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 SIX MONTHS ENDED 30 JUNE 2022

CONTENTS

REPORT ON REVIEW OF CONSOLIDATED FINANCIAL INFORMATION AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the consolidated special purpose financial information ("the Consolidated Financial Information") set out on pages 3 to 63, which comprises the consolidated results of AIA Group Limited (the "Company") and its subsidiaries (together, the "Group") as at and for the six-month period ended 30 June 2022, material accounting policy information set out in Note 2 and other explanatory information. The directors of the Company are responsible for the preparation and presentation of the Consolidated Financial Information in accordance with the accounting policies set out in Note 2 of the Consolidated Financial Information. Our responsibility is to express a conclusion on the Consolidated Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Consolidated Financial Information of the Group is not prepared, in all material respects, in accordance with the accounting policies set out Note 2 of the Consolidated Financial Information.

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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
9 June 2023

CONSOLIDATED INCOME STATEMENT

US$m	Notes	Six months ended 30 June 2022 (Unaudited)
Insurance revenue	6	**8,242**
Insurance service expenses	8	**(5,003)**
Net expenses from reinsurance contracts held		**(341)**
Insurance service result		**2,898**
Interest revenue on	7	
Financial assets not measured at fair value through profit or loss		**1,904**
Financial assets measured at fair value through profit or loss		**1,667**
Other investment return	7	**(31,479)**
Net impairment loss on financial assets	7	**(128)**
Investment return	7	**(28,036)**
Net finance income from insurance contracts	7	**26,569**
Net finance income from reinsurance contracts held	7	**6**
Movement in investment contract liabilities	7	**1,202**
Movement in third-party interests in consolidated investment funds	7	**29**
Net investment result	7	**(230)**
Fee income		**74**
Other operating revenue		**120**
Other expenses	8	**(770)**
Other finance costs	8	**(180)**
Profit before share of losses from associates and joint ventures		**1,912**
Share of losses from associates and joint ventures		**(115)**
Profit before tax		**1,797**
Tax expense		**(249)**
Net profit		**1,548**
Net profit attributable to:		
Shareholders of AIA Group Limited		**1,543**
Non-controlling interests		**5**
Earnings per share (US$)		
Basic	9	**0.13**
Diluted	9	**0.13**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US$m	Six months ended 30 June 2022 (Unaudited)
Net profit	**1,548**
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$1,709m)	**(10,069)**
Fair value losses on financial assets at fair value through other comprehensive income reclassified to profit or loss on disposal (net of tax of: US$(19)m)	**82**
Foreign currency translation adjustments	**(1,477)**
Cash flow hedges	**(1)**
Net finance income from insurance contracts (net of tax of: US$(1,052)m)	**3,702**
Net finance expenses from reinsurance contracts held (net of tax of: US$(55)m)	**(108)**
Share of other comprehensive expense from associates and joint ventures	**(66)**
Subtotal	**(7,937)**
Items that will not be reclassified subsequently to profit or loss:	
Revaluation gains on property held for own use (net of tax of: US$3m)	**–**
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: nil)	**1**
Subtotal	**1**
Total other comprehensive expense	**(7,936)**
Total comprehensive expense	**(6,388)**
Total comprehensive expense attributable to:	
Shareholders of AIA Group Limited	**(6,362)**
Non-controlling interests	**(26)**

Note:

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$m	Notes	**As at 30 June 2022 (Unaudited)**	As at 1 January 2022 (Unaudited)
Assets			
Intangible assets		**3,132**	2,914
Investments in associates and joint ventures		**2,521**	831
Property, plant and equipment		**2,740**	2,744
Investment property		**4,553**	4,716
Insurance contract assets	11	**2,283**	3,681
Reinsurance contract assets		**5,863**	6,436
Financial investments:	10		
At amortised cost			
Debt securities		**1,702**	1,476
Loans and deposits		**4,832**	5,434
At fair value through other comprehensive income			
Debt securities		**86,117**	103,580
At fair value through profit or loss			
Debt securities		**80,164**	94,916
Loans and deposits		**257**	297
Equity shares		**25,847**	30,817
Interests in investment funds		**38,540**	40,243
Derivative financial instruments		**344**	1,468
		237,803	278,231
Deferred tax assets		**346**	104
Current tax recoverable		**112**	120
Other assets		**4,506**	6,486
Cash and cash equivalents		**6,878**	4,989
Total assets		**270,737**	311,252
Liabilities			
Insurance contract liabilities	11	**183,552**	217,773
Reinsurance contract liabilities		**458**	709
Investment contract liabilities		**12,183**	13,896
Borrowings		**10,338**	9,588
Obligations under repurchase agreements		**2,186**	1,588
Derivative financial instruments		**6,844**	1,392
Provisions		**180**	186
Deferred tax liabilities		**3,265**	4,103
Current tax liabilities		**569**	389
Other liabilities		**4,109**	5,121
Total liabilities		**223,684**	254,745

