsurance contracts held are included in the carrying amount of the related portfolios of reinsurance contracts held.

The Group disaggregates amounts recognised in the income statement and the statement of comprehensive income into (a) an insurance service result, comprising insurance revenue and insurance service expenses, and (b) insurance finance income or expenses.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.11 Presentation (continued)

Income and expenses from reinsurance contracts held are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance contracts held, other than insurance finance income or expenses, are presented on a net basis as “net expenses from reinsurance contracts held” in the insurance service result.

The Group does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

Insurance revenue and insurance service expenses exclude any investment components and are recognised as follows.

2.3.11.1 Insurance revenue – insurance contracts not measured under the PAA

The Group recognises insurance revenue as it satisfies its performance obligations – i.e. as it provides services under groups of contracts. For contracts not measured under the PAA, the insurance revenue relating to services provided for each period represents the total of the changes in the LRC that relate to services for which the Group expects to receive consideration, excludes expected investment components and mainly comprises the following items:

- A release of the CSM, measured based on coverage units provided;
- Changes in the risk adjustment for non-financial risk relating to current services;
- Claims and other insurance service expenses incurred in the period, generally measured at the amounts expected at the beginning of the period; and
- Other amounts, including experience adjustments for premium receipts for current or past services and amounts related to incurred policyholder tax expenses.

For insurance acquisition cash flows recovery, the Group allocates a portion of premiums related to the recovery in a systematic way based on the passage of time over the expected coverage of a group of contracts. The allocated amount is recognised as insurance revenue with the same amount recognised as insurance service expenses.

2.3.11.2 Release of the CSM – insurance contracts not measured under the PAA

The amount of the CSM of a group of insurance contracts that is recognised as insurance revenue in each reporting period is determined by identifying the coverage units in the group, allocating the CSM remaining at the end of the reporting period (before any allocation) equally to each coverage unit provided in the current period and expected to be provided in future periods, and recognising in profit or loss the amount of the CSM allocated to coverage units provided in the current period. The number of coverage units is the quantity of services provided by the contracts in the group, determined considering for each contract the quantity of benefits provided and its expected coverage period.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.11 Presentation (continued)

2.3.11.3 Insurance revenue – insurance contracts measured under the PAA

For contracts measured under the PAA, the insurance revenue for each period is the amount of expected premium for providing services in the period. The Group allocates the expected premium to each period on the following bases:

- the passage of time; or
- the expected timing of incurred insurance service expenses, if the expected pattern of release of risk during the coverage period differs significantly from the passage of time.

2.3.11.4 Loss components – insurance contracts not measured under the PAA

For contracts not measured under the PAA, the Group establishes a loss component of the LRC for onerous groups of contracts. The loss component determines the amounts of fulfilment cash flows that are subsequently excluded from insurance revenue when they occur. When the fulfilment cash flows occur, they are allocated between the loss component and the LRC excluding the loss component on a systematic basis.

Changes in estimates of fulfilment cash flows relating to future services and changes in the Group's share of the fair value of underlying items are allocated solely to the loss component. If the loss component is reduced to zero, then any excess over the amount allocated to the loss component creates or reinstates the CSM for the group of contracts.

2.3.11.5 Insurance service expenses

Insurance service expenses arising from insurance contracts are recognised in profit or loss generally as they are incurred. They exclude repayments of investment components and mainly comprise the following items:

- Incurred claims and other insurance service expenses;
- Amortisation of insurance acquisition cash flows: for contracts not measured under the PAA, this is equal to the amount of insurance revenue recognised in the period that relates to recovering insurance acquisition cash flows. For contracts measured under the PAA, the Group amortises insurance acquisition cash flows on a straight-line basis over the coverage period of the group of contracts;
- Losses on onerous contracts and reversals of such losses; and
- Adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein.

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.11 Presentation (continued)

2.3.11.6 *Net expenses from reinsurance contracts held*

Net expenses from reinsurance contracts held mainly comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers.

The Group recognises an allocation of reinsurance premiums paid as reinsurance expenses within net expenses from reinsurance contracts held for the coverage or other services received by the Group under groups of reinsurance contracts held. For contracts not measured under the PAA, the allocation of reinsurance premiums paid relating to services received for each period represents the total of the changes in the asset for remaining coverage that relate to services for which the Group expects to pay consideration.

For contracts measured under the PAA, the allocation of reinsurance premiums paid for each period is the amount of expected premium payments for receiving services in the period.

For a group of reinsurance contracts held covering onerous underlying contracts, the Group establishes a loss-recovery component of the asset for remaining coverage to depict the recovery of losses recognised:

- on recognition of onerous underlying contracts, if the reinsurance contract held covering those contracts is entered into before or at the same time as those contracts are entered into; and
- for changes in fulfilment cash flows of the group of reinsurance contracts held relating to future services that result from changes in fulfilment cash flows of the onerous underlying contracts.

2.3.11.7 *Insurance finance income or expenses*

Insurance finance income or expenses comprise changes in the carrying amounts of groups of insurance contracts and reinsurance contracts held arising from the effects of the time value of money, financial risk and changes therein. This includes changes in the measurement of groups of contracts caused by changes in the value of underlying items (excluding additions and withdrawals).

2. Material accounting policy information (continued)

2.3 INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DISCRETIONARY PARTICIPATION FEATURES (DPF) AND REINSURANCE CONTRACTS HELD (continued)

2.3.11 Presentation (continued)

2.3.11.7 Insurance finance income or expenses (continued)

For certain portfolios, the Group has chosen to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income. The amount included in profit or loss is determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts. The systematic allocation is determined as follows:

- Contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders: for insurance finance income or expenses arising from the estimates of future cash flows, using either a rate that allocates the remaining revised expected insurance finance income or expenses over the remaining duration of the group of contracts at a constant rate (i.e. the effective yield) or an allocation that is based on the amounts credited in the period and expected to be credited in future periods; and for insurance finance income or expenses arising from the CSM, the discount rates determined on initial recognition of the group of contracts. This selection of the rate applied is based on the characteristics of contracts.
- Contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to the policyholders: the discount rates determined on initial recognition of the group of contracts.

Amounts presented in other comprehensive income are accumulated in the insurance finance reserve. If the Group derecognises a contract without direct participation features as a result of a transfer to a third party or a contract modification, then any remaining amounts of accumulated other comprehensive income for the contract are reclassified to profit or loss.

The Group presents insurance finance income or expenses for all other contracts in profit or loss.

2.4 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 IFRS 9 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.

2. Material accounting policy information (continued)

2.4 INVESTMENT CONTRACTS (continued)

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.

When part of the fee received from a policyholder is expected to be refunded in the future, the related fee is not recognised as a revenue and a sales inducement liability is established which forms part of the investment contract liabilities.

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.

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.

2. Material accounting policy information (continued)

2.4 INVESTMENT CONTRACTS (continued)

Investment contract liabilities (continued)

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 expenses 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.

2.5 FINANCIAL INSTRUMENTS

2.5.1 Classification of and designation of financial instruments

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition, unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified at the beginning of the reporting period during which the business model has changed.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt security is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Material accounting policy information (continued)

2.5 FINANCIAL INSTRUMENTS (continued)

2.5.1 Classification of and designation of financial instruments (continued)

On initial recognition of an equity security that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

Management designates financial assets and liabilities at fair value through profit or loss if this eliminates a measurement or recognition inconsistency or if the liabilities are actively managed on a fair value basis, including among others debt securities held in participating funds and other participating business with distinct portfolios.

Dividend income from equity instruments measured at fair value through profit or loss is recognised in other investment return in the consolidated income statement, generally when the security becomes ex-dividend. Interest revenue is recognised on an accrued basis. For all financial assets and liabilities measured at fair value through profit or loss, changes in fair value are recognised in profit or loss as part of net investment result.

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

Financial assets at fair value through other comprehensive income

These principally consist of the Group's debt securities (other than those backing participating funds, other participating business with distinct portfolios and unit-linked contracts). These financial assets are initially recognised at fair value plus attributable transaction costs and are subsequently measured at fair value. The difference between their cost and par value is amortised. Interest revenue is recognised in investment return in the consolidated income statement using the effective interest method.

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

2. Material accounting policy information (continued)

2.5 FINANCIAL INSTRUMENTS (continued)

2.5.1 Classification of and designation of financial instruments (continued)

Financial assets at fair value through other comprehensive income (continued)

Changes in the fair value of securities, except for impairment losses and relevant foreign exchange gains and losses, are recognised in other comprehensive income. Impairment losses and relevant foreign exchange gains and losses are recognised in the consolidated income statement.

Realised gains and losses on financial assets

Realised gains and losses on financial assets measured at fair value through profit or loss excludes any interest revenue or dividend income.

Realised gains and losses on financial assets measured at fair value through other comprehensive income are determined as the difference between the sale proceeds and its original cost or amortised cost as appropriate. Amortised cost is determined by specific identification.

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, contract modification and offset

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 liabilities are generally derecognised when their contractual obligations expire or are discharged or cancelled. Notwithstanding, when, and only when, the Group repurchases its financial liability and includes it as underlying items of contracts with direct participation features or investment contracts with DPF, the Group may elect not to derecognise the financial liability. Instead, the Group may elect to continue to account for that instrument as a financial liability and to account for the repurchased instrument as if it were a financial asset and measure it at fair value through profit or loss. This election is irrevocable and is made on an instrument-by-instrument basis.

If the terms of a financial instrument are modified, then the Group evaluates whether the cash flows of the modified financial instrument are substantially different. If the cash flows are substantially different, in which case, a new financial instrument based on the modified terms is recognised at fair value. If a financial instrument measured at amortised cost is modified but not substantially, then it is not derecognised.

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.

2. Material accounting policy information (continued)

2.5 FINANCIAL INSTRUMENTS (continued)

2.5.1 Classification of and designation of financial instruments (continued)

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 held for cash management purposes, which have maturities at acquisition of three months or less, or are convertible into known amounts of cash and subject to insignificant risk of changes in value. 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 that are not mandatorily measured at fair value through profit or loss are measured at amortised cost using the effective interest method.

Financial assets measured at amortised cost

Other than cash and cash equivalents, financial assets measured at amortised cost primarily include debt securities, loans and deposits, and receivables. These financial assets 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 revenue from debt securities measured at amortised cost is recognised in investment return in the consolidated income statement 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 fair value through other comprehensive income) 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.

2. Material accounting policy information (continued)

2.5 FINANCIAL INSTRUMENTS (continued)

2.5.3 Impairment of financial assets

The Group recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost and debt securities measured at fair value through other comprehensive income. Loss allowances are measured at an amount equal to lifetime ECL, except in the following cases, for which the amount recognised is 12-month ECL:

- financial assets that are determined to have low credit risk at reporting date; and
- financial assets (other than trade receivables or lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECL.

Lifetime ECL are the ECL that result from possible default events over the expected life of the financial instrument, whereas 12-month ECL are the portion of ECL that results from default events that are possible within the 12 months after the reporting date. In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

ECL are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive; and
- other financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

Loss allowances for ECL of financial assets measured at amortised cost are deducted from the gross carrying amount of the assets, and loss allowance for debt securities measured at fair value through other comprehensive income are recognised in other comprehensive income and do not reduce the carrying amount of the financial assets in the statement of financial position.

The gross carrying amount of financial assets is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

2. Material accounting policy information (continued)

2.5 FINANCIAL INSTRUMENTS (continued)

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. 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 other investment return.

Cash flow hedge

The Group has, in a limited number of cases, designated certain derivatives as hedges of interest rate risk associated with the cash flows of highly probable forecast transactions such as forecast purchases of debt securities. As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39. To the extent these hedges are effective, the change in fair value of the derivatives designated as hedging instruments is recognised in the cash flow hedge reserve in other comprehensive income within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss when the hedged item affects profit or loss. In respect of a forecast purchase of a debt security classified as fair value through other comprehensive income, the cash flows are expected to affect profit or loss when the coupons from the purchased bonds are recognised, or on disposal of the security. The application of hedge accounting is discontinued when one of the following situations occurs: when a derivative designated as the hedging instrument expires or is sold, terminated or exercised prior to the occurrence of the forecast transaction, when the hedge is no longer highly effective or expected to be highly effective, or when the Group revokes the designation of the hedging relationship. In these situations, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. This amount is reclassified to profit or loss when the hedged item affects profit or loss. If the forecast transaction is no longer expected to occur, the entire amount is reclassified immediately to profit or loss.

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 that is not a financial asset within the scope of IFRS 9, 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 IFRS 9.

2. Material accounting policy information (continued)

2.6 PROPERTY, PLANT AND EQUIPMENT

Property held for own use, which is solely held as an underlying item of contracts with direct participation features, is measured initially at cost and subsequently at fair value, with any change therein recognised in profit or loss. Any gain or loss on disposal of property held for own use measured at fair value (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

2.7 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 deferred origination costs, intangible assets, investments in associates and joint ventures, property, plant and equipment and investment property as non-current assets as these are held for the longer-term use of the Group.

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 insurance contracts (including investment contracts with DPF), investment contracts, fair value measurement, impairment of financial assets and impairment of goodwill and other intangible assets.

