AIA Group Limited

友 邦 保 險 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Stock Code: 1299

CONSOLIDATED SPECIAL PURPOSE FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2022

CONTENTS

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 ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 HKSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Consolidated Financial Information.

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

- Identify and assess the risks of material misstatement of the 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.

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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
9 June 2023

CONSOLIDATED INCOME STATEMENT

US$m	Notes	Year ended 31 December 2022
Insurance revenue	6,12	**16,319**
Insurance service expenses	8,12	**(10,434)**
Net expenses from reinsurance contracts held	12	**(419)**
Insurance service result		**5,466**
Interest revenue on	7	
Financial assets not measured at fair value through profit or loss		**3,837**
Financial assets measured at fair value through profit or loss		**3,430**
Other investment return	7	**(38,647)**
Net impairment loss on financial assets	7	**(233)**
Investment return	7	**(31,613)**
Net finance income from insurance contracts	7	**30,957**
Net finance income from reinsurance contracts held	7	**67**
Movement in investment contract liabilities	7	**1,106**
Movement in third-party interests in consolidated investment funds	7	**34**
Net investment result	7	**551**
Fee income		**138**
Other operating revenue		**301**
Other expenses	8	**(1,896)**
Other finance costs	8	**(385)**
Profit before share of losses from associates and joint ventures		**4,175**
Share of losses from associates and joint ventures		**(121)**
Profit before tax		**4,054**
Tax expense		**(689)**
Net profit		**3,365**
Net profit attributable to:		
Shareholders of AIA Group Limited		**3,331**
Non-controlling interests		**34**
Earnings per share (US$)		
Basic	9	**0.28**
Diluted	9	**0.28**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US$m	Year ended 31 December 2022
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)**
Total comprehensive income/(expense) attributable to:	
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
		232,711	278,231
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		**270,471**	311,252
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		**225,323**	254,745

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
Total equity attributable to:		
Shareholders of AIA Group Limited	**44,672**	56,023
Non-controlling interests	**476**	484
Total equity	**45,148**	56,507
Total liabilities and equity	**270,471**	311,252

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

						Other comprehensive income						
US$m	Note	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	Total equity
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	Participating funds and other participating business with distinct portfolios	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 For participating funds, local regulations generally prescribe a minimum proportion of policyholder participation in declared dividends 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	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	Investment contracts with DPF are accounted for in the same way as insurance contracts under IFRS 17
	Other participating business without distinct portfolios	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	The general measurement model is applied to these insurance contracts	Investment contracts with DPF are accounted for in the same way as insurance contracts under IFRS 17
Non-participating life, annuities and other protection products		Benefits payable are not at the discretion of the insurer	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	Investment contract liabilities are measured at amortised cost

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)

		Basis of accounting for:	
Policy type	Description of benefits payable	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 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]		**(3,089)**
Net profit		**3,365**
Operating profit after tax attributable to:		
Shareholders of AIA Group Limited		**6,421**
Non-controlling interests		**33**
Net profit attributable to:		
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	**7,504**
Taxation	**(1,050)**
Operating profit after tax	**6,454**

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 China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
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
Operating profit after tax attributable to:								
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 China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
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	**14,524**
Contracts measured under the PAA	12	**1,795**
Total insurance revenue		**16,319**
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	**7,267**
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	**(39,188)**
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	**(40,131)**
Total other investment return	**(38,647)**

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):

US$m	Year ended 31 December 2022
Foreign exchange gains	**163**

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.

US$m	Year ended 31 December 2022
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	**(3,346)**

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**
	18,114
Amounts attributed to insurance acquisition cash flows	**(6,292)**
Amortisation of insurance acquisition cash flows	**903**
Insurance service and other expenses	**12,725**

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	**12,725**

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	**37**

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: Participating funds and other participating business with distinct portfolios FVTPL	Other policyholder and shareholder FVTPL	Other policyholder and shareholder FVOCI	Other policyholder and shareholder AC	Subtotal	Unit-linked FVTPL	Unit-linked[(2)] FVOCI	Consolidated investment funds[(1)] FVTPL	Total
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):