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

US$m	**As at 30 June 2022 (Unaudited)**	As at 1 January 2022 (Unaudited)
Equity		
Share capital	**14,163**	14,160
Employee share-based trusts	**(290)**	(225)
Other reserves	**(11,841)**	(11,841)
Retained earnings	**47,548**	48,997
Other comprehensive income	**(2,973)**	4,932
Total equity attributable to:		
Shareholders of AIA Group Limited	**46,607**	56,023
Non-controlling interests	**446**	484
Total equity	**47,053**	56,507
Total liabilities and equity	**270,737**	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

US$m	Note	Share capital	Employee share-based trusts	Other reserves	Retained earnings	Other comprehensive income: 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	12	–	–	–	(1,208)	(1,766)	–	(1,895)	369	56	17	(4,427)
Retrospective adjustments for amendment to IAS 16	12	–	–	–	221	–	–	–	(221)	–	–	–
Balance at 1 January 2022 – Unaudited and after adoption		**14,160**	**(225)**	**(11,841)**	**48,997**	**6,641**	**(1,068)**	**(1,895)**	**1,217**	**37**	**484**	**56,507**
Net profit		–	–	–	1,543	–	–	–	–	–	5	1,548
Fair value losses on financial assets at fair value through other comprehensive income		–	–	–	–	(10,050)	–	–	–	–	(19)	(10,069)
Fair value losses on financial assets at fair value through other comprehensive income reclassified to profit or loss on disposal		–	–	–	–	82	–	–	–	–	–	82
Foreign currency translation adjustments		–	–	–	–	–	(1,457)	–	–	–	(20)	(1,477)
Cash flow hedges		–	–	–	–	–	–	–	–	(1)	–	(1)
Net finance income from insurance contracts		–	–	–	–	–	–	3,694	–	–	8	3,702
Net finance expenses from reinsurance contracts held		–	–	–	–	–	–	(108)	–	–	–	(108)
Share of other comprehensive income/(expense) from associates and joint ventures		–	–	–	–	36	(104)	–	2	–	–	(66)
Effect of remeasurement of net liability of defined benefit schemes		–	–	–	–	–	–	–	–	1	–	1
Total comprehensive income/ (expense) for the period		**–**	**–**	**–**	**1,543**	**(9,932)**	**(1,561)**	**3,586**	**2**	**–**	**(26)**	**(6,388)**
Dividends		–	–	–	(1,650)	–	–	–	–	–	(15)	(1,665)
Share buy-back		–	–	–	(1,342)	–	–	–	–	–	–	(1,342)
Shares issued under share option scheme and agency share purchase plan		3	–	–	–	–	–	–	–	–	–	3
Increase in non-controlling interests		–	–	(7)	–	–	–	–	–	–	7	–
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	(4)	(4)
Share-based compensation		–	–	36	–	–	–	–	–	–	–	36
Purchase of shares held by employee share-based trusts		–	(94)	–	–	–	–	–	–	–	–	(94)
Transfer of vested shares from employee share-based trusts		–	29	(29)	–	–	–	–	–	–	–	–
Balance at 30 June 2022 – Unaudited		**14,163**	**(290)**	**(11,841)**	**47,548**	**(3,291)**	**(2,629)**	**1,691**	**1,219**	**37**	**446**	**47,053**

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

NOTES TO THE UNAUDITED 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).

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 relating to the six months ended 30 June 2022 is not the Group's interim condensed consolidated financial statements prepared in accordance with HKAS/IAS 34, Interim Financial Reporting.

The Consolidated Financial Information is unaudited, but has been reviewed by PricewaterhouseCoopers in accordance with the Hong Kong Standard on Review Engagements 2410 (Revised), Engagement to Review Historical Financial Statements, issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers' independent review report to the Board of Directors is included on page 2. 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. Material accounting policy information (continued)

2.2 OPERATING PROFIT

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

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.

2. Material accounting policy information (continued)

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

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

In the event that a scenario (other than those lacking commercial substance) exists in which an insured event would require the Group to pay significant additional benefits to its customers and has a possibility of incurring a loss on a present value basis, the contract is considered as transferring significant insurance risk and is accounted for as an insurance contract. Contracts held by the Group under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance contracts held. Insurance contracts and reinsurance contracts held can also expose the Group to financial risk. For investment contracts that do not contain DPF, IFRS 9, Financial Instruments, and, if the contract includes an investment management element, IFRS 15, Revenue from Contracts with Customers, are applied. Once a contract has been classified as an insurance, reinsurance or investment contract, reclassification is not subsequently performed unless the terms of the agreement are later amended.