3.1 LEVEL OF AGGREGATION AND RECOGNITION OF GROUP OF INSURANCE CONTRACTS

For contracts issued to which the Group does not apply the premium allocation approach, the judgements exercised in determining whether contracts are onerous on initial recognition or those that have no significant possibility of becoming onerous subsequently are:

- based on the likelihood of changes in assumptions which, if they occurred, would result in the contracts becoming onerous; and
- using information about profitability estimation for the relevant group of products.

The accounting policy on level of aggregation and recognition of group of insurance contracts is described in note 2.3.3.

3. Critical accounting estimates and judgements (continued)

3.2 MEASUREMENT OF INSURANCE CONTRACTS NOT MEASURED UNDER THE PREMIUM ALLOCATION APPROACH

The asset or liability for groups of insurance contracts is measured as the total of fulfilment cash flows and CSM.

The fulfilment cash flows of insurance contracts (including investment contracts with DPF) represents the present value of estimated future cash outflows, less the present value of estimated future cash inflows and adjusted for a provision for the risk adjustment for non-financial risk. The assumptions used and the techniques for estimating fulfilment cash flows and risk adjustment for non-financial risk are based on actual experience by each geographical market and policy form. The Group exercises significant judgement in making appropriate assumptions and techniques.

CSM represents the unearned profits that the Group will recognise as it provides services under the insurance contracts in a group. The amounts of CSM recognised in profit or loss are determined by identifying the coverage units in the group, allocating the CSM at the end of period equally to each coverage unit provided in the current period and expected to be provided in the future. The number of coverage units in a group is the quantity of the services provided by the contracts in the group, determined by considering for each contract the quantity of the services provided under a contract and its expected coverage period. The Group exercises judgements in determining the quantity of the services provided under a contract which will affect the amounts recognised in the Consolidated Financial Information as insurance revenue from insurance contracts issued.

The judgements exercised in the valuation of insurance contracts (including investment contracts with DPF) affect the amounts recognised in the Consolidated Financial Information as assets or liabilities of insurance contracts and investment contracts with DPF. Further details of the related accounting policies in respect of insurance contracts are provided in note 2.3.

3.3 DETERMINATION OF COVERAGE UNIT

The CSM of a group of contracts is recognised as insurance revenue in each period based on the number of coverage units provided in the period, which is determined by considering for each contract the quantity of the services provided, its expected coverage period and time value of money.

The quantity of services provided by insurance contracts could include insurance coverage, investment-return service and investment-related service, as applicable. In assessing the services provided by insurance contracts, the terms and benefit features of the contracts are considered.

For contracts providing predominately insurance coverage, the quantity of services is determined for the contract as a whole based on the expected maximum benefits less investment component. For contracts providing multiple services, the quantity of services is determined based on the benefits provided to policyholder for each service with the relative weighting considered in the calculation through the use of factors. Relevant elements are considered in determining the quantity of service including among others, benefit payments and premiums. The Group applies judgement in these determinations.

Expected coverage period is derived based on the likelihood of an insured event occurring to the extent they affect the expected duration of contracts in the group. Determining the expected coverage period is judgemental since it involves making an expectation of when claims and lapse will occur.

3. Critical accounting estimates and judgements (continued)

3.4 TRANSITION TO IFRS 17

The Group applied IFRS 17 in the Consolidated Financial Information from 1 January 2022 and onwards. The Group has determined that it was impracticable to apply the full retrospective approach for some groups of contracts because certain historical information was not available or was not available without undue cost or effort that would enable it to be used under this approach. Therefore, the Group applied the modified retrospective or fair value approaches for these groups of contracts. The Group exercises judgements in determining the transition approaches, applying the transition methods and measuring the transition impacts on the transition date, which will affect the amounts recognised in the Consolidated Financial Information on the transition date. Further details of the related accounting policies and information on the date of initial adoption are provided in notes 2.3.9 and 13.

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.

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.

3. Critical accounting estimates and judgements (continued)

3.6 IMPAIRMENT OF FINANCIAL ASSETS

The Group recognises loss allowances for ECL on financial assets measured at amortised cost and debt securities measured at fair value through other comprehensive income. The measurement of ECL requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Details of the inputs, assumptions and estimation techniques used for estimating ECL are further explained in note 11.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk since initial recognition;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the methodology for incorporating forward-looking information into the measurement of ECL.

3.7 IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

For the purposes of impairment testing, goodwill and other intangible assets are grouped into cash-generating units 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.

4. Operating profit after tax

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

| US\$m | Note | Year ended 31 December 2022 |
|--|------|-----------------------------------|
| Operating profit after tax | 5 | 6,454 |
| Non-operating items, net of related taxes: | | |
| Short-term investment and discount rate variances ⁽¹⁾ | | (1,134) |
| Reclassification of revaluation gains for property held for own use ⁽¹⁾ | | (71) |
| Other significant non-operating income and expenses | | |
| Corporate transaction related costs | | (63) |
| Implementation costs for new accounting standards | | (45) |
| Other non-operating investment return and other items | | (1,776) |
| Subtotal ⁽²⁾ | | <u>(3,089)</u> |
| Net profit | | <u>3,365</u> |
| <i>Operating profit after tax attributable to:</i> | | |
| Shareholders of AIA Group Limited | | 6,421 |
| Non-controlling interests | | 33 |
| <i>Net profit attributable to:</i> | | |
| Shareholders of AIA Group Limited | | 3,331 |
| Non-controlling interests | | 34 |

Notes:

- (1) Short-term investment and discount rate variances include revaluation gains for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.
- (2) The amount is net of tax of US\$361m. The gross amount before tax is US\$(3,450)m.

Operating profit after tax breakdown:

| US\$m | Year ended 31 December 2022 |
|-------------------------------------|-----------------------------------|
| Insurance service result: | |
| CSM recognised for service provided | 5,121 |
| Other insurance service result | 345 |
| Net investment result | 3,597 |
| Other net expense | (1,559) |
| Operating profit before tax | <u>7,504</u> |
| Taxation | (1,050) |
| Operating profit after tax | <u>6,454</u> |

5. Segment information

The Group's operating segments, based on the reports received by the Group's chief operating decision-maker, considered to be the Executive Committee (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 Mainland China, Hong Kong (including Macau), Thailand, Singapore (including Brunei), Malaysia, Other Markets and Group Corporate Centre. Other Markets includes the Group's operations in Australia, Cambodia, India, Indonesia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka, Taiwan (China) and Vietnam. The activities of the Group Corporate Centre segment consist of the Group's corporate functions, shared services and eliminations of intra-group transactions.

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

- annualised new premiums (ANP);
- total weighted premium income (TWPI);
- insurance service result;
- net investment result;
- 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, insurance finance reserve and fair value reserve).

Business volumes in respect of the Group's five largest customers are less than 30 per cent of insurance revenue and net investment result in this note.

The Group recognises deferred tax liabilities in respect of unremitted earnings in jurisdictions where withholding tax charge would be incurred upon dividend distribution.

5. Segment information (continued)

| US\$m | Mainland | | Thailand | Singapore | Malaysia | Other Markets | Group Corporate Centre | Total |
|---|--------------|-----------------|--------------|----------------|------------|------------------|------------------------------|-------------------------|
| | China | Hong Kong | | | | | | |
| Year ended 31 December 2022 | | | | | | | | |
| ANP | 1,319 | 1,078 | 655 | 531 | 440 | 1,384 | - | 5,407 |
| TWPI | 7,592 | 11,237 | 4,166 | 3,577 | 2,464 | 7,140 | - | 36,176 |
| Insurance revenue | 3,087 | 3,432 | 1,976 | 1,954 | 1,525 | 4,345 | - | 16,319 |
| Insurance service expenses | (1,156) | (1,929) | (1,176) | (1,385) | (1,085) | (3,703) | - | (10,434) |
| Net (expenses)/income from reinsurance contracts held | (8) | (47) | (42) | (81) | 9 | (250) | - | (419) |
| Insurance service result | 1,923 | 1,456 | 758 | 488 | 449 | 392 | - | 5,466 |
| Investment return | 759 | (28,264) | 907 | (3,364) | 190 | 322 | 857 | (28,593) |
| - Participating ⁽¹⁾ and unit-linked | (68) | (29,310) | (131) | (3,805) | 61 | (693) | 5 | (33,941) ⁽²⁾ |
| - Others | 827 | 1,046 | 1,038 | 441 | 129 | 1,015 | 852 | 5,348 |
| Net finance (expenses)/income from insurance contracts and reinsurance contracts held | (558) | 28,597 | (289) | 3,438 | (148) | 98 | (16) | 31,122 ⁽²⁾ |
| Movement in investment contract liabilities | (27) | 757 | (81) | 251 | - | 134 | - | 1,034 ⁽²⁾ |
| Movement in third-party interests in consolidated investment funds | - | 34 | - | - | - | - | - | 34 ⁽²⁾ |
| Net investment result | 174 | 1,124 | 537 | 325 | 42 | 554 | 841 | 3,597 |
| Fee income and other operating revenue | 1 | 252 | 20 | 24 | 12 | 145 | (3) | 451 |
| Other expenses | (187) | (329) | (113) | (137) | (55) | (302) | (389) | (1,512) |
| Other finance costs | (17) | (24) | (1) | (8) | (3) | (6) | (318) | (377) |
| Share of (losses)/profit from associates and joint ventures | - | (1) | - | - | - | 5 | (125) | (121) |
| Operating profit before tax | 1,894 | 2,478 | 1,201 | 692 | 445 | 788 | 6 | 7,504 |
| Tax on operating profit before tax | (343) | (269) | (224) | (37) | (71) | (60) | (46) | (1,050) |
| Operating profit after tax | 1,551 | 2,209 | 977 | 655 | 374 | 728 | (40) | 6,454 |
| <i>Operating profit after tax attributable to:</i> | | | | | | | | |
| Shareholders of AIA Group Limited | 1,551 | 2,202 | 977 | 655 | 362 | 710 | (36) | 6,421 |
| Non-controlling interests | - | 7 | - | - | 12 | 18 | (4) | 33 |

Notes:

- (1) Participating refers to participating funds and other participating business with distinct portfolios.
- (2) Net finance (expenses)/income from insurance contracts and reinsurance contracts held includes changes in fair value of underlying items of contracts with direct participation features. Net finance (expenses)/income from insurance contracts and reinsurance contracts held, net of investment return relating to participating and unit-linked businesses, movement in investment contract liabilities and movement in third-party interests in consolidated investment funds amounted to US\$(1,751)m, primarily related to other insurance contracts without direct participation features.

Key operating ratios:

| | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|---|-------|
| Expense ratio | 7.5% | 5.0% | 6.5% | 7.2% | 9.3% | 14.8% | - | 9.0% |
| Operating margin | 20.4% | 19.7% | 23.5% | 18.3% | 15.2% | 10.2% | - | 17.8% |
| Operating return on shareholders' allocated equity | 31.9% | 15.7% | 16.4% | 15.5% | 17.1% | 9.0% | - | 13.0% |

Operating profit before tax includes:

| | | | | | | | | |
|--------------------|-----|-----|-----|-----|-----|-------|-----|-------|
| Operating expenses | 571 | 565 | 270 | 256 | 229 | 1,060 | 300 | 3,251 |
| Finance costs | 22 | 29 | 1 | 8 | 1 | 6 | 319 | 386 |

5. Segment information (continued)

| US\$m | Mainland | | Thailand | Singapore | Malaysia | Other Markets | Group Corporate Centre | Total |
|--------------------------------|----------|-----------|----------|-----------|----------|------------------|------------------------------|---------|
| | China | Hong Kong | | | | | | |
| 31 December 2022 | | | | | | | | |
| Total assets | 38,675 | 96,131 | 25,746 | 39,245 | 14,131 | 37,809 | 18,734 | 270,471 |
| Total liabilities | 34,498 | 84,877 | 19,446 | 34,969 | 11,887 | 29,321 | 10,325 | 225,323 |
| Total equity | 4,177 | 11,254 | 6,300 | 4,276 | 2,244 | 8,488 | 8,409 | 45,148 |
| Shareholders' allocated equity | 4,956 | 13,128 | 6,210 | 4,345 | 2,160 | 7,635 | 8,737 | 47,171 |

Total assets include:

| | | | | | | | | |
|--|---|---|---|---|---|-----|-------|-------|
| Investments in associates and joint ventures | - | 1 | - | - | - | 793 | 1,262 | 2,056 |
|--|---|---|---|---|---|-----|-------|-------|

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

| US\$m | Segment information | Short-term investment and discount rate variances | Other non- operating items | Consolidated income statement | |
|--|------------------------|--|----------------------------------|-------------------------------------|--|
| Year ended 31 December 2022 | | | | | |
| Insurance revenue | 16,319 | - | - | 16,319 | Insurance revenue |
| Insurance service expenses | (10,434) | - | - | (10,434) | Insurance service expenses |
| Net expenses from reinsurance contracts held | (419) | - | - | (419) | Net expenses from reinsurance contracts held |
| Insurance service result | 5,466 | - | - | 5,466 | Insurance service result |
| Investment return | (28,593) | (1,420) | (1,600) | (31,613) | Investment return |
| Net finance income from insurance contracts and reinsurance contracts held | 31,122 | 49 | (147) | 31,024 | Net finance income from insurance contracts and reinsurance contracts held |
| Movement in investment contract liabilities | 1,034 | 72 | - | 1,106 | Movement in investment contract liabilities |
| Movement in third-party interests in consolidated investment funds | 34 | - | - | 34 | Movement in third-party interests in consolidated investment funds |
| Net investment result | 3,597 | (1,299) | (1,747) | 551 | Net investment result |
| Fee income and other operating revenue | 451 | - | (12) | 439 | Fee income and other operating revenue |
| Other expenses | (1,512) | - | (384) | (1,896) | Other expenses |
| Other finance costs | (377) | - | (8) | (385) | Other finance costs |
| Share of losses from associates and joint ventures | (121) | - | - | (121) | Share of losses from associates and joint ventures |
| Operating profit before tax | 7,504 | (1,299) | (2,151) | 4,054 | Profit before tax |