	Policyholder and shareholder								
	Participating funds and other participating business with distinct portfolios	Other policyholder and shareholder				Unit-linked	Unit-linked[2]	Consolidated investment funds[1]	
US$m	FVTPL	FVTPL	FVOCI	AC	Subtotal	FVTPL	FVOCI	FVTPL	Total
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:

	Policyholder and shareholder					
	Participating funds and other participating business with distinct portfolios	Other policyholder and shareholder		Unit-linked	Consolidated investment funds[1]	
US$m	FVTPL	FVTPL	Subtotal	FVTPL	FVTPL	Total
31 December 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:

	As at 31 December 2022	
US$m	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.

	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
US$m	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

	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
US$m	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)

	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
US$m	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

	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
US$m	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			
US$m	Notes	Excluding loss component	Loss component	Liabilities for incurred claims	Total
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			
	Liabilities for remaining coverage			
US$m	Excluding loss component	Loss component	Liabilities for incurred claims	Total
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							
						CSM			
US$m	Notes	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	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							
						CSM			
US$m	Note	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	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

US$m	Notes	Year ended 31 December 2022				
		Liabilities for remaining coverage		Liabilities for incurred claims		
		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		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

	Year ended 31 December 2022		
US$m	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

US$m	Year ended 31 December 2022
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	
Spot rates	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
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**
Total equity attributable to:			
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 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**
	89	–	269	**358**

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:	10			
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**
		232,711	**3,243**	**235,954**
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		**270,471**	**–**	**270,471**
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		**225,323**	**–**	**225,323**

ADDITIONAL INFORMATION
GLOSSARY

active market	A market in which all the following conditions exist: • the items traded within the market are homogeneous; • willing buyers and sellers can normally be found at any time; and • prices are available to the public. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.
AIA or the Group	AIA Group Limited and its subsidiaries.
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.
annualised new premiums or ANP	ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within AIA. ANP excludes new business of pension business, personal lines and motor insurance. For group renewable business, it includes any premium payable on existing schemes that exceeds the prior year's premiums.
Asia	Mainland China, Hong Kong SAR, Thailand, Singapore, Malaysia, Australia, Cambodia, Indonesia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka, Taiwan (China), Vietnam, Brunei, Macau SAR and India.
Board	The board of Directors.
business model	Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. Below are examples of business model: • Whose objective is to hold financial assets to collect contractual cash flows; • Whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Company	AIA Group Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1299).
consolidated investment funds	Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds, and consist of third-party unit holders' interests in these funds. These are consolidated in the financial statements.
contract boundary	The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. For details, please refer to note 2.3.4 to the SPFI.
contractual service margin or CSM	A component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned profit the Group will recognise as it provides insurance contract services under the insurance contracts in the group. For details, please refer to note 2.3.6 to the SPFI.
coverage unit	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. Determination of coverage unit is further elaborated in note 3.3 to the SPFI.
Director(s)	The director(s) of the Company.
ExCo	The Executive Committee of the Group.
expected credit losses or ECL	The weighted average of credit losses with the respective risks of a default occurring as the weights.
fair value through other comprehensive income or FVOCI	For financial assets and liabilities measured at fair value through other comprehensive income, some changes in fair value are recognised in other comprehensive income. For details, please refer to note 2.5.1 to the SPFI.
fair value through profit or loss or FVTPL	For 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. For details, please refer to note 2.5.1 to the SPFI.
fulfilment cash flows	An explicit, unbiased and probability-weighted estimate (i.e. expected value) of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the Group fulfils insurance contracts, including a risk adjustment for non-financial risk.