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

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

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	Basis of accounting for: 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
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. Material accounting policy information (continued)

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

2.3.2 Separating components from insurance contracts and reinsurance contracts held

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

- derivatives embedded in the contract whose economic characteristics and risks are not closely related to those of the host contract, and whose terms would not meet the definition of an insurance contract or a reinsurance contract held as a stand-alone instrument; and

- distinct investment components – i.e. investment components that are not highly inter-related with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction.

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

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

Insurance contracts

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

- any contracts that are onerous on initial recognition;

- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and

- any remaining contracts in the portfolio.

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.

2. Material accounting policy information (continued)

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

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

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.

2.3.4 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 11.

Contract boundaries

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

Insurance contracts

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

A substantive obligation to provide insurance contract services ends when:

- the Group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or

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

2. Material accounting policy information (continued)

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

2.3.4 Fulfilment cash flows and contract boundaries (continued)

Contract boundaries (continued)

Reinsurance contracts held

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

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

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

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

2.3.5 Insurance acquisition cash flows

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

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

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

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

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.

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

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.

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

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

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

2. Material accounting policy information (continued)

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

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

2.3.6.2 Subsequent measurement (continued)

Insurance contracts with direct participation features

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

- the obligation to pay the policyholder an amount equal to the fair value of the underlying items; and

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

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

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

- the CSM of any new contracts that are added to the group in the period;

- the change in the amount of the Group's share of the fair value of the underlying items and changes in fulfilment cash flows that relate to future services, except to the extent that:

  – a decrease in the amount of the Group's share of the fair value of the underlying items, or an increase in the fulfilment cash flows that relate to future services, exceeds the carrying amount of the CSM. The excess is recognised in insurance service expenses and recognised as a loss component in LRC; or

  – an increase in the amount of the Group's share of the fair value of the underlying items, or a decrease in the fulfilment cash flows that relate to future service, which adjust the loss component in the LRC and the corresponding amount is recognised in insurance service expenses. If the loss component is reduced to zero, the excess reinstates the CSM.

- the effect of any currency exchange differences on the CSM; and

- the amount recognised as insurance revenue for service provided in the period.

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

2. Material accounting policy information (continued)

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

2.3.7 Measurement – insurance contracts measured under the PAA

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

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

2.3.7.1 Initial measurement

On initial recognition of each group of contracts, the carrying amount of the LRC is measured 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.

2.3 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;
- 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.

2. Material accounting policy information (continued)

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

2.3.8 Reinsurance contracts held (continued)

Reinsurance of onerous underlying insurance contracts

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

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

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

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

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

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

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

2. Material accounting policy information (continued)

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

2.3.8 Reinsurance contracts held (continued)

Reinsurance contracts held measured under the PAA

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

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

2.3.9 Transition approaches

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

Contracts measured under the modified retrospective approach

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

Contracts without direct participation features

For relevant groups of contracts without direct participation features,

- The future cash flows on initial recognition were estimated by adjusting the cash flows that were known to have occurred.

- The risk adjustment for non-financial risk on initial recognition was determined by adjusting the amount at 1 January 2022 for the expected release of risk before 1 January 2022. The expected release of risk was determined with reference to the release of risk for similar insurance contracts that the Group issued at 1 January 2022.

- When any of these modifications was used to determine the CSM (or the loss component) at initial recognition:

  – the amount of the CSM recognised in profit or loss before 1 January 2022 was determined by comparing the remaining coverage units at 1 January 2022 with the coverage units provided under the group of contracts before that date; and

  – the amount allocated to the loss component before 1 January 2022 determined using the proportion of the loss component relative to the total estimate of the present value of the future cash outflows and the risk adjustment for non-financial risk on initial recognition.

2. Material accounting policy information (continued)

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

2.3.9 Transition approaches (continued)

Contracts measured under the modified retrospective approach (continued)

Contracts with direct participation features

For relevant groups of contracts with direct participation features,

- The Group determined the CSM (or the loss component) at 1 January 2022 by calculating a proxy for the total CSM for all services to be provided under the group that equal to the fair value of the underlying items at 1 January 2022 minus the fulfilment cash flows at 1 January 2022, adjusted for:

  – amounts charged to policyholders (including charges deducted from the underlying items) before 1 January 2022;

  – amounts paid before 1 January 2022 that would not have varied based on the underlying items;

  – the change in the risk adjustment for non-financial risk caused by the release from risk before 1 January 2022, which was estimated based on an analysis of similar contracts that the Group issued at 1 January 2022; and

  – insurance acquisition cash flows arising before 1 January 2022 that were allocated to the group.

- If the calculation resulted in a CSM, then the Group measured the CSM at 1 January 2022 by deducting the CSM related to services provided before 1 January 2022. The CSM related to services provided before 1 January 2022 was determined by comparing the coverage units at 1 January 2022 with the coverage units provided under the group of contracts before that date.

- If the calculation resulted in a loss component, then the Group adjusted the loss component to zero and increased the LRC excluding the loss component by the same amount at 1 January 2022.