6. Insurance revenue

| US\$m | Note | Year ended 31 December 2022 |
|---|------|-----------------------------------|
| Contracts not measured under the PAA | | |
| Amounts related to changes in liabilities for remaining coverage | | |
| Contractual service margin recognised for services provided | 12 | 5,363 |
| Change in risk adjustment for non-financial risk for risk expired | | 260 |
| Expected incurred claims and other insurance service expenses | | 8,092 |
| Others | | 113 |
| Recovery of insurance acquisition cash flows | | 696 |
| | 12 | <u>14,524</u> |
| Contracts measured under the PAA | 12 | <u>1,795</u> |
| Total insurance revenue | | <u>16,319</u> |
| Represented by: | | |
| Contracts measured under the modified retrospective approach | | 1,798 |
| Contracts measured under the fair value approach | | 9,669 |
| Other contracts | | 4,852 |

7. Net investment result

A. GROUP'S NET INVESTMENT RESULT IN THE CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

| US\$m | Note | Year ended 31 December 2022 |
|---|------|-----------------------------------|
| Investment return | | |
| Interest revenue on financial assets | | 7,267 |
| Other investment return | | (38,647) |
| Net impairment loss on financial assets | | (233) |
| Amounts recognised in consolidated income statement | | (31,613) |
| Amounts recognised in other comprehensive income | | (10,316) |
| Total investment return | | (41,929) |
| Net finance income/(expenses) from insurance contracts | | |
| Changes in fair value of underlying items of contracts with direct participation features | | 33,094 |
| Interest accreted | | (2,450) |
| Effect of changes in interest rates and other financial assumptions | | 4,030 |
| Effect of measuring changes in estimates at current rates and adjusting the CSM at the rates on initial recognition | | 708 |
| Net foreign exchange gains | | 133 |
| Total net finance income from insurance contracts | 12 | 35,515 |
| Net finance income/(expenses) from reinsurance contracts held | | |
| Interest accreted | | 12 |
| Effect of changes in interest rates and other financial assumptions | | 19 |
| Effect of measuring changes in estimates at current rates and adjusting the CSM at the rates on initial recognition | | (148) |
| Net foreign exchange losses | | (64) |
| Total net finance expenses from reinsurance contracts held | 12 | (181) |
| Movement in investment contract liabilities | | 1,106 |
| Movement in third-party interests in consolidated investment funds | | 34 |
| Net investment result | | (5,455) |
| Net investment result is represented by: | | |
| Amounts recognised in consolidated income statement | | 551 |
| Amounts recognised in other comprehensive income | | (6,006) |
| Total net investment result | | (5,455) |
| Insurance finance income/(expenses) are represented by: | | |
| Net finance income from insurance contracts | | |
| Amounts recognised in consolidated income statement | | 30,957 |
| Amounts recognised in other comprehensive income | | 4,558 |
| Total net finance income from insurance contracts | | 35,515 |
| Net finance income/(expenses) from reinsurance contracts held | | |
| Amounts recognised in consolidated income statement | | 67 |
| Amounts recognised in other comprehensive income | | (248) |
| Total net finance expenses from reinsurance contracts held | | (181) |

7. Net investment result (continued)

B. INTEREST REVENUE ON FINANCIAL ASSETS AND OTHER INVESTMENT RETURN

| US\$m | Year ended 31 December 2022 |
|---|-----------------------------------|
| Interest revenue on financial assets | |
| Financial assets measured at amortised cost | 350 |
| Financial assets measured at fair value through other comprehensive income | 3,487 |
| Financial assets designated at fair value through profit or loss | 3,117 |
| Financial assets measured mandatorily at fair value through profit or loss | 313 |
| Total interest revenue on financial assets | <u>7,267</u> |
| Other investment return | |
| Dividend income | 1,323 |
| Rental income ⁽¹⁾ | 161 |
| Net gains/(losses) of financial assets not at fair value through profit or loss | |
| Net realised losses of debt securities measured at fair value through other comprehensive income | (478) |
| At fair value through profit or loss | |
| Net gains/(losses) of financial assets designated at fair value through profit or loss | |
| Net losses of debt securities | (18,961) |
| Net losses of loans and deposits | (7) |
| Net gains/(losses) of financial instruments mandatorily at fair value through profit or loss | |
| Net losses of debt securities | (718) |
| Net losses of equity shares, interests in investment funds and exchangeable loan notes | (10,007) |
| Net fair value movement on derivatives | (9,495) |
| Net losses in respect of financial instruments at fair value through profit or loss | <u>(39,188)</u> |
| Net fair value movement of investment property and property held for own use | 64 |
| Net foreign exchange losses | (519) |
| Other net realised losses | (10) |
| Net losses | <u>(40,131)</u> |
| Total other investment return | <u>(38,647)</u> |

Note:

(1) Represents rental income from operating lease contracts in which the Group acts as a lessor.

7. Net investment result (continued)

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

| | Year ended 31 December 2022 |
|------------------------|--|
| US\$m | |
| Foreign exchange gains | <u>163</u> |

On transition to IFRS 17, for certain groups of contracts that the Group applies the modified retrospective approach and the fair value approach, the cumulative insurance finance income or expenses recognised in other comprehensive income at 1 January 2022 was determined:

- to be zero; or
- retrospectively based on observable yield curve.

For those groups of contracts, the movement in the fair value reserve for the debt securities at fair value through other comprehensive income was as follows.

| | Year ended 31 December 2022 |
|---|--|
| US\$m | |
| Balance at 1 January | 6,133 |
| Net change in fair value and others | (10,005) |
| Net amount reclassified to profit or loss | 526 |
| Balance at 31 December | <u>(3,346)</u> |

8. Expenses

| US\$m | Year ended 31 December 2022 |
|--|-----------------------------------|
| Claims and benefits | 8,185 |
| Commission and other acquisition expenses incurred | 5,286 |
| Losses on onerous insurance contracts | 61 |
| Employee benefit expenses ⁽³⁾ | 1,986 |
| Depreciation ⁽³⁾ | 250 |
| Amortisation ⁽³⁾ | 121 |
| Investment management expenses and others | 557 |
| Depreciation on property held for own use | 20 |
| Finance costs | 394 |
| Other operating expenses ⁽³⁾ | 894 |
| Restructuring and other non-operating costs ⁽¹⁾ | 360 |
| | <u>18,114</u> |
| Amounts attributed to insurance acquisition cash flows | (6,292) |
| Amortisation of insurance acquisition cash flows | 903 |
| Insurance service and other expenses | <u>12,725</u> |

Insurance service and other expenses represented by:

| US\$m | Year ended 31 December 2022 |
|---|-----------------------------------|
| Insurance service expenses | 10,434 |
| – Contracts not measured under the PAA | 8,869 |
| – Contracts measured under the PAA | 1,565 |
| Other incurred expenses directly attributable to reinsurance contracts held | 10 |
| Other expenses ⁽²⁾ | 1,896 |
| Other finance costs | 385 |
| Total | <u>12,725</u> |

Expenses include auditors' remuneration of US\$37m, an analysis of which is set out below:

| US\$m | Year ended 31 December 2022 |
|--------------------------------|-----------------------------------|
| Audit services | 23 |
| Non-audit services, including: | |
| Audit-related services | 14 |
| Total | <u>37</u> |

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, implementation costs for new accounting standards and other items that are not expected to be recurring in nature.
- (2) Other expenses represent general expenses and investment management expenses that are not directly attributable to insurance contracts and reinsurance contracts held.
- (3) Operating expenses comprise employee benefit expenses, depreciation, amortisation and other operating expenses.

8. Expenses (continued)

Depreciation consists of:

| US\$m | Year ended 31 December 2022 |
|---|-----------------------------------|
| Computer hardware, fixtures and fittings and others | 83 |
| Right-of-use assets | |
| Property held for own use | 166 |
| Computer hardware | 1 |
| Total | 250 |

Finance costs may be analysed as:

| US\$m | Year ended 31 December 2022 |
|----------------------------------|-----------------------------------|
| Repurchase agreements | 22 |
| Medium-term notes and securities | 337 |
| Other loans | 22 |
| Lease liabilities | 13 |
| Total | 394 |

Employee benefit expenses consist of:

| US\$m | Year ended 31 December 2022 |
|--|-----------------------------------|
| Wages and salaries | 1,633 |
| Share-based compensation | 66 |
| Pension costs – defined contribution plans | 128 |
| Pension costs – defined benefit plans | 10 |
| Other employee benefit expenses | 149 |
| Total | 1,986 |

9. 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 outstanding during the year. The shares held by employee share-based trusts and shares that have been repurchased are not considered to be outstanding from the date of the purchase for the purposes of computing basic and diluted earnings per share.

| | Year ended 31 December 2022 |
|--|-----------------------------------|
| Net profit attributable to shareholders of AIA Group Limited (US\$m) | 3,331 |
| Weighted average number of ordinary shares outstanding (million) | 11,929 |
| Basic earnings per share (US cents) | 27.92 |

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. The dilutive instruments are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under various share-based compensation plans.

| | Year ended 31 December 2022 |
|--|-----------------------------------|
| Net profit attributable to shareholders of AIA Group Limited (US\$m) | 3,331 |
| Weighted average number of ordinary shares outstanding (million) | 11,929 |
| Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted under share-based compensation plans (million) | 9 |
| Weighted average number of ordinary shares for diluted earnings per share (million) | 11,938 |
| Diluted earnings per share (US cents) | 27.90 |

At 31 December 2022, 4,431,307 share options were excluded from the diluted weighted average number of ordinary shares calculation as they have no effect to the diluted earnings per share.

OPERATING PROFIT AFTER TAX PER SHARE

Operating profit after tax (see note 4) 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 outstanding during the year. The dilutive instruments are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under various share-based compensation plans.

| | Year ended 31 December 2022 |
|---|-----------------------------------|
| Basic operating profit after tax per share (US cents) | 53.83 |
| Diluted operating profit after tax per share (US cents) | 53.79 |

10. 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 is measured at fair value through profit or loss. 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. The Group has elected to separately analyse financial investments held by participating funds and other participating business with distinct portfolios within policyholder and shareholder investments as they are subject to local regulations that generally prescribe a minimum proportion of policyholder participation in declared dividends. The Group measures debt securities, equity shares and interests in investment funds of participating funds and other participating business with distinct portfolios at fair value through profit or loss.

Other policyholder and shareholder investments are distinct from unit-linked investments and 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. The Group measures equity shares, interests in investment funds and exchangeable loan notes at fair value through profit or loss in this category and at fair value through other comprehensive income 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 information. For certain benefits of business written in "Participating funds and Other participating business with distinct portfolios" funds and "Unit-linked" funds that are not supported by the underlying segregated assets, the backing assets are generally included in the "Other policyholder and shareholder" funds.

In the following tables, "FVTPL" indicates financial investments classified at fair value through profit or loss, "FVOCI" indicates financial investments classified at fair value through other comprehensive income and "AC" indicates financial investments classified at amortised cost.

DEBT SECURITIES

In compiling the tables, external ratings have been used in accordance with the Group's credit risk assessment framework. Where external ratings are not readily available an internal rating methodology has been adopted, if applicable.