Hong Kong	The Hong Kong Special Administrative Region (SAR) of the People's Republic of China (PRC); in the context of our reportable market segments, Hong Kong includes Macau SAR.
Hong Kong Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time.
IFRS	Standards and interpretations adopted by the International Accounting Standards Board (IASB) comprising: • International Financial Reporting Standards; • International Accounting Standards (IAS); and • Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC).
insurance acquisition cash flows	Cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or groups of insurance contracts within the portfolio.
insurance contract services	The following services that the Group provides to a policyholder of an insurance contract: (a) coverage for an insured event (insurance coverage); (b) for insurance contracts without direct participation features, the generation of an investment return for the policyholder, if applicable (investment-return service); and (c) for insurance contracts with direct participation features, the management of underlying items on behalf of the policyholder (investment-related service).
insurance finance reserve	Insurance finance reserve comprises the cumulative insurance finance income or expenses recognised in other comprehensive income.
insurance revenue	Insurance revenue arising from insurance contracts and exclude any investment components. For details, please refer to notes 2.3.11.1 and 2.3.11.3 to the SPFI.
insurance service expenses	Insurance service expenses arising from insurance contracts and exclude any investment components. For details, please refer to note 2.3.11.5 to the SPFI.
insurance service result	Insurance service result comprises insurance revenue, insurance service expenses and net expenses from reinsurance contracts held.

investment component	Amount that an insurance contract requires the Group to repay to a policyholder in all circumstances, regardless of whether an insured event occurs. Generally, for relevant contracts, surrender value would be determined as an investment component.
investment return	Investment return comprises interest revenue on financial assets, other investment return and net impairment loss on financial assets.
liability for incurred claims or LIC	The Group's obligation to: (a) investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and (b) pay amounts that are not included in (a) and that relate to: (i) insurance contract services that have already been provided; or (ii) any investment components or other amounts that are not related to the provision of insurance contract services and that are not in the liability for remaining coverage.
liability for remaining coverage or LRC	The Group's obligation to: (a) investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (i.e. the obligation that relates to the unexpired portion of the insurance coverage); and (b) pay amounts under existing insurance contracts that are not included in (a) and that relate to: (i) insurance contract services not yet provided (i.e. the obligations that relate to future provision of insurance contract services); or (ii) any investment components or other amounts that are not related to the provision of insurance contract services and that have not been transferred to the liability for incurred claims.
loss component	Loss component for onerous contracts. For details, please refer to note 2.3 to the SPFI.
net investment result	Comprises investment return, net finance income or expenses from insurance contracts and reinsurance contracts held, movement in investment contract liabilities and movement in third-party interests in consolidated investment funds.

operating profit after tax or OPAT	Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The 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 the Supplementary Embedded Value Information of the Group's Annual Report 2022.
Other Markets	AIA's Other Markets are Australia, Cambodia, India, Indonesia, Myanmar, New Zealand, the Philippines, South Korea, Sri Lanka, Taiwan (China) and Vietnam.
other participating business with distinct portfolios	Business where it is expected that the policyholder will receive, at the discretion of the insurer, additional benefits based on the performance of underlying segregated investment assets where this asset segregation is supported by an explicit statutory reserve and reporting in the relevant territory.
participating funds	Participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The allocation of benefits from the assets held in the participating funds is subject to minimum policyholder participation mechanisms established by regulation.
persistency	The percentage of insurance policies remaining in force from month to month in the past 12 months, as measured by premiums.
policyholder and shareholder investments	Investments other than those held to back unit-linked contracts as well as assets from consolidated investment funds.
portfolio of insurance contracts	Insurance contracts subject to similar risks and managed together.
premium allocation approach or PAA	Simplified measurement of insurance contracts 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 liabilities for remaining coverage would not differ materially from the result of applying the accounting policies of contracts not measured under PAA.
reverse repos	Reverse repurchase agreements.
risk adjustment	The compensation the Group requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the Group fulfils insurance contracts.
single premium	A single payment that covers the entire cost of an insurance policy.

SPFI	Consolidated Special Purpose Financial Information for the year ended 31 December 2022.
total weighted premium income or TWPI	TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded. As such it provides an indication of AIA's longer-term business volumes as it smoothes the peaks and troughs in single premiums.
underlying items	Items that determine some of the amounts payable to a policyholder. Underlying items can comprise any items; for example, a reference portfolio of assets, the net assets of the Group, or a specified subset of the net assets of the Group.
unit-linked investments	Financial investments held to back unit-linked contracts.
unit-linked products	Unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges.
variable fee approach or VFA	The VFA modifies the general measurement model in IFRS 17 to reflect the nature of the income to the insurer is a variable fee.