- The amount of insurance finance income or expenses accumulated in the insurance finance reserve at 1 January 2022 was determined to be equal to the cumulative amount recognised in the other comprehensive income on the underlying items as applicable.

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.

2. Material accounting policy information (continued)

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

2.3.9 Transition approaches (continued)

Contracts measured under the fair value approach (continued)

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

For groups of contracts measured under the fair value approach,

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

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

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

Insurance acquisition cash flows – Fair value approach

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

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

2.3.10 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.

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 (continued)

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.

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. 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)

2.3.11.1 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.

2.3.11.3 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. 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)

2.3.11.4 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.

2.3.11.6 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.

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 (continued)

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).

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

- Contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders: for insurance finance income or expenses arising from the estimates of future cash flows, using either a rate that allocates the remaining revised expected insurance finance income or expenses over the remaining duration of the group of contracts at a constant rate (i.e. the effective yield) or an allocation that is based on the amounts credited in the period and expected to be credited in future periods; and for insurance finance income or expenses arising from the CSM, the discount rates determined on initial recognition of the group of contracts. This selection of the rate applied is based on the characteristics of contracts.

- Contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to the policyholders: the discount rates determined on initial recognition of the group of contracts.

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

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

2. Material accounting policy information (continued)

2.4 FINANCIAL INSTRUMENTS

2.4.1 Classification of and designation of financial instruments

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

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

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

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

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

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

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

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

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.

2. Material accounting policy information (continued)

2.4 FINANCIAL INSTRUMENTS (continued)

2.4.1 Classification of and designation of financial instruments (continued)

Financial assets at fair value through other comprehensive income

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

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

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

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.

2. Material accounting policy information (continued)

2.4 FINANCIAL INSTRUMENTS (continued)

2.4.1 Classification of and designation of financial instruments (continued)

Derecognition, contract modification and offset (continued)

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.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments held for cash management purposes, which have maturities at acquisition of three months or less, or are convertible into known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents also include cash received as collateral for derivative transactions, and repo and reverse repo transactions, as well as cash and cash equivalents held for the benefit of policyholders in connection with unit-linked products. Cash and cash equivalents that are not mandatorily measured at fair value through profit or loss are measured at amortised cost using the effective interest method.

Financial assets measured at amortised cost

Other than cash and cash equivalents, financial assets measured at amortised cost primarily include debt securities, loans and deposits, and receivables. These financial assets are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest revenue from debt securities measured at amortised cost is recognised in investment return in the consolidated income statement using the effective interest method.

2.4.2 Fair values of non-derivative financial instruments

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

Financial instruments carried at fair value are measured using a fair value hierarchy.

2. Material accounting policy information (continued)

2.4 FINANCIAL INSTRUMENTS (continued)

2.4.3 Impairment of financial assets

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

- financial assets that are determined to have low credit risk at reporting date; and

- financial assets (other than trade receivables or lease receivables) for which credit risk has not increased significantly since initial recognition.

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

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

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

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

- other financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

Loss allowances for ECL of financial assets measured at amortised cost are deducted from the gross carrying amount 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.

2.4.4 Derivative financial instruments

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

2. Material accounting policy information (continued)

2.4 FINANCIAL INSTRUMENTS (continued)

2.4.4 Derivative financial instruments (continued)

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.

2.5 PROPERTY, PLANT AND EQUIPMENT

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

3. Critical accounting estimates and judgements

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

Items that are considered particularly sensitive to changes in estimates and assumptions, and the relevant accounting policies are those which relate to insurance contracts (including investment contracts with DPF), investment contracts, fair value measurement and impairment of financial assets.

3.1 LEVEL OF AGGREGATION AND RECOGNITION OF GROUP OF INSURANCE CONTRACTS

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

- based on the likelihood of changes in assumptions which, if they occurred, would result in the contracts becoming onerous; and

- using information about profitability estimation for the relevant group of products.

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

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

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

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

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. Critical accounting estimates and judgements (continued)

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.

3.4 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 12.

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. Critical accounting estimates and judgements (continued)

3.5 FAIR VALUE MEASUREMENT (continued)

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

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

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 10.

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

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

4. Operating profit after tax

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

US$m	Note	Six months ended 30 June 2022 (Unaudited)
Operating profit after tax	5	**3,363**
Non-operating items, net of related taxes:		
Short-term investment and discount rate variances[1]		**(867)**
Reclassification of revaluation gains for property held for own use[1]		**(33)**
Other significant non-operating income and expenses		
Corporate transaction related costs		**(28)**
Implementation costs for new accounting standards		**(29)**
Other non-operating investment return and other items		**(858)**
Subtotal[2]		**(1,815)**
Net profit		**1,548**
Operating profit after tax attributable to:		
Shareholders of AIA Group Limited		**3,352**
Non-controlling interests		**11**
Net profit attributable to:		
Shareholders of AIA Group Limited		**1,543**
Non-controlling interests		**5**

Notes:

(1) Short-term investment and discount rate variances include revaluation gains for property held for own use. This amount is then reclassified out of net profit to conform to IFRS measurement and presentation.