Credit risk limits are set according to the Group's credit risk assessment framework, which define the relative risk level of a debt security.

| External ratings | | Internal ratings | Reported as |
|-------------------------------|---------------|------------------|------------------------|
| Standard and Poor's and Fitch | 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 |

10. Financial investments (continued)

DEBT SECURITIES (continued)

Debt securities by type comprise the following:

| US\$m | Policyholder and shareholder | | | | Subtotal | Unit-linked FVTPL | Unit-linked ⁽²⁾ FVOCI | Consolidated investment funds ⁽¹⁾ FVTPL | Total |
|---|---|---------------------------------------|---------------|------------|---------------|----------------------|-------------------------------------|---|---------------|
| | Participating funds and other participating business with distinct portfolios FVTPL | Other policyholder and shareholder | | AC | | | | | |
| | | FVTPL | FVOCI | | | | | | |
| 31 December 2022 | | | | | | | | | |
| Government bonds⁽³⁾ | | | | | | | | | |
| Mainland China | 5,938 | - | 17,500 | - | 23,438 | 70 | - | - | 23,508 |
| Thailand | - | 1,169 | 10,984 | - | 12,153 | - | - | - | 12,153 |
| South Korea | - | - | 5,917 | - | 5,917 | 253 | - | - | 6,170 |
| Singapore | 4,329 | - | 1,423 | - | 5,752 | 690 | 3 | - | 6,445 |
| Philippines | - | 79 | 1,554 | - | 1,633 | 236 | - | - | 1,869 |
| Malaysia | 1,364 | 246 | 502 | - | 2,112 | 179 | 68 | - | 2,359 |
| Indonesia | - | - | 596 | - | 596 | 111 | 31 | - | 738 |
| Other | 403 | 2 | 1,880 | 181 | 2,466 | 42 | - | - | 2,508 |
| Subtotal | 12,034 | 1,496 | 40,356 | 181 | 54,067 | 1,581 | 102 | - | 55,750 |
| Other government and government agency bonds⁽⁴⁾ | | | | | | | | | |
| AAA | 3,048 | 131 | 6,247 | 32 | 9,458 | 464 | 5 | - | 9,927 |
| AA | 1,320 | 1 | 2,631 | 98 | 4,050 | 187 | - | 189 | 4,426 |
| A | 4,384 | 5 | 5,134 | 130 | 9,653 | 260 | 50 | 9 | 9,972 |
| BBB | 1,636 | 18 | 2,216 | 72 | 3,942 | 72 | - | - | 4,014 |
| Below investment grade | 63 | - | 195 | 13 | 271 | 6 | 9 | - | 286 |
| Not rated | - | - | - | - | - | - | - | - | - |
| Subtotal | 10,451 | 155 | 16,423 | 345 | 27,374 | 989 | 64 | 198 | 28,625 |

Notes:

- (1) 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 information. Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds. In preparing the Consolidated Financial Information, the Group enhanced the presentation to further split and allocate the underlying assets held by consolidated investment funds to the respective fund segments of the asset-backing liabilities, except for the consolidated investment funds consist of third-party unit holders' interests in the consolidated investment funds.
- (2) Represents primarily the financial assets backing non-unit reserves of unit-linked contracts.
- (3) Government bonds include bonds issued in local or foreign currencies by the government of the country where respective business unit operates. The Group's credit risk assessment framework does not apply credit risk limits on these government bonds, therefore credit ratings are not shown in the table. Of the total balance as at 31 December 2022, 99 per cent are rated as investment grade.
- (4) Other government and government agency bonds comprise other bonds issued by government and government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.

10. Financial investments (continued)

DEBT SECURITIES (continued)

Debt securities by type comprise the following (continued):

| US\$m | Policyholder and shareholder | | | | Subtotal | Unit-linked FVTPL | Unit-linked ⁽²⁾ FVOCI | Consolidated investment funds ⁽¹⁾ FVTPL | Total |
|--|---|---------------------------------------|---------------|--------------|----------------|----------------------|-------------------------------------|---|----------------|
| | Participating funds and other participating business with distinct portfolios FVTPL | Other policyholder and shareholder | | AC | | | | | |
| | | FVTPL | FVOCI | | | | | | |
| 31 December 2022 | | | | | | | | | |
| Corporate bonds | | | | | | | | | |
| AAA | 526 | - | 233 | - | 759 | 12 | - | - | 771 |
| AA | 3,051 | 8 | 1,883 | 148 | 5,090 | 137 | - | 205 | 5,432 |
| A | 21,046 | 237 | 11,618 | 758 | 33,659 | 1,079 | 98 | 660 | 35,496 |
| BBB | 20,893 | 119 | 12,437 | 354 | 33,803 | 936 | 56 | 142 | 34,937 |
| Below investment grade | 638 | 341 | 1,429 | 1 | 2,409 | 197 | 17 | - | 2,623 |
| Not rated | 7 | 15 | - | - | 22 | 293 | - | - | 315 |
| Subtotal | 46,161 | 720 | 27,600 | 1,261 | 75,742 | 2,654 | 171 | 1,007 | 79,574 |
| Structured securities⁽⁵⁾ | | | | | | | | | |
| AAA | 31 | 38 | 77 | - | 146 | 46 | - | - | 192 |
| AA | 83 | - | 160 | - | 243 | - | - | - | 243 |
| A | 83 | - | 524 | - | 607 | 38 | - | - | 645 |
| BBB | 112 | 90 | 591 | - | 793 | 19 | - | - | 812 |
| Below investment grade | 50 | 71 | - | - | 121 | - | - | - | 121 |
| Not rated | 14 | 206 | 29 | - | 249 | - | - | - | 249 |
| Subtotal | 373 | 405 | 1,381 | - | 2,159 | 103 | - | - | 2,262 |
| Total⁽⁶⁾ | 69,019 | 2,776 | 85,760 | 1,787 | 159,342 | 5,327 | 337 | 1,205 | 166,211 |

Notes:

- (1) 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 information. Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds. In preparing the Consolidated Financial Information, the Group enhanced the presentation to further split and allocate the underlying assets held by consolidated investment funds to the respective fund segments of the asset-backing liabilities, except for the consolidated investment funds consist of third-party unit holders' interests in the consolidated investment funds.
- (2) Represents primarily the financial assets backing non-unit reserves of unit-linked contracts.
- (5) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
- (6) Debt securities of US\$9,885m are restricted due to local regulatory requirements.

10. Financial investments (continued)

EQUITY SHARES, INTERESTS IN INVESTMENT FUNDS AND EXCHANGEABLE LOAN NOTES

Equity shares, interests in investment funds and exchangeable loan notes comprise the following:

| US\$m | Policyholder and shareholder | | Subtotal | Unit-linked FVTPL | Consolidated investment funds ⁽¹⁾ FVTPL | Total |
|--|---|--|---------------|----------------------|---|---------------|
| | Participating funds and other participating business with distinct portfolios FVTPL | Other policyholder and shareholder FVTPL | | | | |
| 31 December 2022 | | | | | | |
| Equity shares | 13,241 | 4,765 | 18,006 | 7,685 | - | 25,691 |
| Interests in investment funds and exchangeable loan notes | 14,307 | 7,214 | 21,521 | 17,056 | - | 38,577 |
| Total | 27,548 | 11,979 | 39,527 | 24,741 | - | 64,268 |

Note:

- (1) 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 information. Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds. In preparing the Consolidated Financial Information, the Group enhanced the presentation to further split and allocate the underlying assets held by consolidated investment funds to the respective fund segments of the asset-backing liabilities, except for the consolidated investment funds consist of third-party unit holders' interests in the consolidated investment funds.

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 interests 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 interests in unconsolidated structured entities:

| US\$m | As at 31 December 2022 | |
|---|------------------------|---|
| | Investment funds | Structured securities ⁽¹⁾ |
| Debt securities at fair value through other comprehensive income | 806 ⁽²⁾ | 1,381 |
| Debt securities at fair value through profit or loss | 1,609 ⁽²⁾ | 881 |
| Interests in investment funds at fair value through profit or loss | 37,327 | - |
| Total | 39,742 | 2,262 |

Notes:

- (1) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
- (2) Balance represents the Group's interests in debt securities issued by real estate investment trusts.

10. Financial investments (continued)

INTERESTS IN STRUCTURED ENTITIES (continued)

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 revenue 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.

LOANS AND DEPOSITS

Loans and deposits by type comprise the following:

| US\$m | As at 31 December 2022 |
|--|------------------------------|
| Mortgage loans on residential real estate | 469 |
| Mortgage loans on commercial real estate | 2 |
| Other loans | 372 |
| Loss allowance for loans | (9) |
| Loans | 834 |
| Term deposits | 2,509 |
| Promissory notes ⁽¹⁾ | 1,520 |
| Loss allowance for deposits measured at amortised cost | (18) |
| Total | 4,845 |

Note:

(1) The promissory notes are issued by a government. Promissory notes of US\$279m are measured at fair value through profit or loss.

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. At 31 December 2022, the restricted balance held within term deposits and promissory notes was US\$381m.

Other loans include receivables from reverse repurchase agreements (reverse repos) under which the Group does not take physical possession of securities purchased under the agreements. Reverse repos are initially recorded at the cost of the loan or collateral advanced. At 31 December 2022, the carrying value of such receivables was US\$261m.

At 31 December 2022, there was no material debt collateral received in respect of reverse repos.

MATURITY PROFILE OF DEBT SECURITIES, LOANS AND DEPOSITS

The table below shows the maturity profile of debt securities, loans and deposits based on contractual maturity dates. The maturity profile below excludes unit-linked investments and consolidated investment funds as the investment risk is generally wholly borne by our customers.

| 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 2022 | | | | | | |
| Debt securities | 159,342 | 7,465 | 20,197 | 17,252 | 114,428 | – |
| Loans and deposits | 4,500 | 1,833 | 647 | 470 | 1,534 | 16 |
| Total | 163,842 | 9,298 | 20,844 | 17,722 | 115,962 | 16 |

11. Impairment of financial assets

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT

Significant increase in credit risk

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis based on the Group's experience, credit assessment performed by internal and external experts and forward-looking information.

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing the internal rating as at the reporting date with the internal rating as at the date of initial recognition of the exposure. Where external credit ratings are available, internal ratings are assigned consistent with such ratings in accordance with the Group's credit risk assessment framework. Where external credit ratings are not readily available, an internal rating methodology has been adopted.

The Group monitors changes in credit risk by tracking the change in internal rating of the exposure. The Group also monitors relevant information, including price movements of securities, and assess whether such information signifies a change in credit risk.

The Group has assumed that the credit risk of a financial asset has not increased significantly since initial recognition if the financial asset has low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment-grade". The Group considers this to be BBB-, Baa3 or higher based on Standard and Poor's, Fitch and Moody's ratings, which is equivalent to an internal risk grade of 4- or higher.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due, unless there are other indications that there is no significant increase in credit risk. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined after considering any grace period that might be available to the debtor.

Modified financial assets

The contractual terms of a financial asset may be modified for a number of reasons including changing market conditions and other factors not related to current or potential credit deterioration of the debtor. An existing financial asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new financial asset at fair value in accordance with the accounting policies in note 2.5.1.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of significant increase in credit risk is assessed based on the change in internal rating as at the reporting date and the date of initial recognition. The internal rating as at reporting date is rated based on the modified contractual terms while the initial rating is rated based on the original contractual terms.

Definition of default

The Group considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to mitigating actions. The criteria of "default" are consistent with those of "credit-impaired".

11. Impairment of financial assets (continued)

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT (continued)

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a “base case” view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on management knowledge and consideration of a variety of external actual and forecast information. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations, and selected private-sector and academic forecasters.

The base case represents a best estimate and the other scenarios represent more optimistic and more pessimistic outcomes.

The Group has identified and documented key drivers of credit risk and ECL for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationship between macro-economic variables and key drivers of credit risk. The specific values of the core macro-economic variable used by the Group for evaluating ECL for the year ended 31 December 2022 is as follows:

| | As at 31 December 2022 |
|--|---------------------------------------|
| GDP growth (5-year average of year-over-year %) | |
| Base case scenario | 3.1% |
| Upside scenario | 3.8% |
| Downside scenario | 2.1% |

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of probability of default (PD), loss given default (LGD) and exposure at default (EAD). They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

To determine lifetime and 12-month PDs, the Group leverages on the internal rating and convert it into PD based on the level of rating and obligor characteristics like industry type and country. Changes in the rating at the reporting date for a counterparty or exposure lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group leverages on recovery statistics to calculate LGD. The LGD models consider a number of factors including among others, the structure, collateral and seniority of the claim, that are integral to the financial asset. LGD estimates are recalibrated for different economic scenarios.

PDs and LGDs are adjusted to reflect forward-looking information and different economic scenarios as described above.

EAD represents the expected exposure in the event of a default. The EAD of a financial asset is its gross carrying amount at the time of default. The Group derives the EAD from the current exposure to the counterparty, with any adjustments for changes to the current exposure, such as amortisation, and prepayments.

11. Impairment of financial assets (continued)

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT (continued)

Measurement of ECL (continued)

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any debtor's extension options) over which it is exposed to credit risk.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, which include instrument type, credit risk gradings, collateral type, date of initial recognition, remaining term to maturity, industry and geographical location of debtor.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external information that the Group uses to derive the default rates of its portfolios.

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- the restructuring of an amount due to the Group on terms that the Group would not otherwise consider;
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

A financial asset that has been renegotiated due to a deterioration in the debtor's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

11. Impairment of financial assets (continued)

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT (continued)

Loss allowance

The following tables show reconciliations balances from the opening to the closing balance of the loss allowance by class of financial instrument. Gross carrying amount is the amortised cost before adjusting for loss allowance.

| US\$m | 12-month ECL | | Lifetime ECL not credit-impaired | | Lifetime ECL credit-impaired | | Total | |
|--|-----------------------|----------------|----------------------------------|----------------|------------------------------|----------------|-----------------------|----------------|
| | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance |
| Debt securities measured at amortised cost | | | | | | | | |
| Balance at 1 January 2022 | 1,465 | 2 | 15 | 2 | - | - | 1,480 | 4 |
| Transfer to 12-month ECL | - | - | - | - | - | - | - | - |
| Transfer to lifetime ECL not credit-impaired | - | - | - | - | - | - | - | - |
| Transfer to lifetime ECL credit-impaired | - | - | - | - | - | - | - | - |
| Net remeasurement of loss allowance | - | 1 | - | - | - | - | - | 1 |
| New financial assets acquired | 385 | 1 | - | - | - | - | 385 | 1 |
| Financial assets derecognised other than write-offs | (51) | - | - | - | - | - | (51) | - |
| Effects of movements in exchange rates and other movements | (21) | - | - | - | - | - | (21) | - |
| Balance at 31 December 2022 | 1,778 | 4 | 15 | 2 | - | - | 1,793 | 6 |

| US\$m | 12-month ECL | | Lifetime ECL not credit-impaired | | Lifetime ECL credit-impaired | | Total | |
|--|-----------------------|----------------|----------------------------------|----------------|------------------------------|----------------|-----------------------|----------------|
| | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance |
| Loans and deposits measured at amortised cost | | | | | | | | |
| Balance at 1 January 2022 | 5,423 | 8 | 11 | 2 | 18 | 8 | 5,452 | 18 |
| Transfer to 12-month ECL | 10 | 2 | (2) | - | (8) | (2) | - | - |
| Transfer to lifetime ECL not credit-impaired | (48) | - | 49 | 1 | (1) | (1) | - | - |
| Transfer to lifetime ECL credit-impaired | (2) | - | (1) | - | 3 | - | - | - |
| Net remeasurement of loss allowance | - | - | - | - | - | 2 | - | 2 |
| New financial assets acquired | 29,964 | 10 | - | - | - | - | 29,964 | 10 |
| Financial assets derecognised other than write-offs | (30,620) | (3) | (44) | - | (2) | - | (30,666) | (3) |
| Effects of movements in exchange rates and other movements | (155) | - | (2) | - | - | - | (157) | - |
| Balance at 31 December 2022 | 4,572 | 17 | 11 | 3 | 10 | 7 | 4,593 | 27 |

11. Impairment of financial assets (continued)

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT (continued)

Loss allowance (continued)

| US\$m | 12-month ECL | | Lifetime ECL not credit-impaired | | Lifetime ECL credit-impaired | | Total | |
|--|-----------------------|----------------|----------------------------------|----------------|------------------------------|----------------|-----------------------|----------------|
| | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance |
| Debt securities measured at fair value through other comprehensive income | | | | | | | | |
| Balance at 1 January 2022 | 95,364 | 142 | 319 | 17 | - | - | 95,683 | 159 |
| Transfer to 12-month ECL | 4 | - | (4) | - | - | - | - | - |
| Transfer to lifetime ECL not credit-impaired | (426) | (12) | 426 | 12 | - | - | - | - |
| Transfer to lifetime ECL credit-impaired | - | - | (102) | (10) | 102 | 10 | - | - |
| Net remeasurement of loss allowance | - | 56 | - | 60 | - | 73 | - | 189 |
| New financial assets acquired | 21,113 | 29 | - | - | - | - | 21,113 | 29 |
| Financial assets derecognised other than write-offs | (23,178) | (45) | (75) | (24) | - | - | (23,253) | (69) |
| Effects of movements in exchange rates and other movements | (3,321) | (3) | (53) | (5) | 1 | - | (3,373) | (8) |
| Balance at 31 December 2022 | 89,556 | 167 | 511 | 50 | 103 | 83 | 90,170 | 300 |

| US\$m | 12-month ECL | | Lifetime ECL not credit-impaired | | Lifetime ECL credit-impaired | | Total | |
|--|-----------------------|----------------|----------------------------------|----------------|------------------------------|----------------|-----------------------|----------------|
| | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance |
| Receivables | | | | | | | | |
| Balance at 1 January 2022 | 1,618 | - | 43 | 8 | 30 | 18 | 1,691 | 26 |
| Transfer to lifetime ECL not credit-impaired | (5) | - | 5 | - | - | - | - | - |
| Transfer to lifetime ECL credit-impaired | - | - | - | - | - | - | - | - |
| Net remeasurement of loss allowance | - | - | - | 4 | - | (3) | - | 1 |
| Net increase/(decrease) in receivables | 64 | - | (6) | (1) | - | - | 58 | (1) |
| Effects of movements in exchange rates and other movements | (4) | - | - | - | (2) | (1) | (6) | (1) |
| Balance at 31 December 2022 | 1,673 | - | 42 | 11 | 28 | 14 | 1,743 | 25 |

12. Insurance contracts and reinsurance contracts held

MOVEMENT IN CARRYING AMOUNTS

The following reconciliations show how the net carrying amounts of insurance contracts and reinsurance contracts held changed during the year as a result of cash flows and amounts recognised in the consolidated income statement and consolidated statement of comprehensive income. The Group presents a table separately analyses movements in the liabilities for remaining coverage and movements in the liabilities for incurred claims and reconciles these movements to the line items in the consolidated income statement and consolidated statement of comprehensive income. A second reconciliation is presented for contracts not measured under the premium allocation approach, which separately analyses changes in the estimates of the present value of future cash flows, the risk adjustment for non-financial risk and the contractual service margin.

The estimates of the present value of future cash flows from insurance and reinsurance contract assets represent the Group's maximum exposure to credit risk from these assets.

Analysis by remaining coverage and incurred claims of insurance contracts not measured under the premium allocation approach

| | | Year ended 31 December 2022 | | | |
|--|-------|---------------------------------------|-------------------|---------------------------------------|-----------------|
| | | Liabilities for remaining coverage | | Liabilities for incurred claims | Total |
| US\$m | Notes | Excluding loss component | Loss component | | |
| Opening assets | | (2,753) | 10 | 625 | (2,118) |
| Opening liabilities | | 210,450 | 204 | 7,875 | 218,529 |
| Net opening balance | | 207,697 | 214 | 8,500 | 216,411 |
| Insurance revenue | 6 | (14,524) | – | – | (14,524) |
| Insurance service expenses | | | | | |
| Incurred claims and other insurance service expenses | | – | (68) | 8,371 | 8,303 |
| Amortisation of insurance acquisition cash flows | | 696 | – | – | 696 |
| Losses and reversal of losses on onerous contracts | | – | 129 | – | 129 |
| Adjustments to liabilities for incurred claims | | – | – | (259) | (259) |
| Total insurance service expenses | | 696 | 61 | 8,112 | 8,869 |
| Investment components | | (10,674) | – | 10,674 | – |
| Other changes | | (14) | – | 14 | – |
| Insurance service result | | (24,516) | 61 | 18,800 | (5,655) |
| Net finance (income)/expenses from insurance contracts | 7 | (35,058) | 3 | (460) | (35,515) |
| Effect of movements in exchange rates | | (5,145) | (8) | (493) | (5,646) |
| Total changes in the consolidated income statement and consolidated statement of comprehensive income | | (64,719) | 56 | 17,847 | (46,816) |

12. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by remaining coverage and incurred claims of insurance contracts not measured under the premium allocation approach (continued)

| Year ended 31 December 2022 | | | | |
|---|------------------------------------|----------------|---------------------------------|----------------|
| US\$m | Liabilities for remaining coverage | | Liabilities for incurred claims | Total |
| | Excluding loss component | Loss component | | |
| Cash flows | | | | |
| Premiums received | 38,174 | – | – | 38,174 |
| Claims and other insurance service expenses paid, including investment components | – | – | (21,550) | (21,550) |
| Insurance acquisition cash flows paid | (5,536) | – | – | (5,536) |
| Other amounts received | – | – | 2,902 | 2,902 |
| Total cash flows | 32,638 | – | (18,648) | 13,990 |
| Adjusted for: | | | | |
| Non-cash operating expenses | (184) | – | (56) | (240) |
| Other non-cash items | (343) | – | – | (343) |
| Total non-cash items | (527) | – | (56) | (583) |
| Net closing balance | 175,089 | 270 | 7,643 | 183,002 |
| Closing assets | (1,230) | 20 | 640 | (570) |
| Closing liabilities | 176,319 | 250 | 7,003 | 183,572 |
| Net closing balance | 175,089 | 270 | 7,643 | 183,002 |

12. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by measurement component of insurance contracts not measured under the premium allocation approach

| | | Year ended 31 December 2022 | | | | | | | |
|--|-------|---|--|----------------|-----------------|---|-------------------------------------|-----------------|----------------|
| US\$m | Notes | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | CSM | | CSM | | | |
| | | | | CSM | Total | Contracts under modified retrospective approach | Contracts under fair value approach | Other contracts | Total |
| Opening assets | | (10,154) | 796 | 7,240 | (2,118) | - | 5,900 | 1,340 | 7,240 |
| Opening liabilities | | 167,514 | 3,097 | 47,918 | 218,529 | 11,983 | 31,017 | 4,918 | 47,918 |
| Net opening balance | | 157,360 | 3,893 | 55,158 | 216,411 | 11,983 | 36,917 | 6,258 | 55,158 |
| Insurance service result | | | | | | | | | |
| Changes that relate to current services | | | | | | | | | |
| CSM recognised for services provided | 6 | - | - | (5,363) | (5,363) | (1,059) | (3,072) | (1,232) | (5,363) |
| Change in risk adjustment for non-financial risk | | - | (179) | - | (179) | - | - | - | - |
| Experience adjustments | | 151 | - | - | 151 | - | - | - | - |
| Others | | (134) | - | - | (134) | - | - | - | - |
| Changes that relate to future services | | | | | | | | | |
| Contracts initially recognised in the year | | (6,358) | 450 | 5,983 | 75 | - | - | 5,983 | 5,983 |
| Changes in estimates that adjust the CSM | | 2,783 | (364) | (2,419) | - | 140 | (2,068) | (491) | (2,419) |
| Changes in estimates that result in losses and reversal of losses on onerous contracts | | 71 | (17) | - | 54 | - | - | - | - |
| Changes that relate to past services | | (186) | (73) | - | (259) | - | - | - | - |
| Total insurance service result | | (3,673) | (183) | (1,799) | (5,655) | (919) | (5,140) | 4,260 | (1,799) |
| Net finance (income)/expenses from insurance contracts | 7 | (36,703) | - | 1,188 | (35,515) | 492 | 447 | 249 | 1,188 |
| Effect of movements in exchange rates | | (3,333) | (175) | (2,138) | (5,646) | (929) | (830) | (379) | (2,138) |
| Total changes in the consolidated income statement and consolidated statement of comprehensive income | | (43,709) | (358) | (2,749) | (46,816) | (1,356) | (5,523) | 4,130 | (2,749) |
| Cash flows | | 13,990 | - | - | 13,990 | - | - | - | - |
| Non-cash operating expenses | | (240) | - | - | (240) | - | - | - | - |
| Other non-cash items | | (343) | - | - | (343) | - | - | - | - |
| Net closing balance | | 127,058 | 3,535 | 52,409 | 183,002 | 10,627 | 31,394 | 10,388 | 52,409 |
| Closing assets | | (8,689) | 739 | 7,380 | (570) | - | 4,983 | 2,397 | 7,380 |
| Closing liabilities | | 135,747 | 2,796 | 45,029 | 183,572 | 10,627 | 26,411 | 7,991 | 45,029 |
| Net closing balance | | 127,058 | 3,535 | 52,409 | 183,002 | 10,627 | 31,394 | 10,388 | 52,409 |

12. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by remaining coverage and incurred claims of reinsurance contracts held not measured under the premium allocation approach

| | | Year ended 31 December 2022 | | | |
|---|------|-----------------------------------|-------------------------|---------------------------|--------------|
| | | Asset for remaining coverage | | Asset for incurred claims | Total |
| US\$m | Note | Excluding loss-recovery component | Loss-recovery component | | |
| Opening assets | | 2,410 | 124 | 3,815 | 6,349 |
| Opening liabilities | | (1,035) | 2 | 324 | (709) |
| Net opening balance | | 1,375 | 126 | 4,139 | 5,640 |
| Changes in the consolidated income statement and consolidated statement of comprehensive income | | | | | |
| Net (expenses)/income from reinsurance contracts held (excluding effect of changes in non-performance risk of reinsurers) | | | | | |
| | | (2,045) | 10 | 1,654 | (381) |
| Effect of changes in non-performance risk of reinsurers | | | | | |
| | | – | – | – | – |
| Net (expenses)/income from reinsurance contracts held | | (2,045) | 10 | 1,654 | (381) |
| Investment components | | (139) | – | 139 | – |
| Other changes | | – | – | – | – |
| Net finance income/(expenses) from reinsurance contracts held | | | | | |
| | 7 | 85 | 1 | (259) | (173) |
| Effect of movements in exchange rates | | | | | |
| | | 50 | (7) | (258) | (215) |
| Total changes in the consolidated income statement and consolidated statement of comprehensive income | | (2,049) | 4 | 1,276 | (769) |
| Cash flows | | | | | |
| Premiums paid | | 1,943 | – | – | 1,943 |
| Amounts received | | – | – | (1,509) | (1,509) |
| Other amounts paid | | – | – | 4 | 4 |
| Total cash flows | | 1,943 | – | (1,505) | 438 |
| Adjusted for: | | | | | |
| Non-cash operating expenses | | | | | |
| | | – | – | 1 | 1 |
| Other non-cash items | | | | | |
| | | – | – | – | – |
| Total non-cash items | | – | – | 1 | 1 |
| Net closing balance | | 1,269 | 130 | 3,911 | 5,310 |
| Closing assets | | 2,044 | 124 | 3,537 | 5,705 |
| Closing liabilities | | (775) | 6 | 374 | (395) |
| Net closing balance | | 1,269 | 130 | 3,911 | 5,310 |

12. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by measurement component of reinsurance contracts held not measured under the premium allocation approach

| | | Year ended 31 December 2022 | | | | | | | |
|--|------|---|--|--------------|--------------|---|-------------------------------------|-----------------|--------------|
| US\$m | Note | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | CSM | | | | | |
| | | | | CSM | Total | Contracts under modified retrospective approach | Contracts under fair value approach | Other contracts | Total |
| Opening assets | | 3,785 | 750 | 1,814 | 6,349 | (1,643) | 3,763 | (306) | 1,814 |
| Opening liabilities | | (1,377) | 270 | 398 | (709) | - | 77 | 321 | 398 |
| Net opening balance | | 2,408 | 1,020 | 2,212 | 5,640 | (1,643) | 3,840 | 15 | 2,212 |
| Net expenses from reinsurance contracts held | | | | | | | | | |
| Changes that relate to current services | | | | | | | | | |
| CSM recognised for services received | | - | - | (242) | (242) | 125 | (391) | 24 | (242) |
| Change in risk adjustment for non-financial risk | | - | (43) | - | (43) | - | - | - | - |
| Experience adjustments | | (198) | - | - | (198) | - | - | - | - |
| Changes that relate to future services | | | | | | | | | |
| Changes in recoveries of losses on onerous underlying contracts that adjust the CSM | | - | - | 11 | 11 | - | - | 11 | 11 |
| Contracts initially recognised in the year | | 12 | 47 | (59) | - | - | - | (59) | (59) |
| Changes in estimates that adjust the CSM | | (171) | (160) | 331 | - | 437 | (136) | 30 | 331 |
| Changes in estimates that relate to losses and reversal of losses on underlying onerous contracts | | (1) | - | - | (1) | - | - | - | - |
| Changes that relate to past services | | 113 | (21) | - | 92 | - | - | - | - |
| Effect of changes in non-performance risk of reinsurers | | - | - | - | - | - | - | - | - |
| Total net (expenses)/income from reinsurance contracts held | | (245) | (177) | 41 | (381) | 562 | (527) | 6 | 41 |
| Net finance (expenses)/income from reinsurance contracts held | 7 | (151) | - | (22) | (173) | (87) | 80 | (15) | (22) |
| Effect of movements in exchange rates | | (102) | (66) | (47) | (215) | 137 | (168) | (16) | (47) |
| Total changes in the consolidated income statement and consolidated statement of comprehensive income | | (498) | (243) | (28) | (769) | 612 | (615) | (25) | (28) |
| Cash flows | | 438 | - | - | 438 | - | - | - | - |
| Non-cash operating expenses | | 1 | - | - | 1 | - | - | - | - |
| Other non-cash items | | - | - | - | - | - | - | - | - |
| Net closing balance | | 2,349 | 777 | 2,184 | 5,310 | (1,031) | 3,225 | (10) | 2,184 |
| Closing assets | | 3,356 | 523 | 1,826 | 5,705 | (1,031) | 3,110 | (253) | 1,826 |
| Closing liabilities | | (1,007) | 254 | 358 | (395) | - | 115 | 243 | 358 |
| Net closing balance | | 2,349 | 777 | 2,184 | 5,310 | (1,031) | 3,225 | (10) | 2,184 |

12. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by remaining coverage and incurred claims of insurance contracts measured under the premium allocation approach

| | | Year ended 31 December 2022 | | | | |
|--|-------|------------------------------------|----------------|--|--|--------------|
| | | Liabilities for remaining coverage | | Liabilities for incurred claims | | Total |
| US\$m | Notes | Excluding loss component | Loss component | Estimate of present value of future cash flows | Risk adjustment for non-financial risk | |
| Opening assets | | 1 | - | - | - | 1 |
| Opening liabilities | | 285 | - | 372 | 18 | 675 |
| Net opening balance | | 286 | - | 372 | 18 | 676 |
| Insurance revenue | 6 | (1,795) | - | - | - | (1,795) |
| Insurance service expenses | | | | | | |
| Incurred claims and other insurance service expenses | | - | - | 1,391 | 11 | 1,402 |
| Amortisation of insurance acquisition cash flows | | 207 | - | - | - | 207 |
| Losses and reversal of losses on onerous contracts | | - | - | - | - | - |
| Adjustments to liabilities for incurred claims | | - | - | (34) | (10) | (44) |
| Total insurance service expenses | | 207 | - | 1,357 | 1 | 1,565 |
| Investment components | | (2) | - | 2 | - | - |
| Other changes | | (3) | - | 3 | - | - |
| Insurance service result | | (1,593) | - | 1,362 | 1 | (230) |
| Net finance income from insurance contracts | 7 | - | - | - | - | - |
| Effect of movements in exchange rates | | (14) | - | (9) | (1) | (24) |
| Total changes in the consolidated income statement and consolidated statement of comprehensive income | | (1,607) | - | 1,353 | - | (254) |
| Cash flows | | | | | | |
| Premiums received | | 1,834 | - | - | - | 1,834 |
| Claims and other insurance service expenses paid, including investment components | | (1) | - | (1,309) | - | (1,310) |
| Insurance acquisition cash flows paid | | (200) | - | - | - | (200) |
| Other amounts received | | - | - | - | - | - |
| Total cash flows | | 1,633 | - | (1,309) | - | 324 |
| Adjusted for: | | | | | | |
| Non-cash operating expenses | | (4) | - | (3) | - | (7) |
| Other non-cash items | | - | - | - | - | - |
| Total non-cash items | | (4) | - | (3) | - | (7) |
| Net closing balance | | 308 | - | 413 | 18 | 739 |
| Closing assets | | - | - | 1 | - | 1 |
| Closing liabilities | | 308 | - | 412 | 18 | 738 |
| Net closing balance | | 308 | - | 413 | 18 | 739 |

12. Insurance contracts and reinsurance contracts held (continued)

MOVEMENT IN CARRYING AMOUNTS (continued)

Analysis by measurement component of reinsurance contracts held measured under the premium allocation approach

| | | Year ended 31 December 2022 | | | | |
|---|------|-----------------------------------|-------------------------|--|--|-------------|
| | | Asset for remaining coverage | | Asset for incurred claims | | |
| US\$m | Note | Excluding loss-recovery component | Loss-recovery component | Estimate of present value of future cash flows | Risk adjustment for non-financial risk | Total |
| Opening assets | | (191) | – | 275 | 3 | 87 |
| Opening liabilities | | (5) | – | 5 | – | – |
| Net opening balance | | (196) | – | 280 | 3 | 87 |
| Changes in the consolidated income statement and consolidated statement of comprehensive income | | | | | | |
| Net (expenses)/income from reinsurance contracts held (excluding effect of changes in non-performance risk of reinsurers) | | | | | | |
| | | (289) | – | 251 | – | (38) |
| Effect of changes in non-performance risk of reinsurers | | | | | | |
| | | – | – | – | – | – |
| Net (expenses)/income from reinsurance contracts held | | (289) | – | 251 | – | (38) |
| Investment components | | (28) | – | 28 | – | – |
| Other changes | | – | – | – | – | – |
| Net finance expenses from reinsurance contracts held | 7 | (8) | – | – | – | (8) |
| Effect of movements in exchange rates | | 17 | – | (11) | – | 6 |
| Total changes in the consolidated income statement and consolidated statement of comprehensive income | | (308) | – | 268 | – | (40) |
| Cash flows | | | | | | |
| Premiums paid | | 179 | – | – | – | 179 |
| Amounts paid/(received) | | 1 | – | (181) | – | (180) |
| Other amounts (received)/paid | | (1) | – | 2 | – | 1 |
| Total cash flows | | 179 | – | (179) | – | – |
| Adjusted for: | | | | | | |
| Non-cash operating expenses | | – | – | – | – | – |
| Other non-cash items | | – | – | – | – | – |
| Total non-cash items | | – | – | – | – | – |
| Net closing balance | | (325) | – | 369 | 3 | 47 |
| Closing assets | | (248) | – | 304 | 2 | 58 |
| Closing liabilities | | (77) | – | 65 | 1 | (11) |
| Net closing balance | | (325) | – | 369 | 3 | 47 |

12. Insurance contracts and reinsurance contracts held (continued)

EFFECT OF CONTRACTS INITIALLY RECOGNISED IN THE YEAR

The following tables summarise the effect on the measurement components of insurance contracts and reinsurance contracts held arising from the initial recognition of contracts not measured under the premium allocation approach that were initially recognised in the year.

INSURANCE CONTRACTS

| US\$m | Profitable contracts issued | Onerous contracts issued | Profitable contracts acquired | Total |
|---|-----------------------------------|--------------------------------|-------------------------------------|---------------|
| Year ended 31 December 2022 | | | | |
| Estimates of present value of future cash outflows | | | | |
| Insurance acquisition cash flows | 5,150 | 157 | – | 5,307 |
| Claims payable and other expenses | 23,226 | 662 | 74 | 23,962 |
| Total estimates of present value of future cash outflows | 28,376 | 819 | 74 | 29,269 |
| Estimates of present value of future cash inflows | (34,786) | (763) | (78) | (35,627) |
| Risk adjustment for non-financial risk | 431 | 19 | – | 450 |
| Contractual service margin | 5,979 | – | 4 | 5,983 |
| Losses recognised on initial recognition | – | 75 | – | 75 |

REINSURANCE CONTRACTS HELD

| US\$m | Year ended 31 December 2022 | | |
|--|-----------------------------|-----------------------|-----------|
| | Contracts originated | Contracts acquired | Total |
| Estimates of present value of future cash inflows | 1,553 | – | 1,553 |
| Estimates of present value of future cash outflows | (1,541) | – | (1,541) |
| Risk adjustment for non-financial risk | 47 | – | 47 |
| Income recognised on initial recognition | (11) | – | (11) |
| Contractual service margin | 48 | – | 48 |

12. Insurance contracts and reinsurance contracts held (continued)

ANALYSIS OF ASSETS FOR INSURANCE ACQUISITION CASH FLOWS

| | Year ended 31 December 2022 |
|---|-----------------------------------|
| US\$m | |
| Opening balance presented in insurance contract assets | 1,564 |
| Opening balance presented in insurance contract liabilities | 1,431 |
| Total opening balance | 2,995 |
| Assets recognised for insurance acquisition cash flows paid during the period | 280 |
| Allocation to groups of insurance contracts | (193) |
| Effect of movements in exchange rates | (203) |
| Total closing balance | 2,879 |
| Closing balance presented in insurance contract assets | 1,468 |
| Closing balance presented in insurance contract liabilities | 1,411 |
| Total closing balance | 2,879 |

12. Insurance contracts and reinsurance contracts held (continued)

FULFILMENT CASH FLOWS

Estimates of future cash flows

The Group's objective in estimating future cash flows is to determine the expected value or probability-weighted mean of the full range of possible outcomes. The Group incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows reflect the Group's view of current conditions at the reporting date and the estimates of any relevant market variables are consistent with observable market prices.

When estimating future cash flows, the Group takes into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not taken into account until the change in legislation is substantively enacted.

Cash flows are within the boundary of a contract if they arise from substantive right and obligations that exist during the reporting period. They relate directly to the fulfilment of the contract, including those for which the Group has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs. Other costs that are incurred in fulfilling the contracts include claims handling, maintenance and administration costs, and recurring commissions payable on instalment premiums receivable within the contract boundary.

Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Methodology and assumptions

Mortality

Assumptions have been developed by each business unit based on their recent historical experience, and their expectations of current and expected future experience including mortality improvement. 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.

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.

12. Insurance contracts and reinsurance contracts held (continued)

FULFILMENT CASH FLOWS (continued)

Methodology and assumptions (continued)

Persistency

Persistency covers the assumptions required, where relevant, for policy lapse (including surrender), premium persistency, premium holidays, partial withdrawals, policy loan take up and repayment 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 currency and expected future experience. Persistency assumptions would vary by policy year and product type with different rates for regular and single premium products where appropriate.

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.

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, maintenance and other activities, and then to allocate these acquisition and maintenance expenses that can be directly attributed to the portfolio of insurance contracts 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 that can be directly attributed to the portfolio of insurance contracts, 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.

Reinsurance

Reinsurance assumptions have been developed by each business unit based on the reinsurance arrangements in-force as at the reporting date and the recent historical and expected future experience.

12. Insurance contracts and reinsurance contracts held (continued)

FULFILMENT CASH FLOWS (continued)

Methodology and assumptions (continued)

Policyholder dividends, profit sharing and interest crediting

The projected policyholder dividends, profit sharing and interest crediting assumptions set by each business unit 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.

Participating funds and other participating business with distinct portfolios 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.

The assumed estimated crediting rates and participation percentages are generally based on the actual rates and percentages applied in the current year. The crediting rates applied vary between products and Group entities; in the current economic environment, the amounts credited are often determined by interest rate guarantees.

An adjustment to reflect the time value of money and the financial risks related to future cash flows

The Group adjusts the estimate of future cash flows to reflect the time value of money and the financial risks related to those cash flows. The cash flows are discounted by the discount rates to reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts.

The top-down approach has been primarily adopted for the derivation of discount rates. A top-down approach starts with considering a yield curve that reflects the current market rates of return of a reference portfolio of assets that have similar characteristics of the insurance contracts, and adjust this downwards to eliminate any factors not relevant to the insurance contracts (primarily the allowance for credit risk). The assessment of credit risk premium is done on external and internal ratings when the reference portfolio contains assets which are locally rated. Alternatively, a bottom-up approach could be used under which discount rates are determined by adjusting the liquid risk-free yield curve to reflect the liquidity characteristics of the insurance contracts.