(2) The amount is net of tax of US$235m. The gross amount before tax is US$(2,050)m.

Operating profit after tax breakdown:

US$m	Six months ended 30 June 2022 (Unaudited)
Insurance service result:	
CSM recognised for service provided	**2,590**
Other insurance service result	**308**
Net investment result	**1,700**
Other net expense	**(751)**
Operating profit before tax	**3,847**
Taxation	**(484)**
Operating profit after tax	**3,363**

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

Notes:

(1) Participating refers to participating funds and other participating business with distinct portfolios.

(2) Net finance (expenses)/income from insurance contracts and reinsurance contracts held includes changes in fair value of underlying items of contracts with direct participation features. Net finance (expenses)/income from insurance contracts and reinsurance contracts held, net of investment return relating to participating and unit-linked businesses, movement in investment contract liabilities and movement in third-party interests in consolidated investment funds amounted to US$(973)m, primarily related to other insurance contracts without direct participation features.

Key operating ratios:

	Mainland China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
Expense ratio	5.9%	4.9%	6.6%	6.7%	8.7%	15.0%	–	8.4%
Operating margin	18.6%	21.1%	25.0%	18.7%	15.3%	10.4%	–	18.1%
Operating return on shareholders' allocated equity	32.9%	15.7%	16.9%	16.2%	18.0%	8.9%	–	13.1%

Operating profit before tax includes:

	Mainland China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
Operating expenses	267	266	132	120	109	541	129	1,564
Finance costs	8	15	–	2	1	3	151	180

US$m	Mainland China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
30 June 2022 – Unaudited								
Total assets	37,123	97,443	24,208	38,562	13,612	38,880	20,909	270,737
Total liabilities	33,473	85,853	18,537	34,439	11,652	29,774	9,956	223,684
Total equity	3,650	11,590	5,671	4,123	1,960	9,106	10,953	47,053
Shareholders' allocated equity	4,600	12,764	5,592	3,901	1,913	8,188	11,249	48,207

Total assets include:

	Mainland China	Hong Kong	Thailand	Singapore	Malaysia	Other Markets	Group Corporate Centre	Total
Investments in associates and joint ventures	–	1	–	–	1	806	1,713	2,521

5. Segment information (continued)

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

6. Insurance revenue

US$m	Six months ended 30 June 2022 (Unaudited)
Contracts not measured under the PAA	
Amounts related to changes in liabilities for remaining coverage	
Contractual service margin recognised for services provided	2,708
Change in risk adjustment for non-financial risk for risk expired	163
Expected incurred claims and other insurance service expenses	4,141
Others	35
Recovery of insurance acquisition cash flows	334
	7,381
Contracts measured under the PAA	861
Total insurance revenue	**8,242**

7. Net investment result

A. GROUP'S NET INVESTMENT RESULT IN THE CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

US$m	Six months ended 30 June 2022 (Unaudited)
Investment return	
Interest revenue on financial assets	**3,571**
Other investment return	**(31,479)**
Net impairment loss on financial assets	**(128)**
Amounts recognised in the consolidated income statement	**(28,036)**
Amounts recognised in other comprehensive income	**(9,930)**
Total investment return	**(37,966)**
Net finance income/(expenses) from insurance contracts	
Changes in fair value of underlying items of contracts with direct participation features	**28,048**
Interest accreted	**(1,287)**
Effect of changes in interest rates and other financial assumptions	**5,047**
Effect of measuring changes in estimates at current rates and adjusting the CSM at the rates on initial recognition	**(14)**
Net foreign exchange losses	**(471)**
Total net finance income from insurance contracts	**31,323**
Net finance income/(expenses) from reinsurance contracts held	
Interest accreted	**9**
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	**(2)**
Net foreign exchange losses	**(43)**
Total net finance expenses from reinsurance contracts held	**(55)**
Movement in investment contract liabilities	**1,202**
Movement in third-party interests in consolidated investment funds	**29**
Net investment result	**(5,467)**
Net investment result is represented by:	
Amounts recognised in consolidated income statement	**(230)**
Amounts recognised in other comprehensive income	**(5,237)**
Total net investment result	**(5,467)**
Insurance finance income/(expenses) are represented by:	
Net finance income from insurance contracts	
Amounts recognised in consolidated income statement	**26,569**
Amounts recognised in other comprehensive income	**4,754**
Total net finance income from insurance contracts	**31,323**
Net finance income/(expenses) from reinsurance contracts held	
Amounts recognised in consolidated income statement	**6**
Amounts recognised in other comprehensive income	**(61)**
Total net finance expenses from reinsurance contracts held	**(55)**

7. Net investment result (continued)

B. INTEREST REVENUE ON FINANCIAL ASSETS AND OTHER INVESTMENT RETURN

US$m	Six months ended 30 June 2022 (Unaudited)
Interest revenue on financial assets	
Financial assets measured at amortised cost	**138**
Financial assets measured at fair value through other comprehensive income	**1,766**
Financial assets designated at fair value through profit or loss	**1,526**
Financial assets measured mandatorily at fair value through profit or loss	**141**
Total interest revenue on financial assets	**3,571**
Other investment return	
Dividend income	**651**
Rental income[(1)]	**84**
Net gains/(losses) of financial assets not at fair value through profit or loss	
Net realised losses of debt securities measured at fair value through other comprehensive income	**(100)**
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	**(16,122)**
Net losses of loans and deposits	**(23)**
Net gains/(losses) of financial instruments mandatorily at fair value through profit or loss	
Net losses of debt securities	**(685)**
Net losses of equity shares and interests in investment funds	**(8,875)**
Net fair value movement on derivatives	**(6,952)**
Net losses in respect of financial instruments at fair value through profit or loss	**(32,657)**
Net fair value movement of investment property and property held for own use	**9**
Net foreign exchange gains	**526**
Other net realised gains	**8**
Net losses	**(32,214)**
Total other investment return	**(31,479)**

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	**Six months ended 30 June 2022 (Unaudited)**
Foreign exchange gains	**68**

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	**Six months ended 30 June 2022 (Unaudited)**
Balance at 1 January	**6,133**
Net change in fair value and others	**(9,238)**
Net amount reclassified to profit or loss	**314**
Balance at 30 June	**(2,791)**

8. Expenses

US$m	Six months ended 30 June 2022 (Unaudited)
Claims and benefits	**3,734**
Commission and other acquisition expenses incurred	**2,632**
Losses on onerous insurance contracts	**66**
Employee benefit expenses[(3)]	**988**
Depreciation[(3)]	**130**
Amortisation[(3)]	**53**
Investment management expenses and others	**262**
Depreciation on property held for own use	**10**
Finance costs	**183**
Other operating expenses[(3)]	**393**
Restructuring and other non-operating costs[(1)]	**102**
	8,553
Amounts attributed to insurance acquisition cash flows	**(3,041)**
Amortisation of insurance acquisition cash flows	**444**
Insurance service and other expenses	**5,956**

Insurance service and other expenses represented by:

US$m	Six months ended 30 June 2022 (Unaudited)
Insurance service expenses	**5,003**
– Contracts not measured under the PAA	**4,259**
– Contracts measured under the PAA	**744**
Other incurred expenses directly attributable to reinsurance contracts held	**3**
Other expenses[(2)]	**770**
Other finance costs	**180**
Total	**5,956**

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)

Finance costs may be analysed as:

US$m	Six months ended 30 June 2022 (Unaudited)
Repurchase agreements	**5**
Medium-term notes and securities	**165**
Other loans	**6**
Lease liabilities	**7**
Total	**183**

Employee benefit expenses consist of:

US$m	Six months ended 30 June 2022 (Unaudited)
Wages and salaries	**814**
Share-based compensation	**31**
Pension costs – defined contribution plans	**64**
Pension costs – defined benefit plans	**6**
Other employee benefit expenses	**73**
Total	**988**

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

	Six months ended 30 June 2022 (Unaudited)
Net profit attributable to shareholders of AIA Group Limited (US$m)	**1,543**
Weighted average number of ordinary shares outstanding (million)(1)	**12,028**
Basic earnings per share (US cents)	**12.83**

Note:

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

9. Earnings per share (continued)

DILUTED

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive instruments are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units granted to eligible directors, officers, employees and agents under various share-based compensation plans.

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

At 30 June 2022, 4,359,249 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.

Note:

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

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

	Six months ended 30 June 2022 (Unaudited)
Basic operating profit after tax per share (US cents)	**27.87**
Diluted operating profit after tax per share (US cents)	**27.84**

10. Financial investments

DEBT SECURITIES

Debt securities by type comprise the following:

	Policyholder and shareholder								
	Participating funds and other participating business with distinct portfolios	Other policyholder and shareholder				Unit-linked	Unit-linked[2]	Consolidated investment funds[1]	
US$m	FVTPL	FVTPL	FVOCI	AC	Subtotal	FVTPL	FVOCI	FVTPL	Total
30 June 2022 – Unaudited									
Government bonds[3]	**11,045**	**1,361**	**37,842**	**197**	**50,445**	**1,356**	**98**	**-**	**51,899**
Other government and government agency bonds[4]	**10,008**	**269**	**15,377**	**345**	**25,999**	**821**	**70**	**267**	**27,157**
Corporate bonds	**48,193**	**2,215**	**31,190**	**1,160**	**82,758**	**2,387**	**162**	**1,150**	**86,457**
Structured securities[5]	**251**	**706**	**1,378**	**-**	**2,335**	**135**	**-**	**-**	**2,470**
Total[6]	**69,497**	**4,551**	**85,787**	**1,702**	**161,537**	**4,699**	**330**	**1,417**	**167,983**

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.