In constructing the discount rates, market observable rates are used up to the last available market data point which is reliable and also relevant in reflecting the characteristics of the insurance contracts. The market observable rates are extrapolated between this point and an ultimate forward rate derived using long-term estimates by applying generally accepted technique such as Smith-Wilson method etc.

The table below sets out the spot rates used to discount the cash flows of insurance contracts for major currencies. To reflect the liquidity characteristics of the insurance contracts, the risk-free spot rates are adjusted by an illiquidity premium.

| As at 31 December 2022 | 1 year | | 5 years | | 10 years | | 15 years | | 20 years | |
|------------------------|-----------|--------------------------|-----------|--------------------------|-----------|--------------------------|-----------|--------------------------|-----------|--------------------------|
| | Risk free | With illiquidity premium | Risk free | With illiquidity premium | Risk free | With illiquidity premium | Risk free | With illiquidity premium | Risk free | With illiquidity premium |
| Spot rates | | | | | | | | | | |
| USD | 4.62% | 4.96% | 3.88% | 4.92% | 3.75% | 5.20% | 3.84% | 5.42% | 4.10% | 5.69% |
| HKD | 4.85% | 5.19% | 3.96% | 4.99% | 3.78% | 5.22% | 3.82% | 5.40% | 4.08% | 5.66% |
| CNY | 2.09% | 2.63% | 2.66% | 3.29% | 2.88% | 3.47% | 3.04% | 3.72% | 3.16% | 3.88% |
| SGD | 3.88% | 5.15% | 2.84% | 4.56% | 3.07% | 4.97% | 2.92% | 4.80% | 2.59% | 4.39% |
| MYR | 3.25% | 3.86% | 3.88% | 4.36% | 4.09% | 4.67% | 4.36% | 5.02% | 4.46% | 5.18% |
| THB | 1.38% | 1.83% | 1.98% | 2.62% | 2.74% | 3.59% | 3.34% | 4.33% | 3.75% | 4.79% |

12. Insurance contracts and reinsurance contracts held (continued)

FULFILMENT CASH FLOWS (continued)

Methodology and assumptions (continued)

An adjustment to reflect the time value of money and the financial risks related to future cash flows (continued)

For the insurance contracts with cash flows that vary based on the returns on any financial underlying items, the Group applies risk-neutral measurement techniques. Stochastic modelling is applied for insurance contracts with significant financial options and guarantees to estimate the expected present value. A large number of possible economic scenarios for market variables such as interest rates and equity returns are considered using risk neutral approach and consistent with market observable price.

RISK ADJUSTMENTS FOR NON-FINANCIAL RISK

Risk adjustments for non-financial risk are generally determined by considering the expected cash flows arising from insurance contracts in each segment for each of the geographical markets in which the Group operates, consistent with the way that non-financial risk is managed. Risk adjustments are determined separately from estimates from the present value of future cash flows, using the confidence level technique.

Applying a confidence level technique, the Group estimates the probability distribution of the expected present value of the future cash flows from insurance contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at 75th percentile (the target confidence level) over the expected present value of the future cash flows.

CONTRACTUAL SERVICE MARGIN

The CSM of a group of contracts is recognised as insurance revenue in each period based on the number of coverage units provided in the period, which is determined by considering for each contract the quantity of the services provided, its expected coverage period and time value of money.

For a group of contracts that is onerous at the start of a reporting period and becomes profitable subsequently that CSM is recognised during the reporting period, the total amount of recognised CSM is released to profit or loss if there are no more future coverage units.

INVESTMENT COMPONENTS

The Group identifies the investment component of an insurance contract by determining the amount that it would be required to repay to the policyholder in all circumstances, regardless of whether an insured event occurs. Investment components are excluded from insurance revenue and insurance service expenses. Generally, for relevant contracts, surrender value would be determined as an investment component.

13. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16

The Group has adopted IFRS 9, IFRS 17 and amendment to IAS 16, including any consequential amendments to other standards, with a date of initial adoption of 1 January 2023. The following table set out the impact of initial adoption of these standards on the Group's equity at 1 January 2022.

| US\$m | As at 31 December 2021 (As previously reported) | Impact upon initial adoption of IFRS 9, IFRS 17 and amendment to IAS 16 | As at 1 January 2022 (After adoption) |
|---|--|---|---|
| Equity | | | |
| Share capital | 14,160 | – | 14,160 |
| Employee share-based trusts | (225) | – | (225) |
| Other reserves | (11,841) | – | (11,841) |
| Retained earnings | 49,984 | (987) | 48,997 |
| Fair value reserve | 8,407 | (1,766) | 6,641 |
| Foreign currency translation reserve | (1,068) | – | (1,068) |
| Insurance finance reserve | – | (1,895) | (1,895) |
| Property revaluation reserve | 1,069 | 148 | 1,217 |
| Others | (19) | 56 | 37 |
| Amounts reflected in other comprehensive income | 8,389 | (3,457) | 4,932 |
| <i>Total equity attributable to:</i> | | | |
| Shareholders of AIA Group Limited | 60,467 | (4,444) | 56,023 |
| Non-controlling interests | 467 | 17 | 484 |
| Total equity | 60,934 | (4,427) | 56,507 |

IFRS 17 INSURANCE CONTRACTS

Recognition, measurement and presentation of insurance contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts held and investment contracts with DPF. It introduces a model that measures groups of contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk and a CSM.

Under IFRS 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which the Group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. In addition, investment components are excluded from insurance revenue and insurance service expenses.

The Group no longer applies shadow accounting to insurance-related assets and liabilities.

Insurance finance income or expenses, disaggregated between profit or loss and other comprehensive income for the relevant business in participating funds and other participating business with distinct portfolios, other policyholder and shareholder and unit-linked funds, are presented separately from insurance revenue and insurance service expenses.

The Group applies the premium allocation approach to simplify the measurement of certain contracts. When measuring liabilities for remaining coverage, the premium allocation approach is similar to the Group's previous accounting treatment; however, when measuring liabilities for incurred claims, the Group now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk, as appropriate.

13. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 17 INSURANCE CONTRACTS (continued)

Recognition, measurement and presentation of insurance contracts (continued)

Previously, all acquisition costs were recognised and presented as separate assets from the related insurance contracts (“deferred acquisition costs”) and are subsequently amortised over the expected life of the contracts. Under IFRS 17, only insurance acquisition cash flows that arise before the recognition of the related insurance contracts are recognised as separate assets and are tested for recoverability. These assets are presented as part of the carrying amount of the related portfolio of contracts and are subsequently derecognised when respective groups of contracts are recognised and hence included in the CSM measurement of that group.

Income and expenses from reinsurance contracts held other than insurance finance income or expenses are now presented as a single net amount in profit or loss. Previously, amounts recovered from reinsurers and reinsurance expenses were presented separately.

For an explanation of how the Group accounts for insurance contracts and reinsurance contracts held under IFRS 17, see note 2.3.

Transition

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied full retrospective approach to the extent practicable. Under the full retrospective approach, at 1 January 2022, the Group:

- identified, recognised and measured each group of insurance contracts and reinsurance contracts held as if IFRS 17 had always applied;
- identified, recognised and measured any assets for insurance acquisition cash flows as if IFRS 17 had always been applied, except that the recoverability assessment in note 2.3.5 was not applied before 1 January 2022;
- derecognised previously reported balances that would not have existed if IFRS 17 had always been applied. These included deferred acquisition costs for insurance contracts, insurance receivables and payables, policy loans and its accrued interest revenue and provisions that are attributable to existing insurance contracts, etc. Under IFRS 17, these are included in the measurement of the insurance contracts;
- recognised any resulting net difference in equity. The carrying amount of goodwill from previous business combinations was not adjusted.

Insurance contracts and reinsurance contracts held

For certain groups of contracts, the Group applied the modified retrospective approach or the fair value approach in IFRS 17 to identify, recognise and measure certain groups of contracts at 1 January 2022 because it was impracticable to apply the full retrospective approach.

The Group considered the full retrospective approach impracticable for contracts in these segments under any of the following circumstances.

- The effects of retrospective application were not determinable because the information required had not been collected (or had not been collected with sufficient granularity) and was unavailable because of system migrations, data retention requirements or other reasons.

13. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 17 INSURANCE CONTRACTS (continued)

Transition (continued)

Insurance contracts and reinsurance contracts held (continued)

- The full retrospective approach required assumptions about what Group management's intentions would have been in previous periods or significant accounting estimates that could not be made without the use of hindsight, the application of full retrospective approach is considered as impracticable if such assumptions and estimates were not determinable.

Irrespective of the transition approach used, the following items have not been applied retrospectively.

- When the Group uses derivatives to mitigate the financial risk from interest rate guarantees in traditional participating contracts and equity guarantees in variable annuity contracts, the option to exclude changes in the effect of that financial risk from the CSM has not been applied for periods before 1 January 2023.
- The consequential amendments to IFRS 3, Business Combinations introduced by IFRS 17 require the Group to classify contracts acquired as insurance contracts based on the contractual terms and other factors at the date of acquisition. This requirement was not applied to business combinations before 1 January 2023, for which the Group classified contracts acquired as insurance contracts based on the conditions at contract inception.

To indicate the effect of applying the modified retrospective approach or the fair value approach on the CSM, insurance revenue and insurance finance income or expenses, the Group has provided additional disclosures in notes 2.3.9, 6, 7 and 12.

Assets for insurance acquisition cash flows

The Group also applied the modified retrospective approach or the fair value approach to identify, recognise and measure certain assets for insurance acquisition cash flows at 1 January 2022.

It was impracticable to apply the full retrospective approach because:

- data had not been collected with sufficient granularity;
- information required to identify fixed and variable overheads as relating to acquisition activities and to allocate them to groups of contracts was not available; or
- original assumptions about the manner in which the Group would have expected insurance acquisition cash flows to be recovered, which were required to allocate them to renewals, could not be made without the use of hindsight.

Effect of initial adoption

The Group has applied the transition provisions in IFRS 17 and has not disclosed the impact of the adoption of IFRS 17 on each financial statement line item.

13. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS

Classification of financial assets and financial liabilities

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available for sale financial assets. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

For explanations of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see note 2.5.

IFRS 9 has not had a significant effect on the Group's accounting policies for financial liabilities and hedge accounting.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" model. The new impairment model applies to financial assets measured at amortised cost, debt securities at fair value through other comprehensive income, trade receivables and lease receivables. Under IFRS 9, credit losses are recognised earlier than under IAS 39 (see note 2.5.3).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- As permitted under IFRS 17, the Group has elected to apply classification overlay in the comparative period presented. The classification overlay has been applied to all financial assets that had been derecognised before 1 January 2023 based on how those assets are expected to be classified on initial adoption of IFRS 9. In applying the classification overlay to financial assets derecognised during the comparative period, the Group has applied the impairment requirements of IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2023.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at fair value through profit or loss.
- If an investment in a debt security had low credit risk at 1 January 2023, then the Group determined that the credit risk on the asset had not increased significantly since initial recognition.

13. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS (continued)

Effect of initial adoption of IFRS 9 Financial Instruments at 1 January 2023

Classification of financial assets and financial liabilities

The following table shows the original measurement category and carrying amount under IAS 39 and the new measurement category and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities.

| US\$m | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 as at 31 December 2022 | New carrying amount under IFRS 9 as at 1 January 2023 |
|--|--|---------------------------------------|--|--|
| Financial assets | | | | |
| Debt securities | FVTPL | FVTPL (mandatory) | 6,802 | 6,802 |
| Debt securities | Available for sale | FVTPL (mandatory) | 680 | 680 |
| Debt securities | FVTPL | FVTPL (designated) | 28,634 | 28,634 |
| Debt securities | Available for sale | FVTPL (designated) | 42,211 | 42,211 |
| Debt securities | FVTPL | FVOCI | 1,226 | 1,226 |
| Debt securities | Available for sale | FVOCI | 84,871 | 84,871 |
| Debt securities | Available for sale | Amortised cost | 1,519 | 1,787 |
| Loans and deposits | Loans and receivables | Amortised cost | 4,582 | 4,566 |
| Loans and deposits | Loans and receivables | FVTPL (designated) | 250 | 279 |
| Equity shares | FVTPL | FVTPL (mandatory) | 25,691 | 25,691 |
| Interests in investment funds and exchangeable loan notes | FVTPL | FVTPL (mandatory) | 38,577 | 38,577 |
| Derivative assets | FVTPL | FVTPL (mandatory) | 630 | 630 |
| Accrued investment income | Loans and receivables | Amortised cost | 1,752 | 1,752 |
| Receivables | Loans and receivables | Amortised cost | 1,743 | 1,718 |
| Cash and cash equivalents | Loans and receivables | FVTPL (mandatory) | 2,248 | 2,248 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 6,721 | 6,721 |
| Total financial assets | | | 248,137 | 248,393 |

13. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS (continued)

Effect of initial adoption of IFRS 9 Financial Instruments at 1 January 2023 (continued)

Classification of financial assets and financial liabilities (continued)

| US\$m | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 as at 31 December 2022 | New carrying amount under IFRS 9 as at 1 January 2023 |
|---|--|---------------------------------------|--|--|
| Financial liabilities | | | | |
| Investment contract liabilities | FVTPL | FVTPL (designated) | 9,441 | 9,441 |
| Investment contract liabilities | Not applicable | FVTPL (designated) | – | 2,015 |
| Investment contract liabilities | Amortised cost | Amortised cost | 530 | 530 |
| Borrowings | Amortised cost | Amortised cost | 11,206 | 11,206 |
| Obligations under repurchase agreements | Amortised cost | Amortised cost | 1,748 | 1,748 |
| Derivative liabilities | FVTPL | FVTPL (mandatory) | 8,739 | 8,739 |
| Trade and other payables | Amortised cost | Amortised cost | 2,913 | 2,913 |
| Trade and other payables | Not applicable | Amortised cost | – | 137 |
| Third-party interests in consolidated investment funds | FVTPL | FVTPL (designated) | 865 | 865 |
| Total financial liabilities | | | 35,442 | 37,594 |

13. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS (continued)

Effect of initial adoption of IFRS 9 Financial Instruments at 1 January 2023 (continued)

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in note 2.5. The application of these policies resulted in the reclassifications set out in the table above and explained below.