(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.

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

(6) Debt securities of US$7,221m are restricted due to local regulatory requirements.

10. Financial investments (continued)

EQUITY SHARES AND INTERESTS IN INVESTMENT FUNDS

Equity shares and interests in investment funds 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
30 June 2022 – Unaudited						
Equity shares	14,089	4,552	18,641	7,206	–	25,847
Interests in investment funds	14,886	6,275	21,161	17,379	–	38,540
Total	28,975	10,827	39,802	24,585	–	64,387

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.

LOANS AND DEPOSITS

Loans and deposits by type comprise the following:

US$m	As at 30 June 2022 (Unaudited)
Mortgage loans on residential real estate	480
Mortgage loans on commercial real estate	2
Other loans	554
Loss allowance for loans	(13)
Loans	1,023
Term deposits	2,604
Promissory notes(1)	1,472
Loss allowance for deposits measured at amortised cost	(10)
Total	5,089

Note:

(1) The promissory notes are issued by a government. Promissory notes of US$257m are measured at fair value through profit or loss.

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. At 30 June 2022, the restricted balance held within term deposits and promissory notes was US$1,811m.

Other loans include receivables from reverse repurchase agreements (reverse repos) under which the Group does not take physical possession of securities purchased under the agreements. Reverse repos are initially recorded at the cost of the loan or collateral advanced. At 30 June 2022, the carrying value of such receivables was US$366m.

At 30 June 2022, there was no material debt collateral received in respect of reverse repos.

10. Financial investments (continued)

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 2.4.1.

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

Definition of default

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

10. Financial investments (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 six months ended 30 June 2022 are as follows:

	As at 30 June 2022 (Unaudited)
GDP growth (5-year average of year-over-year %)	
Base case scenario	**3.2%**
Upside scenario	**3.8%**
Downside scenario	**2.2%**

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.

10. Financial investments (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. Insurance contracts

Analysis by remaining coverage and incurred claims of insurance contracts

US$m	As at 30 June 2022 (Unaudited)
Insurance contracts	
Insurance contract liabilities	
Insurance contract balances	
– Liabilities for remaining coverage	
Excluding loss component	**177,496**
Loss component	**259**
– Liabilities for incurred claims	**7,202**
	184,957
Assets for insurance acquisition cash flows	**(1,405)**
	183,552
Insurance contract assets	
Insurance contract balances	
– Assets for remaining coverage	
Excluding loss component	**1,458**
Loss component	**(15)**
– Liabilities for incurred claims	**(600)**
	843
Assets for insurance acquisition cash flows	**1,440**
	2,283

Analysis by measurement component of insurance contracts

US$m	As at 30 June 2022 (Unaudited)
Insurance contracts	
Insurance contract liabilities	
Insurance contract balances	
– Estimates of present value of future cash flows	**137,474**
– Risk adjustment for non-financial risk	**2,786**
– CSM	**44,697**
	184,957
Assets for insurance acquisition cash flows	**(1,405)**
	183,552
Insurance contract assets	
Insurance contract balances	
– Estimates of present value of future cash flows	**8,939**
– Risk adjustment for non-financial risk	**(688)**
– CSM	**(7,408)**
	843
Assets for insurance acquisition cash flows	**1,440**
	2,283

11. Insurance contracts (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.

11. Insurance contracts (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.

11. Insurance contracts (continued)

FULFILMENT CASH FLOWS (continued)

Methodology and assumptions (continued)

Policyholder dividends, profit sharing and interest crediting

The projected policyholder dividends, profit sharing and interest crediting assumptions set by each business unit reflect contractual and regulatory requirements, policyholders' reasonable expectations (where clearly defined) and each business unit's best estimate of future policies, strategies and operations consistent with the investment return assumptions.

Participating funds and other participating business with distinct portfolios surpluses have been assumed to be distributed between policyholders and shareholders via future final bonuses or at the end of the projection period so that there are no residual assets at the end of the projection period.

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

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

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

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

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

11. Insurance contracts (continued)

FULFILMENT CASH FLOWS (continued)

Methodology and assumptions (continued)

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

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

As at 30 June 2022 – Unaudited	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	**2.81%**	**3.31%**	**3.12%**	**4.33%**	**3.06%**	**4.68%**	**3.07%**	**4.88%**	**3.55%**	**5.35%**
HKD	**2.87%**	**3.37%**	**3.22%**	**4.43%**	**3.32%**	**4.93%**	**3.38%**	**5.19%**	**3.86%**	**5.66%**
CNY	**1.94%**	**2.29%**	**2.67%**	**3.14%**	**2.86%**	**3.37%**	**3.01%**	**3.63%**	**3.12%**	**3.81%**
SGD	**2.39%**	**3.75%**	**2.86%**	**3.71%**	**3.01%**	**3.67%**	**3.10%**	**3.67%**	**3.13%**	**3.72%**
MYR	**2.93%**	**3.27%**	**4.09%**	**4.43%**	**4.30%**	**4.80%**	**4.79%**	**5.38%**	**4.96%**	**5.61%**
THB	**1.10%**	**1.44%**	**2.51%**	**3.05%**	**2.97%**	**3.64%**	**3.83%**	**4.59%**	**4.27%**	**5.07%**

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.