- a. Under IAS 39, certain debt securities were designated as at fair value through profit or loss because the Group managed them on a fair value basis or such designation eliminates or significantly reduces a measurement or recognition inconsistency. Under IFRS 9, these assets are mandatorily measured at fair value through profit or loss because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets or their contractual cash flows do not represent solely payments of principal and interest on the principal amount outstanding.
- b. Under IAS 39, certain debt securities that were classified as available for sale financial assets; under IFRS 9, a portion of these assets are mandatorily measured at fair value through profit or loss either because their contractual cash flows do not represent solely payments of principal and interest on the principal amount outstanding or they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. Some of these debt securities are designated as at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise, while others are classified as fair value through other comprehensive income based on the criteria in IFRS 9.
- c. There are some debt securities being designated as at fair value through profit or loss under IAS 39. The Group has revoked the designation to measure them at fair value through profit or loss upon the adoption of IFRS 9 because there is no longer a significant accounting mismatch arising from the securities as a result of adoption of IFRS 17. These assets are classified as fair value through other comprehensive income based on the criteria in IFRS 9.
- d. Certain debt securities that were classified as available for sale under IAS 39 are held within a business model whose objective is to hold assets to collect the contractual cash flows and they have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Therefore, these assets are measured at amortised cost under IFRS 9.
- e. Under IAS 39, equity shares, interests in investment funds and exchangeable loan notes were designated as at fair value through profit or loss because they are managed on a fair value basis. Under IFRS 9, these assets are mandatorily measured at fair value through profit or loss because they do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and the Group has not elected to measure them at fair value through other comprehensive income.
- f. Certain cash equivalents that were classified as loans and receivables under IAS 39 are mandatorily measured at fair value through profit or loss under IFRS 9 because the contractual cash flows do not represent solely payments of principal and interest on the principal amount outstanding.
- g. Certain financial assets and liabilities recognised upon the adoption of IFRS 9 are designated at FVTPL because such designation eliminates or significantly reduces measurement inconsistency.

13. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS (continued)

Effect of initial adoption of IFRS 9 Financial Instruments at 1 January 2023 (continued)

There are no changes in carrying amounts of equity shares, interests in investment funds, exchangeable loan notes, derivative assets and financial liabilities except for investment contract liabilities at fair value through profit or loss and payables under IAS 39 to the carrying amounts under IFRS 9. The following table reconciles the carrying amounts of other financial assets, investment contract liabilities at fair value through profit or loss and payables that there are reclassifications and/or remeasurement on transition to IFRS 9 on 1 January 2023.

| US\$m | 31 December 2022 IAS 39 | Reclassification | Remeasurement | 1 January 2023 IFRS 9 |
|--|----------------------------|------------------|---------------|--------------------------|
| Financial assets | | | | |
| Financial assets measured at fair value through profit or loss | | | | |
| Debt securities | | | | |
| Brought forward | 36,662 | - | - | - |
| Reclassified from available for sale | - | 42,891 | - | - |
| Reclassified to fair value through other comprehensive income | - | (1,226) | - | - |
| Carried forward | - | - | - | 78,327 |
| Loans and deposits | | | | |
| Brought forward | - | - | - | - |
| Reclassified from amortised cost | - | 250 | - | - |
| Remeasurement | - | - | 29 | - |
| Carried forward | - | - | - | 279 |
| Cash and cash equivalents | | | | |
| Brought forward | - | - | - | - |
| Reclassified from amortised cost | - | 2,248 | - | - |
| Carried forward | - | - | - | 2,248 |
| Total financial assets measured at fair value through profit or loss | 36,662 | 44,163 | 29 | 80,854 |
| Debt securities measured at fair value through other comprehensive income | | | | |
| Debt securities | | | | |
| Reclassified from fair value through profit or loss | - | 1,226 | - | - |
| Reclassified from available for sale | - | 84,871 | - | - |
| Carried forward | - | - | - | 86,097 |
| Total debt securities measured at fair value through other comprehensive income | - | 86,097 | - | 86,097 |
| Available for sale debt securities | | | | |
| Brought forward | 129,281 | - | - | - |
| Reclassified to fair value through other comprehensive income | - | (84,871) | - | - |
| Reclassified to fair value through profit or loss | - | (42,891) | - | - |
| Reclassified to amortised cost | - | (1,519) | - | - |
| Total available for sale debt securities | 129,281 | (129,281) | - | - |

13. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS (continued)

Effect of initial adoption of IFRS 9 Financial Instruments at 1 January 2023 (continued)

| US\$m | 31 December 2022 IAS 39 | Reclassification | Remeasurement | 1 January 2023 IFRS 9 |
|--|----------------------------|------------------|---------------|--------------------------|
| Financial assets measured at amortised cost | | | | |
| Debt securities | | | | |
| Reclassified from available for sale | – | 1,519 | – | – |
| Remeasurement | – | – | 268 | – |
| Carried forward | – | – | – | 1,787 |
| Loans and deposits | | | | |
| Brought forward: Loans and receivables | 4,832 | – | – | – |
| Reclassified to fair value through profit or loss | – | (250) | – | – |
| Remeasurement | – | – | (16) | – |
| Carried forward | – | – | – | 4,566 |
| Accrued investment income | | | | |
| Brought forward: Loans and receivables | 1,752 | – | – | – |
| Carried forward | – | – | – | 1,752 |
| Receivables | | | | |
| Brought forward: Loans and receivables | 1,743 | – | – | – |
| Remeasurement | – | – | (25) | – |
| Carried forward | – | – | – | 1,718 |
| Cash and cash equivalents | | | | |
| Brought forward: Loans and receivables | 8,969 | – | – | – |
| Reclassified to fair value through profit or loss | – | (2,248) | – | – |
| Carried forward | – | – | – | 6,721 |
| Total financial assets measured at amortised cost | 17,296 | (979) | 227 | 16,544 |
| Financial liabilities | | | | |
| Investment contract liabilities measured at fair value through profit or loss | | | | |
| Investment contract liabilities | | | | |
| Brought forward | 9,441 | – | – | – |
| Recognised on transition to IFRS 17 | – | – | 2,015 | – |
| Carried forward | – | – | – | 11,456 |
| Total investment contract liabilities measured at fair value through profit or loss | 9,441 | – | 2,015 | 11,456 |
| Trade and other payables measured at amortised cost | | | | |
| Trade and other payables | | | | |
| Brought forward | 2,913 | – | – | – |
| Recognised on transition to IFRS 17 | – | – | 137 | – |
| Carried forward | – | – | – | 3,050 |
| Total trade and other payables measured at amortised cost | 2,913 | – | 137 | 3,050 |

13. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS (continued)

Impairment of financial assets

The following table reconciles the closing impairment allowance in accordance with IAS 39 as at 31 December 2022 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2023.

| US\$m | 31 December 2022 | | | 1 January 2023 IFRS 9 |
|--|------------------|------------------|---------------|--------------------------|
| | IAS 39 | Reclassification | Remeasurement | |
| Debt securities at FVOCI under IFRS 9: | | | | |
| from available for sale under IAS 39 | 78 | – | 222 | 300 |
| Financial assets at amortised cost under IFRS 9: | | | | |
| from loans and receivables under IAS 39 | 11 | – | 41 | 52 |
| from available for sale under IAS 39 | – | – | 6 | 6 |
| | <u>89</u> | <u>–</u> | <u>269</u> | <u>358</u> |

AMENDMENT TO IAS 16 PROPERTY, PLANT AND EQUIPMENT

At the same time as IFRS 17 was issued, an amendment was made to IAS 16 to allow for measuring own used properties using the fair value model. On adoption of IFRS 17, the Group applied this election and changed its accounting policy for measuring its own used properties that are solely held as underlying items of insurance contracts with direct participation features from revaluation model to fair value model to reduce accounting mismatches with that for the corresponding insurance contracts. As a result of this change, which was adopted on a retrospective basis, revaluation gains on property held for own use that have been accumulated in other comprehensive income of US\$221m at 1 January 2022 was reclassified from property revaluation reserve to retained earnings. For the year ended 31 December 2022, net fair value losses of property held for own use measured at fair value model of US\$6m was included in other investment return in the consolidated income statement.

IMPACT ON EARNINGS PER SHARE

Upon the initial adoption of IFRS 9 and IFRS 17, together with the amendment to IAS 16, the impact to basic and diluted earnings per share is as follows.

| US cents | Year ended 31 December 2022 (As previously reported) | Impact of changes in accounting policies | Year ended 31 December 2022 (After adoption) |
|---|---|---|--|
| Net profit per share | | | |
| Basic | 2.36 | 25.56 | 27.92 |
| Diluted | 2.36 | 25.54 | 27.90 |
| Operating profit after tax per share | | | |
| Basic | 53.40 | 0.43 | 53.83 |
| Diluted | 53.36 | 0.43 | 53.79 |

14. Disposal group held for sale

On 24 February 2022, the Group announced it had entered into an agreement to sell its Australian Savings and Investments (S&I) business to Resolution Life Australasia Limited. The Australian S&I business is a constituent part of the businesses that transferred to AIA Australia following the acquisition of The Colonial Mutual Life Assurance Society Limited from Commonwealth Bank of Australia. Subject to regulatory approvals, the Group expects the transaction will be completed in 2023. The assets and liabilities of the Australian S&I business have been classified as assets in disposal group held for sale and liabilities in disposal group held for sale in the Consolidated Statement of Financial Position, contributed by the Australia operating segment.

At 31 December 2022, the assets and liabilities in disposal group held for sale were stated at the lower of its carrying amount and fair value less costs to sell. The assets and liabilities in disposal group held for sale are summarised below.

| US\$m | Notes | As at 31 December 2022 (Excluding disposal group) | Assets and liabilities in disposal group | As at 31 December 2022 (Including disposal group) |
|---|-------|--|---|--|
| Assets | | | | |
| Intangible assets | | 3,277 | – | 3,277 |
| Investments in associates and joint ventures | | 2,056 | – | 2,056 |
| Property, plant and equipment | | 2,844 | – | 2,844 |
| Investment property | | 4,600 | – | 4,600 |
| Insurance contract assets | 12 | 2,037 | – | 2,037 |
| Reinsurance contract assets | 12 | 5,763 | – | 5,763 |
| Financial investments: | | | | |
| At amortised cost | | | | |
| Debt securities | | 1,787 | – | 1,787 |
| Loans and deposits | | 4,566 | – | 4,566 |
| At fair value through other comprehensive income | | | | |
| Debt securities | | 86,060 | 37 | 86,097 |
| At fair value through profit or loss | | | | |
| Debt securities | | 77,496 | 831 | 78,327 |
| Loans and deposits | | 279 | – | 279 |
| Equity shares | | 23,378 | 2,313 | 25,691 |
| Interests in investment funds and exchangeable loan notes | | 38,577 | – | 38,577 |
| Derivative financial instruments | | 568 | 62 | 630 |
| | | <u>232,711</u> | <u>3,243</u> | <u>235,954</u> |
| Deferred tax assets | | 229 | 25 | 254 |
| Current tax recoverable | | 117 | 9 | 126 |
| Other assets | | 4,524 | 67 | 4,591 |
| Cash and cash equivalents | | 8,020 | 949 | 8,969 |
| Assets in disposal group held for sale | | 4,293 | (4,293) | – |
| Total assets | | <u><u>270,471</u></u> | <u><u>–</u></u> | <u><u>270,471</u></u> |
| Liabilities | | | | |
| Insurance contract liabilities | 12 | 181,851 | 1,048 | 182,899 |
| Reinsurance contract liabilities | 12 | 384 | 22 | 406 |
| Investment contract liabilities | | 9,092 | 2,894 | 11,986 |
| Borrowings | | 11,206 | – | 11,206 |
| Obligations under repurchase agreements | | 1,748 | – | 1,748 |
| Derivative financial instruments | | 8,638 | 101 | 8,739 |
| Provisions | | 153 | – | 153 |
| Deferred tax liabilities | | 3,409 | 1 | 3,410 |
| Current tax liabilities | | 467 | – | 467 |
| Other liabilities | | 4,264 | 45 | 4,309 |
| Liabilities in disposal group held for sale | | 4,111 | (4,111) | – |
| Total liabilities | | <u><u>225,323</u></u> | <u><u>–</u></u> | <u><u>225,323</u></u> |