12. 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.

12. 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.

12. 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

For certain groups of contracts, the Group applied the modified retrospective approach or the fair value approach in IFRS 17 to identify, recognise and measure certain groups of contracts at 1 January 2022 because it was impracticable to apply the full retrospective approach.

The Group considered the full retrospective approach impracticable for contracts in these segments under any of the following circumstances.

– The effects of retrospective application were not determinable because the information required had not been collected (or had not been collected with sufficient granularity) and was unavailable because of system migrations, data retention requirements or other reasons.

– The full retrospective approach required assumptions about what Group management's intentions would have been in previous periods or significant accounting estimates that could not be made without the use of hindsight, the application of full retrospective approach is considered as impracticable if such assumptions and estimates were not determinable.

Irrespective of the transition approach used, the following items have not been applied retrospectively.

– When the Group uses derivatives to mitigate the financial risk from interest rate guarantees in traditional participating contracts and equity guarantees in variable annuity contracts, the option to exclude changes in the effect of that financial risk from the CSM has not been applied for periods before 1 January 2023.

– The consequential amendments to IFRS 3, Business Combinations introduced by IFRS 17 require the Group to classify contracts acquired as insurance contracts based on the contractual terms and other factors at the date of acquisition. This requirement was not applied to business combinations before 1 January 2023, for which the Group classified contracts acquired as insurance contracts based on the conditions at contract inception.

To indicate the effect of applying the modified retrospective approach or the fair value approach on the insurance finance income or expenses, the Group has provided additional disclosures in notes 2.3.9 and 7.

The following table shows the effect of applying the modified retrospective approach or the fair value approach on CSM on insurance contracts at 1 January 2022.

US$m	**As at 1 January 2022 (Unaudited)**
CSM	
Contracts under the modified retrospective approach	**11,983**
Contracts under the fair value approach	**36,917**
Other contracts	**6,258**
Total CSM	**55,158**

12. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 17 INSURANCE CONTRACTS (continued)

Transition (continued)

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.

IFRS 9 FINANCIAL INSTRUMENTS

Classification of financial assets and financial liabilities

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available for sale financial assets. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

For explanations of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see note 2.4.

IFRS 9 has not had a significant effect on the Group's accounting policies for financial liabilities and hedge accounting.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" model. The new impairment model applies to financial assets measured at amortised cost, debt securities at fair value through other comprehensive income, trade receivables and lease receivables. Under IFRS 9, credit losses are recognised earlier than under IAS 39 (see note 2.4.3).

12. Effects of adoption of IFRS 9, IFRS 17 and amendment to IAS 16 (continued)

IFRS 9 FINANCIAL INSTRUMENTS (continued)

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.

AMENDMENT TO IAS 16 PROPERTY, PLANT AND EQUIPMENT

At the same time as IFRS 17 was issued, an amendment was made to IAS 16 to allow for measuring own used properties using the fair value model. On adoption of IFRS 17, the Group applied this election and changed its accounting policy for measuring its own used properties that are solely held as underlying items of insurance contracts with direct participation features from revaluation model to fair value model to reduce accounting mismatches with that for the corresponding insurance contracts. As a result of this change, which was adopted on a retrospective basis, revaluation gains on property held for own use that have been accumulated in other comprehensive income of US$221m at 1 January 2022 was reclassified from property revaluation reserve to retained earnings. For the six months ended 30 June 2022, net fair value losses of property held for own use measured at fair value model of US$4m 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	Six months ended 30 June 2022 (Unaudited and as previously reported)	Impact of changes in accounting policies	Six months ended 30 June 2022 (Unaudited and after adoption)
Net profit per share			
Basic	(4.74)	17.57	**12.83**
Diluted	(4.74)	17.55	**12.81**
Operating profit after tax per share			
Basic	26.76	1.11	**27.87**
Diluted	26.76	1.08	**27.84**

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 Interim 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 Interim 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 Interim 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 2.4.1 to the Interim 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 2.4.1 to the Interim 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 Interim 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 Interim SPFI.
insurance service result	Insurance service result comprises insurance revenue, insurance service expenses and net expenses from reinsurance contracts held.
Interim SPFI	Consolidated Special Purpose Financial Information for the six months ended 30 June 2022.
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 Interim 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 Interim 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.
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.